



Office of the Town Manager  
Frank Cassidy

# STAFF REPORT

## Warrenton Town Council

Carter Nevill, Mayor  
Roy Francis, Ward 1  
William Semple, Ward 2 Vice Mayor  
Larry Kovalik, Ward 3  
Michele O'Halloran, Ward 4  
Eric Gagnon, Ward 5  
Paul Mooney, At Large  
David McGuire, At Large

<b>Council Meeting Date:</b>	February 11, 2025
<b>Agenda Title:</b>	Budget Discussion
<b>Requested Action:</b>	Information/Discussion
<b>Department / Agency Lead:</b>	Frank Cassidy/Finance
<b>Staff Lead:</b>	Frank Cassidy

## EXECUTIVE SUMMARY

Our budget, like all government budgets, is the guiding document for the upcoming year. They must provide a road map to provide the government's staff the direction and focus they need to take action and complete projects in the best interest of the Town. This is achieved by the Council adopting the budget as the policy of the Town for next year, and hopefully some years out. The budget is not a document to be produced, developed, and implemented in a vacuum. Instead, it should be "the" document that leads the charge in transparency, cooperation, and collaboration. This ensures the best interest for the community at large is being taken into consideration while providing a clear road map for services and the delivery thereof.

Over the last two years, staff have been working on creating and implementing a budget focused on the needs of the Town. We have worked on CIP's and a CARP to provide a three to five year plan to help guide us in today's decisions while looking ahead. We have discovered misguided attempts to fund unnecessary things that appeared to be a distraction from what needed to be done. We also are working hard at changing the way we develop and proceed with the budget process. This led us to producing a needs-based budget, trimmed to actual spending and projections, while focusing on two fundamental aspects of general governing:

1. Infrastructure
2. Resiliency

This was/is a budget with very little room for errors and was designed to be a "back to basics" budget while being presented as an unsustainable way to budget in future years. This is the time to begin to map out our best way forward.

This year we will need to refocus our efforts; continue to align Town needs with proper budgeting; and set a realistic framework for moving forward. The objective is to establish a long-term, sustainable way forward. This requires us to make sure our next steps are in line with our goals and policies.

Our next steps include fully engaging the Council in this process well before a May or June discussion. This is made possible with the advancements we have made with technology, communication, and collaboration with a focus on consistent and predictable governing. We look forward to working as a team to continue our excellence for the Town.

## BACKGROUND

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Governmental budgets have always been, and continue to be, the one most important document to provide services to the community which we serve. For the past two years, our team has been actively revamping our budget to ensure a focus on the needs of the community. Driven by sustainability, a hard look at needs in the future, and building a resilient infrastructure. This includes a three-to-five-year plan with flexibility and an attempt to work in inflation and sky rocketing prices. Rebuilding an infrastructure to comply with minimum current standards while building in redundancy and resiliency. Creating a work environment to maintain professional staffing and developing through training an environment to ensure employee retention with a focus on looking into the future. The concerning piece of this approach is the understanding this focus on fundamental governmental operations has been lost. Therefore, the next step in moving forward is to bring the fundamentals of governmental operations back into focus with an operational standard of collaboration, inclusion, and future planning into our budgeting process.

Our current budget is lean. We provided a “no growth” approach to our operations while building in a needs approach to our CIP’s and CARP. This was an exercise to provide the benchmark, baseline of operations to a budgeting structure to outline needs-based services with available revenues. This last year has shown our successes in the CIP with a myriad of projects moving forward. It has also exposed the critical lines of funding for unexpected events and the need to diversify revenues.

What does this mean? In short, we are in a period requiring hard discussions on revenue streams and the ability to provide the Town’s enhanced services for all our residents while balancing the effects of out-of-Town impacts on our infrastructure. It illustrates any event today has an impact on the budget and staff tomorrow. Some have short term impacts; some are much longer.

Budgets are usually compared to three legged stools. To provide stability, all three legs need to be balanced. In our case, we are off balance. We rely heavily on business taxes to provide general services to residents. Relying on a tax revenue stream of businesses means it is critical to the economic drivers. In other words, it is difficult to rely on the stability of such an approach. There are discussions at the State level to limit meals tax and BPOL fees for example. This has been the approach locally to avoid the discussion of property taxes. This is critical as it appears we are “tapped out” at any further adjustments to compensate for other revenues, unless we begin to lower these items. The other side of this conversation is at what point do we become “business unfriendly” and drive businesses out of Town as they cannot afford to stay or to open. This, of course, sets us on a path of greater concern.

This also illustrates how low a property tax base we have. This is of course a good thing, until it becomes unsustainable and off balance. This is the current situation we are in. Our property taxes have not been able to sustain our efforts to provide exceptional customer service to our residents. In other words, they have not kept pace with the rest of the economic indexes. This tax base needs to be adjusted. Of course, no one wants to raise property taxes, but we feel it necessary to begin this discussion. This discussion must include a realistic look at the breakdown of services, and a cost for services analysis. With any reductions in this revenue, services will have to be cut.

The third leg, fees and fines, should also be incorporated into this discussion to offset specific costs for services. This includes WARF membership, costs for special events, court costs, enforcement costs, costs for out-of-the-order-ordinary services, and other unplanned, or better stated unbudgeted requests throughout the year.

The purpose of this presentation is to provide an outline with suggestions to fully engage the Town Council as we move forward with our budget. We have attached costs analysis for the following for your review:

1. General Fund Operating
2. General Fund Capital Projects
3. CARP
4. Concerns for adding and developing additional committees
5. Concerns for adding additional evening meetings
6. Identifying specific services to consider alternatives
7. Providing an overview and alternatives for property taxes and fees
8. Water and Sewer, and Stormwater Funds

### **General Fund:**

We will begin with our General Fund as this is the most critical for this budget cycle. The General Fund accounts for basic operations with costs for staff, and fundamental services. For the FY 26 budget year expenditures in the General Fund are projected to increase by 5.8%. Revenues in the General Fund are projected to increase by 1.3%. This creates a funding deficit of approximately \$799,667.00. This difference between revenue and expenditure can be of set in several ways to include:

1. Increasing revenue via a new tax or new fee.
2. Increasing the current tax or fee.
3. Decreasing expenditures.
4. Any combination of all three.

The Town Manager has reviewed the Departmental Budget requests and has verified two important aspects of this year's budgeting strategy:

1. Department Heads are in line with developing budgets aligned with needs while sustaining the current service levels. We are all in line with "flat" approach to providing basic services.
2. Any additional reductions will have a noticeable effect on service levels and/or other programs. This requires active input from the Council.

Staff requests the Council provide further guidance and recommendations on objectives for our budget to assist guide staff to a final budget. This is requesting the Council examine the overall information we have provided and identify areas for possible reductions. This should involve contributions (attachment 1) and legal services (attachment 2) expenditure, as well as the overall Fund.

Once that is completed, we request the Council consider options to begin to lay the foundation for continuing to build a strong, sustainable budget based on needs. To help in this endeavor, we are providing the preliminary information to get us started.

Staff are providing information on avenues to increase revenue:

1. Increase the real estate tax rate. Attachment 3 provides estimates on the impact of a rate increase on an average Town, developed property. Each penny added to the tax rate will increase revenue by an estimated \$200,000.00.
2. Consider the implementation of a separate fee for sanitation services. A sanitation fee would be driven by the Town's cost of providing refuse and recycling services at the same service level to Town residents. Attachment 4 estimates the total cost per household for a sanitation fee. Using the figures in this attachment, the fee would increase revenue by \$700,000.00. This goes far to offset the expenses for this service. If the Council directs staff to explore this option, staff from Finance and Public Works will work together to refine these figures.
3. Consider any and all combinations of the above.

### **General Fund Capital and Maintenance:**

Attachment 5 shows the Capital Improvement Projects (CIP) and Capital Asset Replacement Projects (CARP) currently planned in the FY26 Budget. The total figure for capital projects comes to \$10,860,028.00. Several projects are funded partially or fully with funds from VDOT, bringing the total the Town would be responsible for to \$5,133,936.00. Current projections do not anticipate fund balance being available to fund capital projects. As such, the Town would need to issue debt to fund any projects not funded by VDOT. Bond proceeds would be budgeted for FY26, and the actual timing of debt issuance will vary based on project timing.

### **Water and Sewer Operating and Capital Funds:**

FY26 includes year three of rate increases under the Water and Sewer rate study. The rate increase in FY26 will allow the Water and Sewer operating fund to transfer approximately two million dollars to the projects outlined in the Capital Improvement Plan (CIP) for Water and Sewer.

### **Stormwater Management Fund:**

This is an unfunded mandate from the State. This fund is stable and is projected to remain flat when compared to FY25.

This is all to get us started. To help you all engage and help us produce a budget in line with the Town goals and expectations, and to ensure transparency at every step. This can be done in three ways from this point:

1. We will have "Budget Discussion" on our schedule for each Work Session for the remainder of the fiscal year.
2. The proposed budget will be delivered to council by April 1<sup>st</sup>. We strongly recommend creating a team approach where Council members schedule time with our Town Manager, Finance and affected departments to review, analyze, assess, and adjust the budget starting now to work toward budget adoption at the June council meeting.
3. Please get engaged.

### **STAFF RECOMMENDATION**

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For discussion and direction with the intent of engaging the Council in discussions, work groups, meetings, etc. for our upcoming budget.

### **Service Level/Collaborative Impact**

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This initiative involves all leaders participating in the development of our annual budget.

### **Policy Direction/Warrenton Plan 2040**

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This program meets all the goals of Plan 2040.

### **Fiscal Impact**

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N/A

## **Legal Impact**

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Review and assistance with draft language, collaboration, and ensuring the Town's interests are covered and in line with Federal, State and Local requirements.

## **ATTACHMENTS**

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1. Staff Report on Committees and an Additional Evening Meeting
2. Combined Budget Summary
3. Attachment 1- Outside Funding Overview
4. Attachment 2- Legal Expenses
5. Attachment 3- Real Estate Tax Bill example(s)
6. Attachment 4- Example of Possible Sanitation Fee
7. Attachment 5- General Fund Capital and Maintenance Projects