

**Town Manager's FY 2020 Proposed Budget  
Questions/Answers – March 28, 2019  
From Council Members**

**1. Question:** If I wanted to see how much we intend to spend on electricity in the water and sewer fund where is that rolled up under? I believe there may be opportunities to decrease this over \$180k combined expense. (3/23/19 Mayor Fraser)

Answer: The Utility funds have 4 electricity line items totaling \$210,300 Utility Fund-wide in the FY 2020 proposed budget:

Water Fund – Plant	\$16,000
Water Fund – Wells	\$58,000
Wastewater Fund – Plant	\$125,000
Wastewater Fund – Pumps	\$11,300

Reduction in electrical cost will take an investment from the Town. For example, the Wastewater Fund has a proposed investment in the FY 2021 Capital Improvement Program (CIP) 5-year plan to spend \$160,000 in the LEAP Aeration Upgrade (pgs. 264-265 of FY 2020 proposed budget book) that could provide approximately 25-30% savings in power at the Wastewater plant. In all cases, a cost benefit analysis will need to be performed to determine whether the investment is viable. Additional information on utility power saving efforts will be presented during the Public Works and Utility Fund budget work session on March 28, 2019.

**2. Question:** Can we see a break out of salary versus benefit for each fund? (3/23/19 Mayor Fraser)

Answer: The following provides a breakdown of salary and benefits for each fund in the FY 2020 proposed budget (Salary costs include budgeted overtime and does not include utility chargeback):

➤ <b>General Fund</b>	Salary	=\$5,073,343
	<u>Benefits</u>	<u>=\$1,924,303</u>
	Salary plus bene	=\$6,997,646
	○ Employee Compensation as a % of General Fund = \$6,997,646 / \$11,899,079 =58.8%	
	○ Employee Compensation as a % of General Fund = \$6,997,646 / \$10,699,079 =65.4% (net of \$1.2 million CIP cash transfer)	
➤ <b>Parks and Rec Fund</b>	Salary	= \$118,900
	<u>Benefits</u>	<u>= \$ 55,234</u>
	Salary plus benefits	= \$174,134
	○ Employee Compensation as a % of Parks and Rec Fund = \$174,134 / \$583,854 =29.8%	
➤ <b>Water Fund</b>	Salary	= \$656,392
	<u>Benefits</u>	<u>= \$243,943</u>
	Salary plus benefits	= \$900,335
	○ Employee Compensation as a % of Water Fund = \$900,335/\$3,236,843=27.8%	

**Answers to Council Questions – March 28, 2019**

- **Wastewater Fund** Salary = \$655,066
- Benefits = \$245,269
- Salary plus benefits = \$886,049
- Employee Compensation as a % of Wastewater Fund =  $\$886,049 / \$4,823,746 = 18.4\%$
  
- Total Salary and Benefits Town-wide = \$8,958,164
- Total FY 20 Town-wide operating budget =  $= \$20,543,522 = 43.6\%$
- Total FY 20 Town-wide operating budget =  $= \$18,461,343 = 48.5\%$  salary cost to total Town-wide budget (net of CIP cash transfers)

**3. Question:** For FY19 Wastewater availabilities we are below estimate by almost \$980,000 (45 homes equivalent in town). What availabilities we estimated for that did not materialize? (3/23/19 Mayor Fraser)

Answer: See Attachment #1 that provides a comparison between budgeted availabilities and actual availabilities.

**4. Question:** For FY19 Water availabilities we are below estimate by almost \$1.5 million (58 homes equivalent in town). What availabilities we estimated for that did not materialize and which development projects were they associated with? (3/23/19 Mayor Fraser)

Answer: See Attachment #1 that provides a comparison between budgeted availabilities and actual availabilities.

**5. Question:** What development projects are the availability projections for FY 20 associated with? It's shown \$656,727 (25 homes equivalent in town) for water and \$171,958 (8 homes equivalent in town) for Wastewater in your proposed budget? (3/23/19 Mayor Fraser)

Answer: See Attachment #1 that provides a comparison between budgeted availabilities and actual availabilities.

**6. Question:** How much is chargeback as a percent of sewer and water fund pay and benefits? How does this percent compare to similar municipalities employing a chargeback model? (3/23/19 Mayor Fraser)

Answer: In the FY 2020 proposed budget, the utility chargeback from the General Fund to the utility fund is \$986,452; no change from the adopted FY 2019 budget. This indirect costs allocation represents an additional 55 percent increase in the Utility Fund pay and benefits before chargeback (\$1,786,384).

Many municipalities are not as transparent as the Town of Purcellville on their allocation of indirect costs or chargeback within their budget to determine benchmarks. After reviewing a number of budgets and CAFR's of similar Virginia localities, staff was able to develop the attached comparison of costs to Leesburg and Front Royal (Attachment #2). This chart shows Purcellville's allocation of indirect cost is significantly lower than the other localities.

Also attached is a Government Financial Officers Association Best Practice white paper. A key passage: "GFOA encourages governments to allocate their indirect costs. There are a number of issues a government needs to address in connection with indirect cost allocation. Because of these varied

reasons for which indirect cost allocations are performed, a one-size-fits-all approach typically is not possible."

The Town's current \$986,452 allocation only accounts for Public Works related personnel costs. It does not account for human resources, billing and financial, procurement, IT, police security, Town Manager, Administration Department, and legal personnel support costs to the Utility Fund. Further, the chargeback does not consider the indirect cost such as General Fund paid Town-wide insurance, supplies, vehicles, and equipment used for Utility Fund purposes.

The Town's utility rate consultant, Stantec, is current developing an updated utility chargeback model that would represent the true level of effort and cost to the Utility Fund. This will be presented at the May 1 budget work session.

**7. Question: Is restructuring the Wastewater treatment debt an option to further insulate the citizens from the \$1.35M in 2023, and buy time for some non-availability dependent strategies? (3/23/19 Mayor Fraser)**

Answer: Previous restructurings in the Wastewater Fund in 2013 and in 2017 provided *temporary relief* from large increases in debt service that could not be fully covered through fund revenues. These strategic debt restructurings reduced near-term debt service by delaying principle payments to out years. The purpose of this action was to provide the Town additional time to address the structural imbalance in the utility funds and develop a plan manage future escalations in debt service. It should be noted, however, delaying or restructuring debt increases the overall cost of borrowing.

The Town's financial advisor, Davenport, and, utility rate contractor, Stantec, will be presenting the Town's long-term financial projection at the May 1 budget work session and they can provide the possible effect, if any, on the Town's long-term projections and credit rating if the Town were to restructure the Wastewater Fund debt a third time.

**8. Question: (Town Manager) David Mekarski indicated, when I asked the question at the budget session, that at best grants can only account for 5% (\$1.2 M) of the budget given the solid economics of our area and that we have a part time grants specialist. What's that 5% figure based on and how much do we currently pay our grants specialist? (3/23/19 Mayor Fraser)**

Answer: In the Town Manager's budget presentation, the 5% reference was actually a reference to the Town staff's time availability to devote to discretionary grant applications and administration. Each Department is directly responsible for applying for eligible grants that could be allocated to their program. If the grant is awarded to the Town, such as the recent \$30,300 Edward Byrne Memorial Justice Assistance Grant (JAG) to our Police Department, the Department is responsible for administering and complying with the grant terms. Our part time grants specialist, the Special Assistant to the Town Manager (0.2 FTE), can coordinate and work with each Department on grant identification and application. However, that position also has other duties that has limited time to devote to grants within his 8 hour work week. In FY 2019, the Town has received and budgeted approximately \$52,000 in discretionary grant funding in its operating accounts.

The grants received in the operating accounts are almost always direct cost reimbursable grants which means that the grant is for a specific item purchased or project that is only funded on a reimbursable basis. The grant does not reimburse the Town its administrative cost for staff time related to applying, writing status and final grant reports, and gathering financial and cost information for reimbursement consideration. Therefore, core staff are responsible for these grant activities.

The Town has been very successful in ensuring its transportation projects are funded through state, regional, or county funds. Town transportation capital improvement program (CIP) projects funded or proposed to be funded in FY 2019 and FY 2020 totaled \$9.4 million which are 100 percent funded through non-Town funding sources.

In the May 1 budget work session, Stantec can provide additional information related to grant opportunities in the utility funds. In summary, there are limited options for utility grants; however, programs are available for low interest rate loans for capital improvements.

**9. Question: How old are the quotes for our CIP model and when last were they refreshed? (3/23/19 Mayor Fraser)**

Answer: Initial estimates for Capital Projects are generally based on costs provided in preliminary engineering reports (PER), or on estimates by staff based on recent projects. For the 2019 budget, estimates that were completed in past years are updated to 2018 dollars using inflation calculations. As projects are better defined, cost estimates are also refined and any changes are reflected in the budget. Of course, the final cost is determined by the bids received and any changes during the actual construction.

**10. Question: Are we looking at options to work with VDOT on any water related CIP that involves road work? What segment of the 21st Street water main is under VDOT road and can our replacement be scheduled with VDOT's repair timeline for some cost sharing? (3/23/19 Mayor Fraser)**

With any road-related work, we also consider the water and sewer infrastructure below, so that a newly repaired street does not need to be excavated to repair failing infrastructure. However, VDOT grants will not reimburse water or sewer work unless the work is done to avoid conflicts with roadway work. Upgrades or replacement of water or sewer are considered betterments and cannot be reimbursed with VDOT funding.

Portions of the N. 21<sup>st</sup> Street water main were replaced with three previous Town capital projects: N. 21<sup>st</sup> Street Sidewalk Project, and Downtown Streetscapes Project – Phase 1 & 2. Due to conflicts with proposed storm sewer, the water replacement on these projects were reimbursable. The project that was named the N. 21<sup>st</sup> Street Water Main Replacement in past budgets has been re-named in this budget to the WTP to Town Water Main Replacement (shown in long-term future projects). This water main is generally in easements and not in VDOT right-of-way.

**11. Question: Does this budget assume any revenues from Fireman's Field advertisement and increased events? If so where is that reflected? (3/23/19 Mayor Fraser)**

In FY 2020, the budgeted revenues include the following related to Fireman's Field complex and Town-sponsored events: 1) Bush Tabernacle rent revenue at \$48,000; 2) the Wine and Food Festival at \$42,000; 3) Music and Arts Festival at \$8,000; and 4) Town Holiday Program at \$1,500. The Fireman's Field advertising revenue and other possible Town events were not included in the FY 2020 budget. In the past, when other events or other revenue materializes, Town staff will amend the budget at mid-fiscal year to recognize those revenues so the funding can be allocated to specific programs or facilities.

**12. Question: What are the requirements for the General Fund Capital Improvement Program (CIP) Police facility project and how will the \$1.2 million be spent in FY 2020? (The FY 2020 budget proposes a \$1.2 cash reserve transfer to the Police Facility CIP project) (3/23/19 Council Member Stinnette)**

This CIP project request will ensure funding is available to start the project by selecting a project manager and architect and engineering (A&E) firm. The team will determine the site development needs and cost. By allocating the funding, the Town will ensure funding is available to secure the site and initial costs.

The project costs is a “ballpark” estimate with the expectations that the Town’s police force could increase to approximately 35 sworn officers with four to six civilians in the next 20 years. This is a judgement number based on the philosophy of the current council regarding the close monitoring of growth within the Town, but also with the realization, especially with the Silver Metro Line’s final build out, that the County will develop around the Town, with a day time population that would surge, causing a need for a larger police force. This increase of population and traffic will put a significant strain on the Town’s law enforcement staff. The build of a facility such as this should forecast for a 30-40 year build. If the Town is not able to build this large of a building, we should at least put under roof what would be needed or ensure there is vacant land that would allow for an expansion of the facility in later decades. It could also be beneficial to the Town to envision a Town government complex that had adequate space to add a Town Hall in future years. The Town’s procedures and policies require a RFP requesting architectural and engineering services to conduct a space needs assessment. A needs assessment will provide a long range study of staff requirements and the space necessary to serve the Town’s population. A logical plan can be put in place that looks at the future and not only what we need today.

As some background, when the police originally were relocated to Hirst Road in September 2005, it was intended that this arrangement would be less than 5 years and that the Town would construct a joint municipal facility which would include general government operations and Police Department at the same location. When the Town chose to renovate the Purcellville Baptist Church in 2010, the site did not allow for the Police Department to move into this location so the Town had to continue the lease. At the end of Fiscal Year 2018, the Town has paid \$896,000 in rent costs between leases with Valley Commercial from FY 2005 to FY 2016 and 125 Hirst Road from FY 2016 to FY 2018.

**13. Question: What are the requirements for the East End Pump Station and how will the \$1.57 million be spent for the project that shows funding from FY 2019 to FY 2022? (3/23/19 Council Member Stinnette)**

Answer: A Preliminary Engineering Report on the East End Pump Station was prepared for the Town in 2016. The report recommends the replacement of the existing 25 year old generator and replacing aging valves with variable frequency drives (VFD’s) utilizing the existing building and structures as a first step in the rehabilitation of the pump station. Ultimately, a full pump station replacement is recommended as the flows increase due to development. A sanitary sewer main replacement of an undersized main under Main Street is also included with this capital project. The Capital Project envisions the progression as follows:

1. Sanitary sewer replacement/upsizing under Main Street, design & construction (FY20)
2. Install Variable Frequency Drives, design & construction (FY20)
3. New Generator, design & construction (FY21)
4. East End Pump Station new building and structures, design & construction (FY22)

As the design progresses, the estimates will be refined; ultimately the final cost will be based on the design costs, bids received and any changes during construction.

**14. Question: How did the budget arrive at 3% indexed pay increase? (3/23/19 Council Member Stinnette)**

Answer: The index adjustment is based on the following items: Consumer Price Index of the Washington Baltimore area, comparison of neighboring communities proposed pay increases to remain competitive and experience that we have seen throughout the year in recruiting and filling vacant positions. In FY 2020, a recent survey from the Northern Virginia Regional Commission showed that most Northern Virginia municipalities were proposing staff increases of 3 percent; some municipalities lower or higher based on employee merit performances. Further, a human consulting firm's whitepaper noted that U.S. companies are increasing employee salary by approximately 3 percent (Attachment 3) Additional information will be provided at the April 25 budget worksession that covers Town administration.

**15. Question: What is a 1 percent increase in water and wastewater rates equate in terms of fund revenue? (3/23/19 Council Member Stinnette)**

Answer: This question will be addressed more comprehensively in the May 1 budget work session with the Town's utility rate contractor, Stantec.

**16. Question: What is the chargeback methodology and strategies going forward? (3/23/19 Council Member Stinnette)**

Answer: This question will be addressed in the May 1 budget work session with the Town's utility rate consultant, Stantec.

**17. Question: What is the ability and prudence of drawing meals tax revenue to support the Wastewater Fund? (3/23/19 Council Member Stinnette)**

Answer: This question will be addressed in the May 1 budget work session with the Town's financial advisor, Davenport, and utility rate contractor, Stantec.

**18. Question: What is the Town's current and governmental capital assets that can show existing assets that can be possibly monetized? (3/25/19 Town Manager David Mekarski)**

Answer: The Town has \$105 million in capital assets as shown in Attachment 4. Unfortunately, monetization opportunities are limited as much of the Town's infrastructure is in use or unlikely to generate revenue (ex: streets, utility lines, specialized facilities, specialized equipment).