



TOWN COUNCIL
Work Session
Cape Charles Civic Center
May 12, 2022
6:30 PM

At 6:36 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 Councilmen Buchholz, Follmer and Grossman, and Councilwoman Holloway. Councilwoman O’Brien was out of town. Vice Mayor Bennett arrived at 6:44 p.m. Also, in attendance were Town Manager John Hozey, Treasurer Deborah Pocock and Town Clerk Libby Hume. There were two members of the public in attendance.

WORK SESSION ORDER OF BUSINESS:

FY 2023 Town Budget Review and Discussion:

Town Manager John Hozey distributed a packet reflecting changes made at the May 5th meeting.

A. Review as Necessary:

Capital Asset Management Program (CAMP) Schedule: The South Beach Restroom Renovation was moved from FY 2024 to FY 2023.

General Fund Revenue: i) The carryover line item was increased, adding reappropriations for management consulting and engineering from the FY 2022 town manager budget; ii) The third police vehicle was removed from the USDA RD grant and loan proceeds lines.

General Fund Expenditures: Very little changed. Adjustments were made to several staff salaries, the legislative salary increase was omitted, the community support grant to the Cape Charles Museum was removed, and the \$10K to the Cape Charles Volunteer Fire Company was removed since we would be using ARPA funds for the new air packs. The General Fund Revenue less expenditures increased from \$881,500 to \$920,983. This number still had revenue using the current real property and personal property tax rates and assessments.

General Fund Capital: The beach restroom renovation was moved to FY 2023 at an estimated cost of \$40K.

Utilities Fund: Staff allocations were adjusted based on salary changes which increased the deficit slightly.

Harbor Fund: Staff allocations were adjusted based on salary changes. The difference was balanced by reducing the maintenance line by the same amount as the staff allocations line.

B. Detail Review of Proposed Budget (continued from May 5th Work Session):

General Fund Capital Projects: The Beach Restroom Renovation was moved to FY 2023 as discussed last week.

General Fund Debt Service: The debt service ratio for the General Fund was approximately 6.8% of core revenue if the tax rates were equalized. If we stayed within the 8% of revenue cap previously set for General Fund debt service, we could potentially take on an additional \$1M of new debt. In comparison, the debt service ratio for the Utilities Fund was approximately 25% of revenue.

General Special Activities Fund: The costs for one police vehicle and the air packs for the Cape Charles Volunteer Fire Company were removed as previously discussed.

Utilities Fund Revenue: i) There was much discussion regarding the projected revenue from connections fees. John Hozey would talk to the code official to see if the numbers could possibly be increased; ii) John

Hozey stated that this discussion was important since there was a deficit in the Utilities Fund budget and rates would need to be increased. Council needed to be comfortable of where things were.

Utilities Fund Expenditures: i) Councilman Grossman expressed his concern regarding the Contingency Fund with \$100K allocated when historically the Town had not used as much as budgeted. He suggested reducing the amount in the Contingency Fund to eliminate the need for a rate increase. There was much discussion about having funds in reserve if emergency repairs were needed. John Hozey noted that there was no money in the CAMP for any utility-related capital projects. If anything broke and needed repair or replacement, there would be no money available without the Contingency Fund. Any unused Contingency funding would be reallocated for the following year. John Hozey explained that there was a total of approximately \$600K in the fund balance, but after deducting the reserved funds for future plant expansion, approximately \$52K remained as undesignated. Rather than reduce the amount in the Contingency Fund line, John Hozey recommended reducing the undesignated amount in the fund balance to offset the rate increase; ii) There was some discussion regarding debt service in the Water Plant budget. \$5,004 was the debt service for the new truck that was purchased last year. The projects representing the remaining debt service could not be specified. John Hozey would look into the issue to determine the project(s); iii) The bottom line for the Utilities Fund currently has a deficit of 52,262.01. John Hozey recommended using the available \$52K from the fund balance to offset this deficit. Vice Mayor Bennett recommended reducing the Contingency Fund by \$262.01 to balance the budget so no rate increase would be needed.

Harbor Fund: i) John Hozey stated that the Harbor Fund budget was balanced at the expense of maintenance which was not sustainable; ii) The Mayor and Council questioned the lack of wharfage fees being collected this fiscal year. Treasurer Deborah Pocock would check the numbers; iii) There was some discussion regarding the future of the harbor management agreement; iv) There was much discussion regarding repair and maintenance at the harbor. There were a number of areas identified in the recent report from Langley & McDonald. They could not all be covered by harbor revenues. The harbor rates were increased considerably last year, so should not be raised again this year. It was possible to take on more debt service to spread out the cost, but it would have to be subsidized by the General Fund. A number of grants were identified. There would be further discussion regarding the harbor in the fall.

Sanitation Fund: The Sanitation Fund revenue showed the necessary rate of \$18.28 per receptacle to balance the sanitation budget. The Town was currently subsidizing the rate for FY 2022 by \$1.65 per receptacle. There was some discussion about continuing to subsidize the rates from the fund balance, but no consensus was reached.

Community Support Funding Requests: Council reviewed the funding applications received from various organizations, but no additional changes regarding funding were suggested.

C. *Town Manager Budget Authority Policy:*

Council reviewed the draft Budget Management Policy. John Hozey stated that the auditors reviewed the policy and recommended adoption of the policy as part of the budget resolution. Since this would be an ongoing policy, his suggestion was to adopt it separately by resolution, which could be done at the June 16, 2022 regular meeting. Council was in agreement. There were no changes to the draft policy that was presented.

D. *Strategic Revenue Planning:*

John Hozey reviewed the Strategic Revenue Program adding that before rebalancing the real property tax rate, a strategic revenue projection needed to be in place so that rebalancing could still achieve long-term goals. There was discussion regarding the following: i) John Hozey recommended using a long-term projected inflation rate of 2.5%. There was a consensus to use 2.5% for planning purposes; ii) The highest percentage of revenue came from real property, meals and transient occupancy taxes. Council asked Deborah Pocock to compile the amounts from meals tax and TOT going back to 2018 and 2019. There was much discussion regarding meals tax and TOT and projected increases in revenue in future years; iii) Each

penny of real property tax equated to about \$70K in revenue. The Potential Debt Service Needs was also reviewed.

E. *Fund Balance Reserve Status:*

John Hozey reviewed the Fund Balance Reserve Status. The fund balance reserves did well with a General Fund Balance of about \$2.1M as of June 2021. The Harbor Fund was not solvent and was subsidized by the General Fund. Subtracting the amounts of the required reserves from the \$2.1M still left about \$754K. The audited unrestricted Utility Fund Balance was \$668K. Subtracting core operating expenses and required reserves left a balance of about \$52K. Council discussed this item earlier and opted to use the \$52K to offset the utility rate increase.

F. *Projected Revenue and Rebalancing:*

There was discussion regarding the Virginia Port Authority Aid to Localities grant for harbor projects, and other possible grants that could assist in funding future projects. John Hozey commented that it took staff time to apply for and manage the grants. He added that USDA Rural Development had a 2.5% loan to finance 100% of the new municipal building for a 40-year term. This was a good option.

There was discussion as follows: i) Councilman Follmer stated that we could responsibly equalize the real property tax rate as discussed at 1% plus new construction and added that the reserve should be held for unexpected expenses; ii) Councilwoman Holloway stated that the Town was growing, and our needs and priorities were growing. Staffing support needed to be provided; iii) There was much discussion regarding the need to reorganize, add staff, improve the pay scale, etc. iv) John Hozey stated his preference was to treat the reserves as a savings account and not using it unless really necessary; v) If the real property tax rate was rebalanced to equalized plus 1% and new construction, the General Fund revenue would be reduced by \$644,555. John Hozey also recommended reducing the personal property tax (PPT) rate by 50%. It would be nice to provide additional tax relief to residents by lowering the PPT. There was a general consensus to reduce the PPT to \$1.00; vi) There was much discussion about staff compensation and the current economic situation; vii) There was a consensus to appropriate any additional revenue to the fund balance.

John Hozey informed Council that a new quote was received regarding the Town Code update to include the 2022 Virginia legislative session changes. The cost was \$3K for this service. In the past, we relied on the Virginia Municipal League and our attorney to bring legislative changes to our attention. With the cost being about \$3K, it might be a good policy to have Municode provide this service every two or three years to ensure that our Town Code was up to date on state legislation.

John Hozey stated that staff had all the necessary information to move forward with the public hearing for the FY 2023 proposed budget. Another work session was scheduled for May 26. Even though the budget work was completed, he would like to have the work session to discuss the potential utility sale and review information provided by Councilman Grossman.

Motion made by Councilman Buchholz, seconded by Councilman Follmer, to adjourn the Town Council work session. The motion was approved by unanimous vote.

The meeting adjourned at 8:53 p.m.

Mayor Dize

Town Clerk