

TOWN MANAGER'S BUDGET MESSAGE

March 18, 2020

The Honorable Mayor, Members of the Town Council, and Town Residents:

PREFACE

The budget book and budget message delivered to you this evening, represents the culmination of five months of preparation, analysis and reductions made by my office from the proposals as submitted by each of our department heads. This work was essentially completed in mid-February when the budget process was locked down in order to prepare the spreadsheets, charts and graphs that compose this year's submittal. The state of emergencies issued in the last two weeks for our nation, our state, our county and our Town itself have the potential of radically changing business as usual. Our projections for both revenue and expenditures must be drastically revised. As an example, our forecast for Meals Tax and Sales Tax, which are the second and third largest revenue streams, may come in significantly below our estimates for FY21, as well as the remaining months for FY20. Likewise, this pandemic may necessitate additional positions necessary for public safety, which were not budgeted for FY21, and may cause overtime to exceed our projections across multiple departments. Following this evening, it is therefore necessary to revise our budget work session schedule and allow for additional time for the management team to revise both our expenditures and our revenues, which will be strained from the associated impacts of our emergency response to this pandemic.

The Town of Purcellville has long been recognized for its fiscal management. The Town can boast of the highest credit rating from Standard and Poor's, and the second highest credit rating from Moody's and Fitch. The rating agencies' reports cited a number of factors that influenced these ratings including, Purcellville's very strong economy with access to the Washington metropolitan area; a) very strong management with strong financial policies and practices; b) strong budgetary performance with operating surpluses; c) very strong General Fund reserve levels and liquidity; and d) very strong budgetary flexibility and strong wealth and income indicators.

The Fiscal Year 2021 proposed total Town budget is \$21,670,331 for all funds, which consists of the General Fund at \$11,818,313, Water Fund at \$3,402,321, Wastewater Fund at \$4,274,338, Park and Recreation Fund at \$652,179 and the Capital Improvement Program (CIP) at \$1,523,180. Although the General Fund operating expenses increased by 4% from the previous fiscal year, the adopted budget **represents a 9% percent decrease** from the adopted FY 2020 Town's budget of \$23.73 million. This reduction is primarily from significant deferrals in capital improvements budget, especially within our Water Fund.

The factors that gave rise to the Town's strong credit rating are under significant pressure. I am solemnly delivering to you a budget that is balanced, however defers some important expenditures to future years, requiring that future Councils make large and unavoidable investments in the Town's infrastructure. It is important that the Town Council and the public are aware of this reality. However, this budget also represents a step in our 10-year plan toward solving some long-standing problems and accomplishing some important goals:

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it brings the water and sewer enterprise funds into structural balance, provided we reach a consensus on an acceptable 10-year rate plan; creates more equitable water and sewer rate tiers; it creates a sustainable fund for the long-term maintenance of Fireman's Field; and maintains all current service delivery across all departments.

In order to deliver this balanced budget it was necessary to assume a 2-cent increase in the real property tax rate. The 2 additional cents would cost a homeowner for a house valued at \$400,000 to be approximately \$80.00 (eighty dollars) annually or 21 cents per day. In addition, without an adopted rate plan for the next ten years, it was necessary to drastically cut our investment in the Town's capital infrastructure. As your manager I am concerned about the extent to which this budget proposes deferring capital investment.

Therefore, my budget message is intended convey to the Council and the community, not only what we are proposing to fund in this year's budget, but also communicate what we cannot fund in this year's budget, due to budgetary constraints that existed even before the scope of the pandemic was realized. FY21 represents one of the leanest budgets delivered to Town Council in recent years:

This budget postpones a commitment to our 90 employees to implement the Compensation and Classification Study. The Compensation and Classification Study gives us valuable information about the Town's compensation levels relative to competing communities in Virginia. The Town learned that many Town employees fall below the median market salary (50%) for the job they are performing. Of particular concern are the employees who are paid a salary of 25% or more below the median salary. The immediate goal of this administration is to get each Town employee up to a salary that is at least 25% below the median market salary. The longer-term goal is to get each performing employee to a salary that is equal to the median salary for that particular job. Budgetary constraints this year have caused the Administration to postpone its goal of adjusting salaries so that each employee is paid no less than 25% below the market's current median salary for their position. These budgetary constraints have also caused the Administration to postpone its goal of implementing a pay-for-performance plan, and providing bonus incentives for exceptional accomplishments.

The proposed budget requests no increase in the number of employees, even though the organization is lean. The current proposed budget includes a freeze on our commitment to add new police officers for patrol; although in the light of the current emergency, must be re-evaluated. The budget includes no requested enhancements for information technology hardware, software, or equipment. The budget places a freeze on our leased vehicle replacement schedule, postponing scheduled orders to replace our existing aging fleet. This budget holds our training budget to last year's levels. This budget defers a majority of the capital improvements needed for the water treatment plant and its related infrastructure, beyond our goals set forth in our "risk reduced" 10-year water capital improvement plan introduced to the Council last year. This budget continues the practice of failing to account for the value of labor provided from employees of the General Fund to the benefit of the water and waste-water funds, effectively continuing the practice of subsidizing general funds to the water and waste water Enterprise Funds. While the value of this labor is \$1.6M, the water and

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sewer funds repay only \$1 million of that amount under this budget. Therefore, General Fund revenues in the amount of \$600K are currently subsidizing our rate payers, rather than the rates paying for the true cost of services.

This budget represents an austerity Capital Improvement Budget across all fund accounts. The General Fund CIP is 92% below the FY20 Budget. For Water CIP, it represents a 95% reduction, and for Wastewater a 71% reduction from the FY20 Budget. These reductions are the result of deferring necessary expenses that must be made in future years.

While we recognize that we have to find a new temporary police headquarters in less than 10 months, this budget does not contain an appropriation for the rent differential for the interim facility that will house the department over the next 3 to 5 years. Nor does it contain the anticipated buildout required for that facility. The administration and police department are working with Moseley Architects to complete a quantitative and qualitative cost benefit analysis on the 3 top sites for Council and public review within the next two months. Upon final selection by Council, we will request a separate appropriation from our General Fund unassigned fund balance the Council to pass an associated reimbursement resolution that will allow the cost of the temporary facility to be incorporated with the debt instrument for the permanent headquarters.

Having covered what has been excluded from this budget, it is time to discuss the important items this budget accomplishes:

With Council consideration and consensus, this budget accomplishes these critical objectives for the town: it creates water and sewer rates that can meet the debt service obligations of the water and sewer funds; it creates a more equitable rate structure by decreasing the existing 17 rate tiers, to 4; it establishes a tax rate for Fireman's Field that will fund the long-term maintenance and improvement for that important Town asset; and, last but not least, it maintains our healthy fund reserves for emergencies.

Over past years, residential water and sewer rates have been heavily subsidized by rates assessed against multi-family, commercial and institutional properties. I am obligated to provide to you my recommendations to adopt a new Utility Rate Structure that will reduce the subsidy of our residential utility rates; achieving over time, equitable and fair rates, as required by Virginia Statute for all user groups. I am professionally required to provide this Council with recommendations for a utility rate increase to pay for the actual cost of services and ensure we have sufficient revenue to pay for our sanitary sewer debt escalation; \$252,000 in FY21, \$237,000 in FY22 and \$824,000 in FY23. A total of \$1.3M over the next 3 years; an equivalent of 42% in sanitary sewer rates. In addition, it is my responsibility is to provide this Council with recommendations for a 10-year fiscal plan that will finance both adequate water and sewer capital improvements. Over the budget work sessions in the next two and a half months, my office and our management team are prepared to recommend scenarios to accomplish all three of these objectives.

With regard to the Fireman's Field Service Tax District (Special Parks and Recreation District), I am proposing a tax rate to return to the rate for tax year 2017 of 3.5 cents, which represents an additional half penny per \$100 of assessed value. This half penny will result

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in an additional \$75K for the Town's Asset Management Program for the maintenance, repairs, and capital improvements required for the upkeep of Fireman's Field. This amount is consistent with our five-year obligation and commitment with the Loudoun County Parks and Recreation Department who is scheduling, staffing and maintaining all turf management, and operational requirements inside the complex during usage from our athletic organizations and the Purcellville Cannons. At a half penny increase, the approximate annual cost to a homeowner for a home valued at \$400,000 would be \$20.00 (twenty dollars) or a half a penny per day.

GOING FORWARD:

At the point of writing this message, we find the world facing one of the greatest pandemics in recent history. This emergency may stretch the capacity of every municipality, county, region, state, and our very nation to deliver basic services to our citizens. In the weeks and months to come, we will all be tested to maintain our solemn oath to "protect the health, safety and welfare" of our residents, our business and our non-profit partners of our community. As such, my office, the management team and our Finance Department is taking great pains to be conscientious of preserving our Unassigned Fund Balance for our General Fund and Special Parks and Recreation Fund, as well as our ending Net Position in our two Enterprise Utility Funds. In the General Fund we achieved a 96% reduction in the use of reserve account as compared to FY20. In the Special Parks and Recreation Fund an 80% reduction. For Wastewater a 98% reduction in the use of the reserve account as compared to FY20.

Therefore, our Unassigned Fund Balance for the General Fund remains at \$6.2M, only a 1% decrease; \$301K in the Special Parks and Recreation Fund, only a 5% decrease. In the two Utility Enterprise Funds, Water has a healthy Net Position of \$11.3M, a 1% decrease, and Wastewater \$14.4M, a 0% decrease. These reserves and net positions are essential to manage a state of emergency and to ensure that we have the contingency to continue staffing of essential personal in our Water, Wastewater, Public Works, Finance and Police, our strong Reserves Fund will allow us to maintain the operation of our four essential services critical in the threat of a pandemic: the provision of potable water, the collection and treatment of raw sewage, the provision of public safety and the capacity to conduct emergency procurement and payroll through our dedicated men and women who staff our Finance Department.

While this message represents the beginning of the budget season, we as a community and as the Town's governing authority have more important issues at hand, as we have the responsibility to prepare this community for a national emergency. Our Council, management and administrative team will stand ready and unified to contain and mitigate the ominous threat that we all face across this nation and our town. Working together as a community, we will stand, divided we will fall. Starting tonight we no longer can take the attitude that it is business as usual, because we cannot afford the loss of time to prepare, to respond, to protect, to serve.

Godspeed us all.



David A. Mekarski, AICP
Town Manager