

Town of Lovettsville

March 27, 2014

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

Subject: Town Manager's Recommended Fiscal Year 2015 General and Utility Fund Operating and Capital Budgets

Dear Mayor and Town Council:

I am pleased to submit my recommended Fiscal Year 2015 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 Thursday, June 12, 2014.

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, 2014 is \$236,515,620, an increase of 12 percent over last year. For the first time in several years, all residential classifications, except for vacant land, saw increases to the assessment values.

The average assessment of single family detached homes in 2014 is \$308,963. The equalized percentage change in value is 3.14 percent over last year. The average assessment of single family attached homes is \$199,462, which represents a 14.47 percent change in the equalized percentage change in value. Commercial property tax assessments saw a decline of 1.31 percent over the previous year's assessments.

Overall, total taxable equalized assessments are up 3.44 percent for 2014, and when new growth from this past year is factored in, the total value change for assessments is up 11.01 percent.

As has been done in the last several 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 \$496,000. This budget estimate is approximately \$81,000 more than last year's approved FY 2014 Budget.

Other Revenue projections that appear in the General Fund are based upon FY 2014 figures along with economic and development assumptions for the coming year. For FY 2015, 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 \$820,025. This projection is 13 percent higher than the approved FY 2014 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 2015 Budget is estimated at \$866,630. This represents an 8 percent increase over last year's approved Budget of \$800,485. This increase is largely driven by the proposed adjustments in the user rates along with the continued home build out of Town Center. It should be noted that the Town will see a decrease in revenue from telecommunication leases on the elevated water tank. Nextel has notified the Town that they intend to terminate their lease now that they have fully merged with Sprint, a firm who is also located on the Town's tank. The Town is actively reaching out to other wireless communications companies with the hopes of finding a firm to occupy the soon to be vacated space.

It is anticipated that 28 new home units will be constructed over the next fiscal year. These new homes will pay connection fees to attach to the Town's utility system and will begin paying quarterly user fees. Each new unit represents at least \$416 in annual user fees on the utility system. Last year 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 took into account, operational costs, depreciation of assets, expanded preventative maintenance, and debt retirement. Their recommendations for rate adjustments were adopted by the Council last spring and should followed when approving rates changes for FY 15.

Fund Balance

As of December 31, 2013 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	\$ 1,509,976
General Fund Checking	66,419
Sidewalk Fund Reserve (Gas Tax)	29,976
GF Savings Account	20,406
Sewer Fund Reserve	2,442,436
Sewer Fund Checking	119,642
Water Fund Reserve	121,115
Water Tower Reserve (incl. funds for w. & s. debt. service)	154,405
Developer Proffers	50,191
Contributions in Lieu of Street Improvements	123,724
Meals and Cigarette Tax (Streetscape Fund)	50,015
Total Balance	\$4,688,305

Bond sale funds are held in trust and VDOT Enhancement Funds are administered through VDOT's staff. Starting this year, I have removed the VDOT enhancement funds from the Town's capital budget because the funds are held and distributed by VDOT. Bond proceeds from the VML/VACo Bond sale to be used for Town Capital Projects, most importantly the East Broad Way streetscape improvements totaled \$1.6 million on December 31, 2013.

The FY 2015 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 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 \$820,025. This amount assumes no change in the real estate tax rate or business license tax. Staff is not suggesting any adjustment to fees that generate General Fund revenue. 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 \$412,779. The increases in this category can be attributed to increased healthcare costs, an additional staff member opting to join the Town's healthcare plan rather than participate in their spouses' program, and a policy change that provides a greater Town contribution for employee's family healthcare. This change was made to bring the Town's benefits package more in line with what other regional jurisdictions offer their staff. Depending on staff enrollment, the true health care costs may less than what has been budgeted. This year the Town is budgeting to provide a small employer match for those employees who contribute to the ICMA-RC 457 Deferred Compensation Plan. I

am also recommending a 3 percent cost of living increase for all full time Town staff and for the Town's part time maintenance employee.

Contractual Services are projected to be \$157,000. 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. Disposal costs will increase several thousand dollars in FY 15 because of new residential construction as well as a program recently approved by the Town Council that will provide large recycling cans to Town residents at no charge.

The Town is getting ready to begin its third 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. I am happy to report that after the bi-annual actuarial study was completed by VRS, the Town's employer contribution rate fell by over a percentage point.

The Town is now in the sixth year of participation in the Virginia Government sponsored "Local Choice" health care coverage program. This program provides medical, dental, and vision coverage for all full time employees, and the employee's family at an additional cost to the employee.

Funding for the Parks and Trees category has been increased this year to allow for the purchase of new equipment. I am proposing that the Town purchase a compact utility tractor with a bucket to assist in park and utility activities. The tractor would be used to mow larger tracts of land, such as Quarter Branch Park and to mow the sewer easements on a more frequent basis. The loader would allow the Town to move mulch, gravel and other materials as well as support events such as Oktoberfest and Mayfest by moving tables, stands and other supplies.

The Technology Services category has been increased to allow the Town to purchase a modernized phone system that will allow for more functionality, including individual voice mailboxes, and menu tree for after hours phone calls. Several new computers will also need to be purchased.

The Repair and Maintenance category has been increased for FY 15 to allow for the purchase of a vehicle for Town staff use. Currently, staff uses the Town pickup truck to run errands or to conduct site visits. Due to its size and the number of tools on board, the truck is not always the best choice for office staff use. Also, many times it is being used for Town maintenance purposes. A smaller, more efficient vehicle would allow staff to have the flexibility of using a Town licensed and ensured vehicle. This reduces the risk on the staff members from having to use their own car for official business.

The Activity Support category is recommended to be reduced by 4 percent for FY 15. I am proposing \$500 increases to both the local Fire Company and Community Center Advisory Board donation line items. It was discussed during last year's budget deliberations that the Town should consider gradually increasing the contributions to the local volunteer Fire Company. This past year was the first full year of funding to the "We're In!" committee. This relatively new group has been working to host community events and promote the Town and its businesses in various ways. The group had a budget last year of \$6,000. I am recommending lowering that funding amount to \$4,000 for FY 15. The group has been very successful in obtaining advertising revenue for their business directory, their most expensive project. It should be noted that this group's budget now covers expenses related to Light Up Lovettsville and Berserkle in the Squirkle. The Town's signature community events, Oktoberfest and Mayfest were very successful this past year. Revenue from beer sales, sponsors, and vendors meant that the Town did not need to subsidize the events. Because of this, I am recommending that the Event Committee line be held at \$6,000 again this year.

It is projected that approximately \$23,000 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 higher at the end of FY 15. 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 \$148,234 debt service payment for the East Broad Way sidewalk project, not to mention the many other capital projects planned for FY 15. 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 2015 Utility Fund Budget is balanced at \$866,630. This amount assumes the construction of at least 28 new homes in the Town Center development.

The FY 2015 Utility Fund Budget is projected to be increased approximately \$66,145 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 28 new residential units will be constructed in FY 2015. The approved rate study that was completed last year calls for a rate increase of 3 percent for water service and 6 percent for sewer customers. The current charge is \$6.50/1,000gal of Water and \$10.04/1,000gal for Sewer. The minimum charge per connection is \$99.28 per quarter for up to 6,000 gallons. The proposed increase would add \$.20/1,000 gal of water and \$.60/1,000 gal for Sewer. The minimum quarterly bill would increase by \$4.77.

The Contractual Services category increases 20 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 15, 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 \$20,000 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.

A surplus of approximately \$38,193.25 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 15. 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 2015. 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 2015-2019 CIP includes 17 projects, 12 of which are General Fund Capital Projects and 5 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 5 recommend projects for funding for the coming year. They include The Broad Way Streetscape Project: Phase 1, The Bicycle/Pedestrian Path along Berlin Pike, Quarter Branch Park and Support Facility, Town 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 15 cost for these proposed projects is \$2,008,000.

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 sixth year and it is project that collectively they will generate \$80,000 in revenue for FY 2015.

Utility Fund Capital Budget

There are 3 recommended projects for funding for the coming year. They include the final payment for the previously installed mixer in the elevated Water Tank and construction of a driveway entrance off of Potterfield Drive to the tank site, a full replacement of the Town's water SCADA system, and design/engineering improvements to the WWTP. 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 15 total \$528,307.

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.
- 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. The Town continues to uses consultants to provide engineering and legal support.

This Budget is being presented to the Mayor and Town Council at their meeting on March 27, 2014. Additional Town Council Budget Work Sessions are scheduled for April 3, 10, 24 and May 1, 8, 22 if needed. The Mayor and Town Council are scheduled to approve the advertisement of the Budget and CIP on April 24, 2014. A Public Hearing is tentatively scheduled for May 22, 2014 to be followed by a Town Council Work Session. The Operating Budgets and CIP can be adopted at the Town Council Meeting on June 12, 2014.

Sincerely,

A handwritten signature in black ink that reads "Keith Markel". The signature is written in a cursive style with a large, sweeping initial "K".

Keith Markel
Town Manager