

TO: Mayor Craig and Member
Abingdon Town Council

FROM: Kenneth F. Vittum
Interim Town Manager

DATE: April 12, 2019

RE: 2019/2020 Fiscal Year Budget Message



Abingdon Town Council: (Left to Right) Council member Derek Webb; Vice Mayor Cindy Patterson; Mayor Wayne Craig, Council member Donna Quetsch; and Council member Al Bradley

I. INTRODUCTION

As this is the first and last budget I will assist the Town in preparing, I want to take a moment and thank the members of town council for affording me the honor and privilege to serve as interim town manager for the past seven months. I honestly believe that Abingdon has a wealth of dedicated professionals serving with the best interest of the community in mind. Coupled with a council that believes in the future of the town and strives to make decisions that will further a common vision, I think the future is bright. As I end my tenure with Abingdon I wish you and the incoming manager nothing but the best.

Having started on the year long journey to update the Comprehensive Plan, Abingdon has taken a positive stride towards that future. The Plan will serve as the blue print for development and planning for the next decade. The next step and an important one is to update and adopt a Capital Improvements Plan. This will allow the community to plan for major projects and capital outlays and to avoid unexpected surprises or having too much due at one budget cycle to handle. This Plan will allow you to pace projects to the available revenue stream. The Finance Director has begun to look at ways to develop the Plan and what sources of technical assistance are available. I urge you to make this a priority.

The Budget is another Plan that is vital to the well-being of the community. It matches the revenue available to the expenditures being planned to accomplish the goals established by the Town Council. As with all budgets the needs usually exceed the resources available to pay for them. This leads to sometimes painful cuts or postponement of some needs to a later year when resources are available.

The town has several projects underway that should have a positive economic impact on the community. In addition, the new Sports Fields will become important additions to the overall quality of life in Abingdon. New stores and restaurants will bring in needed revenue and increase the variety of options available to citizens. Plans for upgrades to historic property will preserve the past but also breathe new life and uses into these beautiful buildings. Linking the Creeper Trail to the Overland Victory Trail via the Urban Path, exploring the development of a mountain bike park, and improvements to the Muster Grounds are all moving forward and all have much to add to making Abingdon the best it can be.

In developing this year's budget I offer the following suggestion for future budget development. Many communities have separate General Fund Operations and General Fund Capital budgets. By splitting these from the current method of budgeting the town would be better able to fund the basic core services. In effect to first fund personnel, utilities, and the basic service modules needed by the citizens. Once these are funded the remaining funds can be used for Capital expenditures. This will allow council to determine better how much can be spent annually for capital improvements and to prioritize those expenditures should cuts need to be made.

Abingdon has embarked on an ambitious path to develop The Meadow, fund VDOT road projects, and upgrade property. In addition the Comprehensive Plan, Zoning and Code updates, and the need for a Capital Improvement Plan are keeping staff very busy and will limit available human resources for the immediate future. Council may want to complete the current projects and take stock of where this puts the town before beginning further large projects. In discussion with the

Finance Director and Davenport, the town will retire significant amounts of existing debt in the next six to ten years. However, the town needs to proceed slowly until the effect of anticipated new revenue can be made.

With the new manager poised to take command, I would recommend that council and key staff hold a planning retreat in the near future to develop goals and strategies going forward. Part of this will be the focus of the Comprehensive Plan but that process will not be completed for a year. Developing goals and careful planning will help with maintaining capital reserves and the town's strong AA3 Bond rating.

I am pleased to submit to you the budget for Fiscal Year 20. Note that staff is presenting a balanced budget with no recommended tax or fee increases. However, staff is recommending that council fund a number of proposed projects by borrowing an additional \$1,000,000. The reasoning used for this and the projects funded by this bond will be explained later in this message.

II. BUDGET ANALYSIS

A. Budget Procedure for Fiscal Year Beginning July 1, 2019

This budget has been balanced through a careful review of previous year's revenue and analysis of requests submitted by the Department Heads. The Finance Director and I developed the recommended budget following meetings with each Department Head and careful consideration of balancing requests to available resources. The Director of Finance and I feel that we have used accurate and sound analysis and developed the best budget for your consideration. The budget required over \$9.6 million in borrowed funds, revenue sharing, and other grant funds to fully fund Capital Improvement Projects. Again, the need to develop a new CIP is critical.

Council has held budget workshops March 5, 6, 14, and 20 to consider budget requests. The draft budget was submitted to council on April 1. Upon submittal of the draft budget and this message, Council can make any appropriate adjustments. Staff will incorporate any changes made by council into the final budget document for adoption.

Staff will develop a synopsis for publication and advertisement of the required Public Hearing. The Public Hearing and First Reading will be May 6. The Second and Final Reading will be June 3 with the adoption to take effect July 1, 2019. Changes after the Public Hearing are allowed prior to the adoption date without additional hearings. However, these adjustments cannot exceed 1% of the budget. The entire budget will be published on the town website and hard copies made available at the Town Manager's Office.

B. Format of the Budget Process

1. Council has met with Department Heads to hear their budget requests. Prior to this the Finance Director and I met with department heads and made approximately \$3 million in reductions and adjustments.
2. Each departmental budget contains operation, maintenance, and capital outlay expenses associated with that department
3. Capital Outlays have been funded using borrowed funds, grant funds, and VDOT Revenue Sharing. There are no adjustments recommended for taxes or fees, but the funding does anticipate borrowing an additional \$1 million.
4. The Final Budget will be available to you in hard copy and/or electronically.

C. Comparison to Last Year's Budget

General Fund

FY 19 Revenue	\$19,643,892	FY 19 Expenditure	\$19,643,098
Operations	\$12,851,892		
Capital	\$ 6,792,000		
FY 20 Revenue	\$23,417,630	FY 20 Expenditure	\$23,417,630
Operations	\$13,810,576		
Capital	\$ 9,607,054		

The proposed budget is an increase of approximately 15% from the previous year. Most of this is due to funding of the Sports Complex and Historic Property Renovations. The Finance Director and I have been conservative with estimates for new tax revenue for the Meadows development. Several stores should open later this year and into the first half of 2020. We hope that the figures used are conservative and that actual revenue will exceed estimates. We have not placed any revenue in the budget for sale of property, although the Summer Law Office was added to the FY 19 budget. The remaining twenty-five acre property along US 11 can be a future source of revenue and might be a tract to be jointly developed with the county in a revenue sharing arrangement. There is also some interest in the Small Incubator Park that could develop during the upcoming year.

In the Meadows Project it is anticipated that by the fourth quarter one grocery store, three miscellaneous retail, and three restaurants will open. By the end of 2020 an additional four restaurants, two hotels, and two other retail users are anticipated. Unfortunately the Washington Crossing connector did not come to fruition. However, staff anticipates that both that shopping center and Towne Center will undergo revitalization in the coming two years. The upcoming projects on the three interstate exits should also yield additional growth opportunities. However, as much of the Exit 19 growth is not in the corporate limits this does not provide the same economic boost as the others.

Sewer Fund

FY 19 Revenue	\$3,247,930	FY 19 Expenditure	\$3,247,930
FY 20 Revenue	\$3,453,650	FY 20 Expenditure	\$3,453,650

The proposed Sewer Fund reflects a small increase from the previous year.

D. June 30, 2018 Town Audit

The Audit for the FY 18 was presented to council by Brown, Edward, & Company. The Audit was delivered in bound hard copy to each member of council following its acceptance at the December council meeting. The Audit is also available on line for reference.

III. TAX RATE, USER FEES, ADDITIONAL BONDING

I am proposing no increases in taxes and user fees in this budget. However, in order to fund certain capital items in the budget I am recommending that council approve borrowing up to \$1,000,000. Should bids come in lower than engineering estimates the additional funds may be reduced or eliminated. Actual bond work could be started after bids are open on the Sports Complex and council with staff can further evaluate the need for additional funding. Grants and private donations may also help mitigate the need for this funding.

The added borrowing would be targeted towards match required for grants and renovation of historic properties. Please remember that the FY19 Budget also included \$183,000 to stabilize Field-Penn’s foundation and \$25,000 to condition Retirement. Coupled with the FY20-21 expenditures listed below and the funds earmarked for the Meadows House in the Sports Complex budget, this represents a significant investment in historic property. In addition, it is highly likely that construction on the Sports Complex will run into FY21 and any additional financing would not be needed during FY20. We have shown full build out of the Complex in FY20 at the engineers estimate making this the worst case scenario. Those items earmarked for the local bond include:

West Main Street Matching Funds	\$ 70,000
Park Street Matching Funds	\$ 24,266
Glenrochie Creeper Trail Matching Funds	\$ 73,917
Urban Pathway RR Pedestrian Crossing	\$100,000
Creeper Trailhead Parking Improvements	\$100,000
East Main Street Drainage Study	\$ 25,000
Fields Penn Renovations	\$175,000
Retirement Renovations	\$200,000
Meadows House Renovation (FY21)	\$200,000

IV. SUBSTANTIAL EXPENDITURE CHANGES

A. TOWN EMPLOYEE COST OF LIVING ADJUSTMENT

The budget contains a 2% cost of living adjustment for all full time employees. This modest increase is well deserved by the employees, who have impressed me with their professionalism and dedication to the community. I will miss the day to day interaction with this fine set of employees and wish each of them well as they continue to provide high quality services to the community.

Keep in mind that Health Insurance increased by 10.8% this year, a total of 28% over the last three years. This eats into the modest pay raises and is one of the town's biggest costs. The 2% raise will offset this and allow employees to see small increases in take home pay.

B. DEPARTMENTAL

TOWN COUNCIL

1. Sustain Abingdon – Additional \$5,000 to sponsor new program (\$15,000)
2. Council Contingency – Additional \$25,000 (\$75,881)
3. Arthur Campbell Award – All funding eliminated
4. Funded Non-Departmental – Various cuts and eliminations of \$100,000 (\$385,000)

TOWN MANAGER

1. Elimination of Discretionary Funds of \$25,000.
2. Adjustment for new manager salary and training.

TOWN ATTORNEY

1. Elimination of full time position.
2. Funding of contractual services for legal assistance.

HUMAN RESOURCES

1. Contractual services for (\$18,500) Time Management Renewal in IT last year

DIRECTOR OF FINANCE/TREASURER

1. Audit increase to account for Single Audit requirement (\$60,750)
2. Contractual Services increase \$22,600 OpenGov Renewal in IT last year

INFORMATION TECHNOLOGY

1. Additional part time staff for training new employee (\$3,000)
2. Increase training due to new employee by \$2,000. (\$10,000)
3. Capital outlay \$113,214.
4. Computer Software and Support \$156,800

POLICE DEPARTMENT

1. Training and education were increased to cover several officers \$30,157
2. Two vehicles scheduled for replacement will be leased at a savings of over \$50,000.
3. Computer equipment and software \$12,500
4. Replacement of vests
5. Video Enhancement equipment
6. Replacement of radio equipment was delayed until next year (\$225,000)

FIRE DEPARTMENT

1. One new full time paid fireman to start January 1, 2020.
2. Contractual services increase \$10,500 to cover maintenance and reporting contracts
3. Capital outlay items \$56,624 payment on 2014 Pierce Pumper
4. Replacement of radio equipment was delayed until next year (\$225,000)
5. State grant \$28,351

BUILDING INSPECTIONS

1. Adjusted funding to include new Building Official following retirement.
2. Building inspector position was budgeted to be filled in January 2020.

PUBLIC WORKS

1. Annual Permits increased \$1,000.
2. Asphalt pavement maintenance was significantly increased by \$150,000 to \$500,000.
3. Street Department capital outlay \$804,211
4. Street lights \$152,500
5. Recycling program was not funded due to market collapse.
6. Solid waste capital outlay \$28,962
7. Arborist salary adjusted to reflect hours worked \$10,000
8. Tree replacement \$6,500
9. Automobile maintenance and repairs \$140,000
10. Garage capital outlay \$13,300
11. Park Street Project fully funded \$1,213,309

OUTDOOR PARKS AND RECREATION and COOMES CENTER AND INDOOR RECREATION

1. Contractual services \$38,966
2. Capital outlay 52,800
3. Creeper Trail Improvement Grant \$295,688
4. Creeper Trail Local Match \$73,917
5. Recreation Center travel and training increased by \$2500
6. Coomes Center capital outlay \$25,000
7. The Meadows Sports Complex is fully funded at \$7,220,000
8. Watauga Creeper Trail Project \$427,160

COMMUNITY DEVELOPMENT

1. Contractual services \$9,000
2. Local Match for Grants \$23,500 for DHR Grant Applications
3. Bus Transit system for four routes \$49,434

TOURISM DEPARTMENT

1. Advertising \$200,000
2. Abingdon Music Experience Community festivals and programs \$181,000

WOLF CREEK WATER RECLAMATION FACILITY

1. Contractual Services \$152,000
2. Repair of service mains \$55,000
3. Capital outlay \$136,531
4. Lab Testing fees \$10,500
5. Capital outlay at plant \$33,235
6. Debt Service \$739,361

PLANNING DEPARTMENT

1. Fields-Penn House Renovations \$175,000
2. Retirement Renovations \$200,000
3. Repair of Historic Property \$65,000
4. Comprehensive Plan \$52,110
5. Zoning Code Update \$5,000

C. DEPARTMENTAL CONTINGENCIES

The following is a list of all contingencies by Department. The Town Manager Discretionary account was eliminated this year.

- Town Manager/Town Clerk \$5,000
- Police \$4,000
- Fire \$4,400
- Sewer Department \$50,237
- Coomes Center \$3,500

D. COUNCIL CONTINGENCY

- Council Contingency \$75,881
- Mayor Contingency \$ 4,000

E. NON-DEPARTMENTAL REQUESTS

The non-departmental requests were significantly reduced this year. In addition a number of changes were made including moving District III entirely into the Transit budget and several memberships out of the non-departmental category. The current funding for these is included in the budget and totals \$385,000.

F. CAPITAL IMPROVEMENTS

<u>CAPITAL PROJECT</u>	<u>AMOUNT</u>	<u>FUNDED/NOT FUNDED</u>
WEST MAIN STREET	\$280,000 (\$210,000VDOT)	LOCAL BOND \$70,000
PARK STREET IMPROVEMENT	\$1,213,309 (\$1,189,043VDOT)	LOCAL BOND \$24,266
GLENROCHIE PROJECT	\$ 351,585 (\$277,668VDOT)	LOCAL BOND \$73,917
URBAN PATH PEDESTRIAN	\$ 100,000	LOCAL BOND \$100,000
CREEPER TRAILHEAD PARKING	\$ 100,000	LOCAL BOND \$100,000
SPORTS COMPLEX	\$7,220,000	LINE OF CREDIT
FIELD PENN RENOVATION	\$ 175,000	LOCAL BOND \$175,000
RETIREMENT RENOVATION	\$ 200,000	LOCAL BOND \$200,000
EAST MAIN STORMWATER	\$ 25,000	LOCAL BOND \$25,000
WATAUGA CREEPER TRAIL	\$ 427,160	NO LOCAL FUNDS

G. DEBT SERVICE

The budget shows of debt service totaling \$630,111 for the General Fund and \$739,361 for the Sewer Fund in FY20. It is important to note that Abingdon will be retiring significant amounts of debt in the near future. In the General Fund, Refunding Bond Series 2013 has an annual payment of \$301,510 and will be fully paid June 1, 2024 and Series Bond 2013 has an annual payment of \$209,993 and will be fully paid May 1, 2028. Within the next eight years the town will fully pay existing General Fund debts and free up \$511,503 in annual debt service. This will allow the town to assume the anticipated debt on the \$10,000,000 Line of Credit as shown on Davenport's analysis without significant increase to the current annualized payments..

In the Sewer Fund, there are three VRA projects that will be paid in full December 1, 2019 (\$46,410 annually), March 1, 2027 (\$95,420 annually), and April 1, 2033 (597,530 annually). With future projects that will be identified in the upcoming CHA Study, the town should be able to adequately time and absorb additional debt service in the Sewer Fund as well.

V. CONCLUSION

I believe that the budget presented to you is a realistic one that moves the town council's agenda forward. The budget does not recommend any tax or fee increases, but does contain projects that will potentially require additional debt. The Finance Director and I have met with Davenport on several occasions and feel that the anticipated revenues from The Meadows are solid and conservative. Should bids come in at or below engineering estimates, the cash flow

would cover planned and anticipated debt. The town will be retiring debt in the next 6-10 years that will also help with the financial picture.

Other discussion that have begun with the county may lead to revenue sharing and development projects beneficial to the town. I encourage development of a strong relationship with Washington County. Projects to enhance and redevelop the three interstate exits will bring changes and development opportunities as well. Staff should work closely with businesses being impacted to assist with relocation and retention of these corporate citizens. The continued growth at Exit 19 should be a concern as these businesses do not contribute tax revenue and compete directly with in town businesses. In addition, these businesses utilize town fire and police services with minimal contribution to the cost of operating these departments.

Finally, let me re-emphasize the importance of developing a new CIP. This plan will greatly enhance the town's ability to budget for large scale and costly improvements. For example, the \$500,000 radio replacement was not anticipated this year and should have been a line in the CIP. One of the stresses on this year's budget is the large number of VDOT projects which require match. Along with the funding of the Sports Complex, historic renovations, and other improvement project, this causes fiscal stress.

As I prepare to transition from my position with Abingdon, I thank each of you for giving me this opportunity. I wish the incoming manager well as he takes the helm. I hope that the period of uncertainty and turmoil is behind the community and that the way forward is clear. I have truly enjoyed working with you and the many fine professionals that serve the community. I wish the staff, town council, and citizens the best for the future.