

Minutes
Windsor Town Council Work Session
Town Hall
May 3, 2022

The Windsor Town Council met in a work session on May 3, 2022 at 6:00 p.m. Mayor Willis was present, and he called the meeting to order. Terry Whitehead, Town Clerk, recorded the minutes. William Saunders, IV, Town Manager and Cheryl McClanahan, Treasurer, were present.

Council members present: Greg Willis
Walter Bernacki
Kelly Blankenship
J. Randy Carr
Jake Redd
George Stubbs

Councilman Carr led the pledge of allegiance.

VRS Enhanced Benefits for Law Enforcement Officers – 1.70 vs. 1.85 Multiplier

Chief Riddle reported that the enhanced benefits for law enforcement officers from the Virginia Retirement System (VRS) was reviewed at Town Council's March 28, 2022 work session, where direction was given to program it into the FY23 budget and to research the difference between the multipliers.

Chief Riddle reviewed the following information regarding the difference between the multipliers:

Cost

Per the VRS actuarial study, the cost of first year premiums for the Enhanced Benefits is:

1.70% Multiplier \$64,490
1.85% Multiplier \$72,126

Chief Riddle stated that currently, the 1.70% Multiplier is programmed into the draft FY23 budget.

Benefit

The multiplier is used to calculate the amount of retirement benefit for the employee.

In the case of an unreduced basic benefit, the calculations would be the following:

Average salary x Multiplier x Years of Service = Annual Benefit ÷ 12 months = Monthly Benefit

1.70% Multiplier \$42,000 x 1.70% (.0170) x 25 = \$17,850 ÷ 12 = \$ 1,487.50
1.85% Multiplier \$42,000 x 1.85% (.0185) x 25 = \$19,425 ÷ 12 = \$ 1,618.75

Chief Riddle explained how difficult it is to remain competitive to draw good, experienced employees. He said enhanced benefits that may improve recruitment and retention would be beneficial.

Councilwoman Blankenship questioned how many years will ARPA (American Rescue Plan Act) money fund the enhanced benefits for law enforcement, and how much will the Town have to budget going forward for these benefits.

Mr. Saunders explained that ARPA money will fund the first two years, and then the annual budget amount will be either \$64,490 or \$72,126, depending on the multiplier used.

Vice Mayor Greg Willis asked how the Town plans to prepare for this budget increase after the two years of ARPA funding.

Mayor Willis said we will be discussing this issue as we review the FY23 draft budget.

FY23 Draft Budget and Draft Capital Improvement Plan Review

Mr. Saunders reviewed the following proposal for the operating budgets for the General Fund and the Water Fund; as well as the proposal for the five-year Capital Improvements Plan (CIP) for the period FY23 through FY27:

This budget proposal comes with some uncertainty due to the unknown residual impacts of the COVID-19 pandemic, the current inflationary environment, and potential future economic downturns in the wake of the inflationary period. Some disruption in our normal revenue streams due to the financial hardships experienced by our citizens during these uncertain times may continue. We should all continue to watch this situation closely. The budget includes a \$25,000 contingency due to these and other uncertainties in FY23.

This budget includes the balance of revenues from both tranches of the American Rescue Plan Act (ARPA) funds appropriated to the Town of Windsor; the second tranche expected to be received June 30, 2022. Roughly half of this is unappropriated and that portion of expenses is shown as 'ARPA projects' until appropriated. This budget seeks to strike a balance between leaning too heavily on funding that is limited in scope and can only be appropriated for two years, while being mindful that it should be taken advantage of while available. As such, very little ARPA funds are allocated for operations, yet most of the capital projects are to be funded by ARPA funds.

While this budget is balanced and largely complete, new revenue information, and expense information from a few vendors, may result in minor revisions as we move through May.

Discussion of General Fund Revenues

Real Estate and Personal Property Tax Revenues

As you know, the Isle of Wight County Commissioner of Revenue is responsible for conducting the assessment of real property values within the Town of Windsor. Based on information from the Commissioner of Revenue, currently the county is expecting real

estate values to increase by $\pm 2.5\%$ in FY23; however, there is a new assessment expected to take place in FY23 that will yield different numbers for FY24. One penny on our real estate tax rate generates approximately \$21,500 in real estate tax revenue in FY22. This budget envisions an increase in the real estate tax rate of \$0.04 per \$100 of value, a rate which has remained unchanged at \$0.10 since 2005. This would constitute an increase of approximately \$100 on a home with a value of \$250,000, and yield revenue of $\pm \$85,000$.

The Isle of Wight County Commissioner of Revenue also determines the value of personal property and machinery and tools in the Town of Windsor. The Commissioner has estimated a countywide increase of 48.8% in personal property (vehicle) values, however, increases at that level are not envisioned for the Town of Windsor; and a 2.4% increase in machinery and tools values. This budget maintains the current rates of \$0.50 and \$0.25 per \$100 of value respectively.

Other Local Taxes

The largest source of revenue in this category is the meals tax; no rate increase is planned here, although its revenue is estimated to increase $\pm 14\%$ for FY23.

This budget includes a \$0.10 per pack increase in the cigarette tax, which increases the rate to the \$0.40 per pack maximum per state code; yielding $\pm \$25,000$ in additional revenue.

Payments (Reimbursements) from Other Funds

Included in the FY23 General Fund revenue is a payment from the Water Fund for indirect services that the General Fund provides this fund. The payments from the Water Fund for indirect costs and salaries total \$361,343.06 for FY23.

Discussion of General Fund Expenditures

Operations

This document reflects reasonable expectations regarding the increasing costs of operations, although the potential for future inflation is hard to predict. What is known is that the town is not immune from the effects of the inflationary environment, several examples of which are a health care increase of 11%, a retirement contribution increase (exclusive of enhanced benefits for law enforcement) of 19%, and an increase of \$40,000 in 'Payments to Other Governments' for our share of the IOWC Emergency Communications Center, for FY23.

Salaries

Town staff have performed admirably through the uncertain and ever-changing environment created by the COVID-19 pandemic and other challenges faced during the 2021-22 fiscal year. The Town of Windsor keeping its doors open to the public during most of the pandemic resulted in much more accessibility to its citizens than many other localities during this time.

The salaries for employees that provide services to both funds are split funded between the two Funds. The total salary cost appears in the General Fund with the Water Fund making a payment to the General Fund to cover its portion of the salary cost for those employees that spend time working for both Funds. This budget includes a 2% cost of living increase for town staff. The total salary cost for the Town as a whole is \$900,140.37. The General Fund portion of the salaries is \$620,897.31, and the remaining \$279,243.06 appears in the Water Fund. This budget also includes bonuses for public safety and essential workers, and the addition of VRS enhanced benefits for law enforcement retirement, from ARPA funds.

Capital Projects

Included in this document is the Capital Improvement Plan for FY23-27. All capital items therein are designated for funding from ARPA funds, with the exception of those reflecting debt service. This budget also includes \$100,000 of funding for the Future Space Needs Fund; the first since the payoff of the loan for the renovation of the Town Center.

Discussion of the Water Fund Budget

We operate our Water Fund as an “enterprise fund” in which revenues from the operation of the Town’s water system should be sufficient to cover system expenditures without funding assistance from the General Fund. This Water Fund budget proposal does not contain any financial assistance from the General Fund for operations.

Water Fund Revenues and Expenditures

The sale of water to our customers is the fund’s only consistent source of revenue; although connection/tap fees for new services contribute varying amounts of miscellaneous revenue.

The water rate is routinely evaluated and revisions must be made as necessary. This year an increase of the current water rate of \$7.75 per 1,000 gallons with a minimum bill of \$27.13 to \$8.25 per 1,000 gallons with a minimum bill of \$28.88 is proposed. This rate change is due to increasing costs of services, as well as the necessary conversion of a part-time position to a full-time position in the water department.

Depreciation

Accounting principles require governmental enterprise operations, such as our Water Fund operation, to not only show depreciation as an expense, but also to fund the same. This process provides the owner of the enterprise operation with a method to fund the replacement of the physical assets of the system as these assets wear out or become obsolete. Even if the owner of the enterprise system does not fully fund depreciation, the owner (or the owner’s auditor) must show the full amount of the annual depreciation as an expense in the comprehensive annual financial report for the operation. In a case in which the owner does not fully fund depreciation in a given budget year, even though operating revenues may equal operating expenses, the owner must show that the operation operated at a deficit because the owner did not fully fund depreciation. We have made great strides in recent years to fund a larger portion of depreciation. This year’s budget funds depreciation at 93%.

Capital Projects

The major capital project included in the Water Fund this year is a water main upgrade/replacement for Duke Street and Virginia Avenue. In addition to routine replacement of water meters and mains, it also includes engineering for other future projects. All capital projects in the Water Fund for FY23 are to be funded with ARPA funds.

Five-Year Capital Improvements Plan (CIP)

This document includes the proposed Capital Improvements Plan for the five-year period from FY23 through FY27. The CIP should be a realistic program of projects that the Town intends to undertake within the next five years. As such, in developing the CIP, consideration should be given to the Town's ability to finance these projects. Included is a CIP that fits within the Town's financial capabilities for the next five years.

Mr. Saunders reported that this proposal is balanced in both the General Fund and Water Fund, without cutting services.

Mr. Saunders said this budget was thoughtfully considered and the balance of the use of American Rescue Plan Act funds was a large part of that; however, a case can be made to use more ARPA funding in the short term to ensure its use while available.

Mr. Saunders said this budget is hereby offered for your review and consideration.

Councilwoman Blankenship asked for clarification regarding the statement "a case can be made to use more ARPA funding in the short term" and how we could apply it.

Mr. Saunders explained that many agree that the ideal use of ARPA funds would be to replace revenue and to use on capital projects as opposed to just funding operations and then having to make up those operation dollars when the funds are gone. He said the alternative to that is we only have two years to use the funds.

He said while we need to be clear about the fact that these ARPA funds are helping us now from having to have more revenue to do more things, we need to acknowledge the fact that there could be the potential for a requirement of tax increases either now or when the ARPA money is gone. He said we need to be sure that we understand that using the ARPA money upfront is insuring that it is able to be used, but it is also potentially plugging a hole that we will need to fill later.

Mr. Saunders said he has tried to strike a balance where the majority of operations is funded by revenue, and the majority of capital projects is funded by ARPA, based on feedback from Council and other good information. He said to do that required about \$100,000 in new revenue. He said we are also funding approximately \$100,000 in the Space Needs fund, but that money is not earmarked for that. He said the \$100,000 in new revenue could be earmarked to anything; it's just what strikes the balance.

Mr. Saunders said if we use \$100,000 more ARPA money for operations, then we don't need the tax increases that are shown in the budget this year, but if you save the ARPA money for more capital projects for the next budget year, then its already set up to have the appropriate amount of tax increases. He said we do have another budget where we

could put ARPA money into where we could potentially use it for more operational type things if it was getting late, and it didn't look like we could use it all by the two year deadline of December, 2024.

Councilwoman Blankenship expressed her concerns with the residents of the Town having to absorb all the extra costs. She said they can look at the budget and see all the additional expenditures, including capital projects, because of the \$2,000,000 we received from ARPA funds, and now we are going to increase taxes and water rates.

Councilwoman Blankenship said she feels that we should use some of the ARPA money to offset some of the expenses. She said she understands that we may need to increase taxes in the future, but with the additional expenditures, she doesn't feel that this is the year to do so. Councilwoman Blankenship said she worries about the message that we are sending to the residents of this Town.

Councilman Bernacki said he understands Councilwoman Blankenship's point of view, but he explained that taxes have not been increased since 2005, and we are seeing the negative effects of that now. He said expenses have steadily been increasing and tax rates have remained flat. He said if we don't increase the tax rate \$0.04 this year, we may have to increase taxes \$0.08 to \$0.10 after the ARPA money runs out to close that gap.

Councilman Bernacki said it is important to show the citizens the services that they are receiving for the taxes they are paying, such as the Town Center that will be offering programs for citizens of all ages and having a good, quality police force with excellent response time.

Councilman Stubbs agreed that if we don't increase taxes this year, they may have to be increased even more next year.

Mr. Saunders added that there are choices that could be made to move things around in the budget if Council chose to direct him to do so before a future meeting.

After further discussion, Council agreed by consensus to make no changes to the draft budget, and to advertise this document for a public hearing at a Special Called meeting on May 26, 2022 at 7:00 p.m.

Councilwoman Blankenship suggested that Council consider sharing the increased tax rates with the businesses, and not putting the entire burden on the citizens.

Councilman Carr agreed that businesses should not be exempt from tax increases.

Mayor Willis asked Mr. Saunders to research what the increased business license rates would look like, and present that information at the May 10, 2022 meeting for Council's consideration.

Mr. Saunders noted that 25 to 30 percent of the businesses have not paid their business licenses by the April 15th due date.

Mr. Saunders said he would reiterate the budget calendar at the May 10, 2022 meeting to keep the public informed of the upcoming budget meetings.

Councilman Stubbs made a motion to adjourn. Vice Mayor Greg Willis seconded, and Council unanimously passed the motion as recorded on the attached chart as motion #1. The meeting adjourned at 8:05 p.m.

Glyn Willis, Mayor

Terry Whitehead, Town Clerk

TOWN OF WINDSOR
 RECORD OF
 COUNCIL VOTES

Council Meeting Date May 3, 2022

Motion #	Carr	Stubbs	Redd	Greg Wills	Bernacki	Blankenship	Glyn Wills
	<i>arrived 6:10 arrived 6:15</i>						
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Jerry Whitehead, Clerk