

Town of Lovettsville

March 21, 2013

Mayor and Town Council
Town of Lovettsville
6 East Pennsylvania Avenue
Lovettsville, Virginia 20180

Subject: Town Manager's Recommended Fiscal Year 2014 General and Utility Fund Operating and Capital Budgets

Dear Mayor and Town Council:

I am pleased to submit my recommended Fiscal Year 2014 General and Utility Fund Operating and Capital Budgets. The goal of this year's recommended Budget is to represent the priorities and principles of the Mayor and Town Council and to provide efficient and professional delivery of services to the citizens of customers of the Town.

The schedule for approval of the Operating and Capital Budgets, as well as the Capital Improvement Plan has been previously distributed and approved by Town Council, and this Budget, being the Town Manager's recommendation, shall become the basis for the Mayor and Town Council discussion over the course of the next several months. Final Budget and CIP adoption is scheduled for the Regular Town Council meeting of Saturday, June 15, 2013.

Revenue Trends

Based upon the most recent information provided by the Commissioner of the Revenue's office, the total adjusted Real Estate Tax Base of the Town of Lovettsville as of January 1, 2013 is \$206,952,100, an increase of .36 percent over last year. As with the assessments for the past several years, this increase over last year's assessments is due to new construction, as the equalized change for all real estate classifications saw declines from last year's assessments.

Despite a decrease of 1.38 percent in the equalized assessments of single family detached homes, the assessment for this year shows an increase in value of 1.47 percent due to new construction. The average assessment of single family detached homes in 2013 is \$285,253. The average assessment of single family attached homes is \$174,241. Residential vacant land saw the largest value decrease of 7.84 percent. Commercial property tax assessments saw a decline of 1.81 percent over the previous year's assessments.

As has been done in the last several year's budgets, assumed real estate revenue from homes currently under construction has not been factored into revenue estimates to reflect a more conservative position.

At the current Tax Rate of \$.21 per \$100 of assessed value, the Real Estate Tax Revenue to the Town is estimated at \$415,000. This budget estimate is approximately \$4,000 more than last year's approved FY 2013 Budget.

Other Revenue projections that appear in the General Fund are based upon FY 2013 figures along with economic and development assumptions for the coming year. For FY 2014, staff is projecting that Sales Tax will again significantly exceed all other revenues streams as the second highest source of income behind Real Estate Tax. Business Licenses revenue is also expected to relatively level with the continued construction in the Town Center development.

Total General Fund Revenue is projected at \$718,475. This projection is 3 percent higher than the approved FY 2013 Budget. I am recommending again this year that all Meals and Cigarette Tax revenue be directly applied to the General Fund Capital Budget to be used for the East Broad Way Streetscape improvement project, rather than being transfer from the Operation Budget.

Total Utility Fund Revenue in the FY 2014 Budget is estimated at \$801,100. This represents an 8 percent increase over last year's approved Budget of \$740,400. This increase is a combination of the modest annual increase of the telecommunication leases on the elevated water tank, additional customers connecting to the Town's water and sewer system, and a proposed increase in utility user rates. It is anticipated that 24 new units will be constructed over the next fiscal year. My recommended budget calls for a rate increase of 5 percent for water and sewer customers. Early in 2013 the Town contracted with Municipal Financial Services Group (MFSG) to conduct a complete rate analysis of the Town's water and sewer user fees. Their work takes into account, operational costs, depreciation of assets, expanded preventative maintenance, and debt retirement. They are nearing completion of their study and will provide their report to the Town Council in April. Their findings should be the basis for user rate modification discussion.

Fund Balance

As of December 31, 2012 the Town has the following balances in General and Utility Fund Reserves, the majority which are currently invested in a number of interests bearing accounts. These funds are intended for day to day operations, capital related projects and debt service. These balances are as follows:

General Fund Reserve	\$ 1,902,958
General Fund Checking	100,889
Sidewalk Fund Reserve (Gas Tax)	136,476
GF Savings Account	20,397
Sewer Fund Reserve	2,384,638
Sewer Fund Checking	240,120
Water Fund Reserve	258,262
Water Tower Reserve (incl. funds for w. & s. debt. service)	85,690
Developer Proffers	50,168
Contributions in Lieu of Street Improvements	80,743

Meals and Cigarette Tax (Streetscape Fund)	8,995
Total Balance	\$5,269,336

Bond sale funds are held in trust and VDOT Enhancement Funds are not available until actual costs are incurred. The Town's December 31, 2012 balance on VDOT Enhancement funds for the Berlin Pike Bike and Pedestrian Path was \$1,188,000. Bond proceeds from the VML/VACo Bond sale to be used for Town Capital Projects, most importantly the East Broad Way streetscape improvements totaled \$1,855,670 on December 31, 2012.

The FY 2014 Recommended General Fund Operating and Utilities Budgets do not include interest earned on investments. These earnings are reflected in the Capital Budget. The recommended Budget shows a small amount of surplus revenue to transfer for capital expenses from both the General and Utility Operating Funds.

General Fund Operating Budget

The General Fund Budget is balanced at \$718,475. This amount assumes no change in the real estate tax rate or business license tax.

Staff is not suggesting any significant adjustment to fees that generate General Fund revenue. I am proposing that we continue to maintain the streamlined fee structure to include flat rate application and review fees. I am again recommending that the Town approve an annual fee schedule to accompany the approved Budget and CIP.

Expenditures are based upon existing programs with some modifications in the magnitude and scope of work to be undertaken. Personnel expenditures are estimated at \$388,212. I am recommending a 3 percent cost of living increase for all full time Town staff, along with a modest increase for the Town's part time maintenance employee. The increases in this category can be attributed to the Zoning Administrator/Planner position becoming full time, along with increased benefit costs and a staff member opting to be covered by the Town's insurance half way through FY 2014.

Contractual Services are projected to be \$159,000. The Town will still use consultants to provide legal and engineering support. The largest expenditure in this category is the contract with American Disposal to provide Trash and Recycling services to all residents and small businesses of the Town. The Town was fortunate to renew our contract at a lower rate, however new home construction continues to increase the Town's monthly costs. Currently, the Town provides this service free of charge, however, this may be a policy to consider adjusting in the future if additional revenue sources are needed.

The Town is getting ready to begin its second year as a member of the Virginia Retirement System (VRS). In February of 2012, the Town Council voted to have Lovettsville participate in VRS. The Virginia Retirement System is a widely used retirement and benefits program utilized by governments and school systems

throughout the Commonwealth. Participation in this system replaced the 401-a ICMA-RC retirement program compensation that the Town had funded in the past. Last year VRS let all member organizations know that they were modifying the contribution limits that employers and employees could make. Previously, many local governments opted to pay both the employers share (95 percent) and the employee's share (5 percent). Beginning last year, VRS required that all employers could only pay the 95 percent and would need to increase employee's compensation so that the employee could then make their own 5 percent contribution. Localities were given five years to phase in this change. Last year the Town approved 1 percent of the 5 percent change. I am recommending this year the Town complete the phasing in of this requirement and increase the compensation for all full time Town staff by 4 percent so the employee can make their complete 5 percent contribution. This will bring the Town into compliance with VRS requirements and will have minimal impact on the Town's budget, as the 4 percent that would have been allocated to fund the VRS employee contribution will now be included in the administrative salaries line item.

The Town is now in the fifth year of participation in the Virginia Government sponsored "Local Choice" health care coverage program. This program has proven to be not only a valuable benefit to the employees, but a significant cost saver for the Town when compared to the previous benefits program.

There are no major modifications proposed for the Technology Services, Repair and Maintenance, and Total Utilities categories.

Beginning in the FY 13 Budget, the Town carved out all costs associated with the upkeep and operational costs of park land and facilities and placed it in its own category. This is to provide a more accurate reflection of the costs associated with operating these assets. Now that the Town is an official Tree City, it must contribute \$2 per capita towards tree planting and care. The new Tree Support line item includes \$3,300 for this mission.

The Activity Support category has been modified to transfer money between different line items, however the total category only increased \$250. With the creation of "We're In!", the Town has a new group that is willing to volunteer to host events and promote the Town in various ways. The committee requested a budget allocation of \$8,000 for FY 14 projects. I am recommending a "We're In!" budget of \$6,000 for their first full year of activities. It is hoped that ad sales and sponsorships of specific activities could offset some of their expenses. With the added revenue from beer sales at Oktoberfest and anticipated revenue at Mayfest, I am recommending that the Event Committee line item be reduced by \$6,500 from FY 13 funding to the new amount of \$6,000. This also takes into account several projects that were funded by the Events Line Items, such as Light Up Lovettsville and Berserkle in the Squirkle, that will now be funded by the "We're In!" budget.

It is projected that approximately \$14,882 of surplus funds will be available for capital transfer. Historically, the Town budgets conservatively, and it is reasonable to expect the surplus amount to be significantly higher at the end of FY 14. These funds will be used to help cover some of the annual debt service costs for the General Fund. The

surplus, plus the revenue generated from the Meals and Cigarette Tax is not large enough to fund the \$151,309 debt service payment for the East Broad Way sidewalk project, not to mention the many other capital projects planned for FY 14. A more detailed discussion of the Capital projects and their projected costs can be found in the Capital Improvement Plan.

Utility Fund Operating Budget

The FY 2014 Utility Fund Budget is balanced at \$801,100. This amount assumes the construction of at least 24 new homes in the Town Center development.

The FY 2014 Utility Fund Budget is projected to be increased approximately \$60,700 or 8 percent over last year's approved budget. As with the General Fund, interest on investments as a revenue source is reflected in the Utility Capital Budget. The major factors leading to the increased revenue is attributed to the projected housing development and the new connections that have come online over the past year. It is projected that 24 new residential units will be constructed in FY 2014. As stated earlier, I am recommending a rate increase of 5 percent for water and sewer customers. The current charge is \$6.31/1,000gal of Water and \$9.47/1,000gal for Sewer. The minimum charge per connection is \$94.73 per quarter for up to 6,000 gallons. The proposed increase would add \$.31/1,000 gal of water and \$.47/1,000 gal for Sewer. The minimum quarterly bill would increase by \$4.74.

The Contractual Services category increases 13 percent to account for higher Loudoun Water operations costs along with increases in the Service Contracts line item to advance the GIS mapping of the water and sewer system and to being an assets management program to help the Town manage equipment maintenance and replacement and to allow for long range budgeting.

Again for FY 14, I have moved specific costs associated with Service Contracts to the individual Water and Sewer categories where possible to more accurately reflect the ongoing contractual needs, such as generator maintenance, probe and pump maintenance, and backflow inspections. I recommend funding the I&I maintenance category for \$35,000 to continue our inspection and remediation efforts. Sewer service contracts include Fats Oils and Grease inspections of all restaurants and institutional uses in Town along with camera work and cleaning of the sewer lines as preventative maintenance. Water service contracts include a new program of leak detection to identify areas where water may be escaping from the supply system.

A surplus of approximately \$61,184 is projected in the Utility Operating fund that will be transferred to capital reserves. These dollars will be applied to the debt service payments, which total over half a million dollars for FY 14. Depending on the number of unplanned activities, such as pump failures or water leaks, the Town may have additional unspent funds that can be transferred for capital expenses.

Capital Budgets

Again this year, the Capital Budgets for both General and Utility Funds are included in this document rather than as an addendum to the CIP. The purpose is to provide a greater distinction between the CIP, which is strictly a planning document, from the actual budget that outlines appropriations for Fiscal Year 2014. While there is not a requirement to separate operational appropriations from capital project appropriations, it is staff's belief that keeping separate budgets for operational and capital expenses provides greater clarity in understanding the Town's finances.

The majority of the Town's new projects are included in the Capital Improvement Plan. The Recommended FY 2014-2018 CIP includes 15 projects, 13 of which are General Fund Capital Projects and 2 are Utility Fund Capital Projects. A detailed description of these projects can be found in the Town Manager's Recommended Capital Improvement Plan.

General Fund Capital Budget

There are 7 recommend projects for funding for the coming year. They include The Broad Way Streetscape Project: Phase 1, The Bicycle/Pedestrian Path along Berlin Pike, Planning for enlarging Town Hall and developing a parking lot on the adjacent Town-owned lot, Quarter Branch Park and Support Facility, Town Square and Green Development, and Storm Ditch Improvements just north of the Town Square. More details on the project and costs are included in the CIP. The total FY 14 costs for these proposed projects is \$1,507,000.

Revenue for these projects will come from a variety of sources include VDOT's Enhancement Funds, Bond proceeds, surplus funds from the Operating Budget, Meals and Cigarette Tax that is specifically earmarked for the East Broad Way Project and General Fund Reserves that have been accumulated over the years from carryover funds from the Operational Budget. I am proposing to maintain the current rates for the Cigarette Tax (\$.40 per pack), and the Meals Tax (3% gross sales). Both taxes are entering their fifth year and it is project that collectively they will generate \$83,000 in revenue for FY 2014.

Utility Fund Capital Budget

There are 2 recommended projects for funding for the coming year. They include continuing to pay for the previously installed mixer in the elevated Water Tank and upgrades to the Town's water SCADA system. These projects will be funded by Water Tower and Water Fund Reserves. More details on these projects and their costs can be found in the CIP.

The most significant financial obligation in the Utility Capital Budget is the debt service payments for the 4 separate financing arrangements. Funds to cover these payments will come from Sewer tap sales, user fees and accumulated reserves in both the Sewer, Water and Water reserve funds. Much of the Sewer Reserve funds come from previously sold taps. The debt service payments for FY 14 total \$525,928.

Financial Issues

There are a number of financial issues that are addressed in this Budget which the Town Council will want to resolve through their Budget deliberations in the upcoming months prior to adopting a final Budget. Some such issues include:

- Tax Rate. The Tax Rate and all other general fund taxes and fees have been held constant in the Town Manager Recommended Budget. The Real Estate Tax Rate is held constant at \$.21 per \$100 of assessed value.
- Auto Decal. Unlike several of the other Town in the County, the Town currently does not have a personal property tax. It does sell vehicle decal stickers, but the system for selling the decal is not sophisticated and the labor involved is extensive in relationship to the revenue received. The Town Council should discuss the future of decals in the Town and whether it wants to consider adding a personal property tax.
- Personnel Costs. The compliment of staff is to include the full time positions of Town Manager, Project Manager, Town Treasurer, Town Clerk, and Zoning Administrator/Planner/Community Projects Manager. The Town Manager, although a permanent employee, has an Employment Agreement with the Town of Lovettsville. The terms and conditions of his employment is outlined in that Agreement. Other Town employees do not have such an Agreement and report directly to the Town Manager. Inclusion in the Budget are terms and conditions that affect Town Employees and is the only formal place where employee benefits, salaries, or hourly rates are posted. Approval of Budgetary parameters that affect Town employees should be seen as a commitment to implement personnel policies on behalf of the Town.
- Use of Consultants. Now that the Town has hired a full time Zoning Administrator and Planner, the use of outside consultants has been reduced. The Town still uses consultants to provide engineering and legal support.

This Budget is being presented to the Mayor and Town Council at their meeting on March 21, 2013. Additional Town Council Budget Work Sessions are scheduled for April 4, 11, 25 and May 2, 16, 23 if needed. The Mayor and Town Council are scheduled to approve the advertisement of the Budget and CIP on April 25, 2013. A Public Hearing is tentatively scheduled for May 23, 2013 to be followed by a Town Council Work Session. The Operating Budgets and CIP can be adopted at the Town Council Meeting on June 15, 2013.

Sincerely,



Keith Markel
Town Manager