TOWN COUNCIL
Work Session
Cape Charles Civic Center
May 13, 2021
6:30 PM

At 6:309 p.m. Mayor William "Smitty" Dize, having established a quorum, called to order the Work Session of the Town Council. In addition to Mayor Dize, in attendance were Vice Mayor Bennett, Councilmen Buchholz, Follmer and Grossman, and Councilwoman O'Brien. Councilwoman Holloway was not in attendance. Also, in attendance were Town Manager John Hozey, Treasurer Deborah Pocock and Town Clerk Libby Hume. There were no members of the public in attendance.

WORK SESSION ORDER OF BUSINESS:

FY 2022 Town Budget Review and Discussion:

Town Manager John Hozey began by stating that the Town was in crisis mode during last year's budget development due to the many unknowns related to the COVID-19 pandemic and associated federal, state and local states of emergency. The Town took a very conservate approach resulting in a barebones budget which funded only essential expenses. While last year's budget was the right thing to do, it was not sustainable. The two largest expenditure areas not adequately addressed in last year's budget were personnel costs and capital projects. Both could be put on hold for short periods of time but cannot be ignored indefinitely. The largest expenditure in the budget were personnel costs because people were the most important component of providing public service. The quality of the services provided was directly related to the quality of the people serving the community. If staff was ignored for too long, the good ones would leave. It was important to provide cost of living adjustments, training opportunities, competitive wages, and decent benefits. Except for maintaining a good benefit package, all these things were cut from last year's budget, and needed to be worked back in to have a sustainable operation going forward. Capital projects were the other easy cuts when things got tight. Deferring projects for short periods of time was typically not a problem, but if the necessary maintenance was not conducted, a minor repair could turn into a major one, costing much more in the long run. When starting with the structural deficit from last year, adding in reasonable personnel costs, and including a responsible capital program, the Town had a serious shortfall for the fiscal year 2022 proposed budget. As discussed during the strategic planning sessions, over the years, the Town's revenues had not historically kept pace with expenditures, largely because the Town had not raised property taxes since 2014. Since 2018, the Town had been lowering the tax rate to offset the recent growth in property values. This practice was the primary cause of the current shortfall. In order to build a responsible budget with revenues to adequately fund it, there was a necessity to increase both real property taxes and utility rates. While this was the only practical approach currently available, staff would continue to research other potential revenue generating ideas. If other acceptable revenue sources could be developed, the Town could use them to provide future property tax relief. Some of the major differences in the budget presentation this year included several new funds designed to better track activity and allow for a better understanding of the Town's operational budget health. Most of the capital spending was grouped into a separate fund. The same was done with one-time unique activities or straight pass-through funding. All debt service was also segregated into its own fund to better track whether we were following our debt service policy. Using this presentation, one could more clearly see the Town's current operational deficit, the capital projects deficit, and that the Town was currently slightly above the debt service limit set last fall.

John Hozey went on to thank Debbie Pocock for putting everything together adding that he would like to go through the whole budget in broad terms first, then go back to discuss the details. He summarized the highlights as follows:

<u>Fund Budgets</u>: i) Last fall, the Council approved a policy to transfer 20% of operating expenditures from the General Fund Balance to Committed Reserve on the Balance Sheet and 10% to a Contingency Reserve. 6% would be dedicated to capital projects. With these figures factored in, the General Fund Operations Revenue

Less Expenditures showed a deficit of $302K. Council also approved a policy to set the debt service limit at 8%; ii) The General Fund Revenue projections were reviewed. The projected total of General Fund Operations Revenue was $3,093,577; iii) The Utilities Fund Revenue Projections were reviewed with a projected total of $2,094,130. The Public Utilities Revenue Less Expenditures showed a deficit of $96,282. Although Council had not approved a policy to transfer 20% of operating revenue to a committed reserve, similar to that for the General Fund, John Hozey recommended this policy. 20% of the Utilities Fund projected operating revenue amounted to $410K and was less than the amount available in reserves. The current reserve was approximately 17%. The 10% contingency fund (rainy day fund) was not recommended for the Utility Fund since it would add to the deficit, which would affect the rate increase. There was some discussion regarding the effect of additional utility customers to the revenue and Debbie Pocock stated that 50 additional customers equated to about $66K per year in revenue, but that figure also included about $9K for sanitation; iv) The Harbor Fund had too many unknowns with this being the first year of the management contract with Cape Charles Yacht Center (CCYC). A full year was needed before the account could be evaluated. The Town had a good relationship with CCYC, and they agreed to sit down after a year to make any adjustments that would be reasonable to both the Town and CCYC. John Hozey stated that although the Harbor was an enterprise fund, it was not a true enterprise fund since it was subsidized by the Town. He tried to have it converted to a department under the General Fund, but the auditors would not allow it. The goal was to get the Harbor to cover its costs. The projected revenue was $936K and projected expenses were $922K showing a surplus of $13,875. A generalization could be made that since the Harbor Fund was subsidized by the General Fund, there was no fund balance for the Harbor. 20% of the Harbor operating expenditures would amount to $181K. If Council opted to designate a Harbor Fund Balance, subtracting this amount from the unrestricted fund balance would leave $85K in the Town's General Fund Balance; v) The Sanitation Fund Balance was reported to be $260K as of the last audit, but funds were taken from the Fund Balance last year to subsidize Sanitation leaving about $195K in the Fund Balance. The projected Sanitation Revenue less Expenditures showed a deficit of approximately $25K, which would increase the rates by about $1.80 per month.

<u>General Capital Projects Fund</u>: i) If the Town were to do all the projects currently included in the Capital Assets Management Plan (CAMP) for FY 2022, there would be a deficit of about $276K; ii)

<u>CAMP Schedule</u>s: The CAMP Schedule for FY 2021 was distributed for comparison.

<u>General Fund</u>: i) The highest priority was the Town Hall. The FY 2021 CAMP schedule proposed $450K for both FY 2022 and 2023. The revised CAMP schedule for FY 2022 reduced the proposed expenditure for FY 2022 to $130K for studies and engineering; and carried over $450K for FY 2023 and $320K for FY 2024 for design and construction. A request for proposals was being prepared for advertising next week. Vice Mayor Bennett expressed his concern that the municipal building was underfunded in the CAMP schedule; ii) The Public Works Butler Building Replacement was proposed for FY 2023 at an estimated cost of $120K. There was some discussion regarding having two facility construction projects running concurrently. The Public Works Butler Building was pushed to FY 2025; iii) $30K was included for the Mason Avenue restriping – the second part of the engineering scope of work and the actual restriping; iv) $227K was included for Phase 3 of the Multi-Use Trail Construction; v) $20K was included for Central Park Gazebo Upgrades. The structure was deteriorating and in need of repair. $12K would be spent this year to replace the rotting boards and the $20K next year would be to upgrade the electrical; vi) $25K was included for trash can replacements; vii) $20K for the Central Park Fountain Upgrades was moved from FY 2022 to FY 2021; viii) The total amount budgeted for the General Fund CAMP was $462K; ix) John Hozey noted that, as part of the CAMP document, Council had the ability to spend 10% of the budget, up to $25K, on a pet project. If there was something that Council wanted done that was not shown on the CAMP schedule, it was important for Council to include it. No additional comment was received regarding this item; x) Councilman Grossman pointed out a number of projects budgeted for in FY 2021 that would not be completed. John Hozey stated the budgeted amounts that remained unspent could be re-appropriated for FY 2022 reducing the deficit.

<u>Harbor Fund</u>: The CCYC was provided an opportunity to give their opinion regarding capital projects. The FY 2022 proposed CAMP schedule totaled $61K for the following: i) $20K for the Harbor Capital Plan Evaluation; ii) $36K for Structural Piling Repair; iii) $5K for Rehabilitation of the East Inner Harbor; iv) The $10K for the Harbor Pergola was moved from FY 2022 to 2023 per CCYC recommendation; v) Mayor

Dize asked about the $30K included in FY 2023 for the Phoenix System Replacement since it was determined that fuel could not be sold without an attendant being on duty. John Hozey stated that it was an old, outdated system that still needed to be upgraded.

Utilities Fund: The FY 2022 proposed CAMP schedule totaled $139,500 for the following: i) $55K for the Water Tower Mixers. This was initially included in this year but had not been done so was included again in FY 2022. With the potential sale of the water system, Council agreed to shift the $55K expenditure to FY 2023 and include $20K for a professional engineering review for the Department of Health approval of the proposed project. The shifting of this project to FY 2023 would help to keep the rate increase to a minimum. If the system was sold, the new company would have the expertise to know what needed to be done; ii) $40K for the Washington Avenue Pump Station Upgrade; iii) $14,500 for Sewer Pod Controllers; iv) $30K for the Water Treatment Plan Upgrade Analysis. Also due to the potential sale of the water system, this expenditure was moved to FY 2023. If the system was not sold, the analysis would be needed; v) With the adjustments made the total was reduced to $74,500. With this reduction, the utility rate increase would be approximately $2.75.

General Debt Service Fund: i) Debt service was an operational expense, and the purpose of this fund was to monitor the Town's debt capacity; ii) The total General Fund debt service was about $156K; iii) The Harbor Fund debt service was $102,657; iv) The total debt service was about $259K which amounted to 8.36% of the general core operating revenues which was slightly over the 8% approved by Council in November 2020. John Hozey added that taking on additional debt was not an option to resolve the current budget deficit problems.

Special Activities Fund: This Fund was created for miscellaneous revenue and expenditures including grant pass-throughs. Any monies received under the American Rescue Plan Act (ARPA) would be held in this account until it could be appropriated, and a budget amendment could be advertised and approved. No ARPA funding was included in this proposed budget since the amount and uses were still unknown. Vice Mayor Bennett stated that the funding could be used for utility infrastructure and the Town of Exmore had already published that they would be using a portion of their funding for their utility infrastructure.

Personnel: i) No adjustments were made last year to personnel; ii) A 2% cost of living allowance (COLA) was proposed for all staff except for the town manager, equating to 1% per year since no COLA was approved in FY 2021; iii) There would be no individual merit increases; iv) Several small market-based adjustments ranging from $500 to $1,200 per year were made. If a staff member were to leave, he would not be able to replace the majority of them at their current salaries; v) The total cost of the personnel investment was $68,916; vi) An additional, higher-level position was requested for the finance department. The estimated cost of this position was not included in the $68K figure. The treasurer's workload was not sustainable with major deadlines from December through March, followed by the required work for vacation rentals, business licenses, grants, budget and audit, etc. It would be nice to have an individual with an experience-level similar to Debbie Pocock to transfer some of her knowledge and a possible succession plan; vii) Another personnel request was received to move the part-time position at the water plant to a full-time position, but it was not included in the proposed budget due to the current staff person leaving and the potential sale.

There was some discussion regarding a number of positions and succession issues.

The 12-Year General Fund Budget History, the 14-Year Tax Rate History, and 10-Year Utility Rate History for Water and Sewer were distributed for reference. (Please see attached.)

There was discussion regarding the projected revenue and various tax rates: i) The Town's transient occupancy tax (TOT) was currently 3.7% and was basically a pass-through tax charged to vacationers. Although counties were limited to 5% for transient occupancy tax (TOT), towns and cities were not. A possible increase could be considered since some other towns charged twice as much; ii) Councilman Grossman noted that the projected revenue from permits was less than what had been collected the previous two years and asked that they be reviewed again and possibly revised; iii) Several members of Council suggested increasing the fee for golf cart decals since they could be considered a luxury item, possibly a total of $100 annually including the inspection fee. Another thought was to charge an additional fee for golf cart rentals. A comment was made that many vacation rentals charged extra for use of a golf cart. Staff would review this item and come back to Council with a recommendation; iv) The Town submitted a request for a $30K library contribution from Northampton County. In previous years, the Town received $20K with the exception of FY 2021 when the amount was reduced to $19,500. The Town was awaiting a decision from the county; v) John Hozey stated that staff was researching possible alternate revenue sources such as paid parking, a resort tax, expanded sales tax, and a special assessment district; vi) Mayor Dize commented that boat ramp fees were not included in the budget. John Hozey explained that he had been going back and forth with the Department of Wildlife Resources (DWR) regarding an agreement that would benefit both the Town and DWR. At some point in the future, the boat ramps would need a major renovation that the Town could not afford. When this process began, staff put in numbers for boat ramp fees and the projected revenue only amounted to about $18K annually. It cost more than that to maintain the ramps. Technically, the Town was in default of the former agreement for not performing the routine maintenance that now amounted to about $40K. Recently, the Town and DWR reached an understanding that DWR would do the maintenance work and the Town would provide five years of free usage. At the end of the five-year period, the agreement would be re-evaluated. By committing to a new agreement, the Town would stay in the queue. If we stopped the agreement, it would be difficult to get back into the program for future assistance. Getting DWR to commit to do the work and having the Town stay in the program had value. The agreement would be brought to Council for review and approval once the details were worked out.

John Hozey stated that the May 20, 2021 Town Council Regular Meeting agenda was light and recommended scheduling a work session following the regular meeting to continue budget review and discussion. The Mayor and Council agreed.

Motion made by Councilman Buchholz, seconded by Vice Mayor Bennett, to adjourn the Town Council Work Session. The motion was approved by unanimous vote.

The meeting adjourned at 8:59 p.m.

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Mayor Dize

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Town Clerk

May 13, 2021 Town Council Work Session
Additional Documents Provided

GENERAL FUND BUDGET HISTORY

	Revenue History*	GF Operating Expenses**	Revenue increase	Expenditure increase	Over/under
2020	$ 2,817,134	$ 2,917,073	11%	13%	$ (99,939)
2019	$ 2,527,809	$ 2,588,685	11%	15%	$ (60,876)
2018	$ 2,276,517	$ 2,249,123	7%	-1%	$ 27,394
2017	$ 2,130,673	$ 2,267,635	3%	12%	$ (136,962)
2016	$ 2,073,154	$ 2,021,628	-1%	3%	$ 51,526
2015	$ 2,096,821	$ 1,960,387	6%	9%	$ 136,434
2014	$ 1,970,534	$ 1,802,229	8%	0%	$ 168,305
2013	$ 1,826,635	$ 1,809,112	5%	7%	$ 17,523
2012	$ 1,738,605	$ 1,683,611	3%	-1%	$ 54,994
2011	$ 1,683,869	$ 1,704,744	-4%	-19%	$ (20,875)
2010	$ 1,746,696	$ 2,094,819	-1%	25%	$ (348,123)
2009	$ 1,756,543	$ 1,670,543			$ 86,000
		Average Change:	4%	6%	

* Total General Fund Revenue; less all grants, loans, and fund balance transfers

** Total General Fund Expenses; less capital expenditures and pass through grants

Cape Charles Tax Rate History
FY 2008 - FY 2021

Fiscal Year	Real Estate	PPT	Boat	TOT	Meals	Admissions	Short-Term Rentals	Vehicle/ Golf Cart License	Trailers	Notes
2021	0.2731	$2/100	$.01/100	3.7%	5.0%	3.0%	1.0%	$31.00	$18.00	
2020	0.2945	$2/100	$.01/100	3.7%	5.0%	3.0%	1.0%	$31.00	$18.00	
2019	0.2945	$2/100	$.01/100	3.7%	5.0%	3.0%	1.0%	$31.00	$18.00	
2018	0.3260	$2/100	$.01/100	3.7%	5.0%	3.0%	1.0%	$31.00	$18.00	
2017	0.3260	$2/100	$.01/100	3.7%	5.0%	3.0%	1.0%	$31.00	$18.00	equalized rate - no additional
2016	0.2759	$2/100	$.01/100	3.7%	5.0%	3.0%	1.0%	$31.00	$18.00	
2015	0.2759	$2/100	$.01/100	3.0 / 3.7%	5.0%	3.0%	1.0%	$31.00	$18.00	TOT increase effective 1/2015
2014	0.2759	$2/100	$.01/100	3.0%	5.0%	3.0%	1.0%	$31.00	$18.00	equalized + $.0085/100
2013	0.1828	$2/100	$.01/100	3.0%	5.0%	3.0%	1.0%	$31.00	$18.00	
2012	0.1828	$2/100	$.01/100	3.0%	5.0%	3.0%	1.0%	$31.00	$18.00	
2011	0.1828	$2/100	$.01/100	3.0%	5.0%	3.0%	1.0%	$31.00	$18.00	
2010	0.1828	$2/100	$.01/100	3.0%	5.0%	3.0%	1.0%	$31.00	$18.00	
2009	0.1628	$2/100	$.01/100	3.0%	5.0%	3.0%	1.0%	$27.00	$10.00	
2008	0.3008	$2/100	$.01/100	4.0%	5.0%	3.0%	1.0%	$27.00	$10.00	

Utility Rate History

Cape Charles Water & Wastewater Rates, 5,000 gallons/month

Year	Water	WW	Total
2011	50.89	44.33	95.22
2012	47.44	47.78	95.22
2013	42.39	73.18	115.57
2014	39.04	75.60	114.64
2015	39.05	75.33	114.38
2016	39.05	75.33	114.38
2017	39.09	75.33	114.42
2018	38.10	75.40	113.50
2019	40.83	74.33	115.16
2020	40.83	74.33	115.16