



Mayor's Letter
December 15, 2017

Hello Everyone,

WE END THE YEAR by looking back at last year. Specifically, at our December 14th Council meeting, the independent auditors presented their findings on the fiscal 2017 audit. **We received a clean opinion for the tenth straight year.** Since implementing a new accounting system in 2007-2008 we have received a clean audit for every year that I have been responsible for our finances, which are the only ten audits in the Town's history. It is important to note that the Town cannot skip the audit - **independent audits are required under the terms of our bond agreements.** Thus, if a future Mayor decided not to have an audit, that would be a violation of our bond covenants and would immediately put us in default. There is no way we are ever going back to unaudited financials.

I won't go into the details, the full audit report is available on the town website. I do want to highlight one key measure. **Unrestricted fund balance** is a fancy Government Accounting Standards Board (GASB) term that basically means your liquid cash reserves excluding money that is "special" (like utility account deposits, or impact fee money). **The gold standard** is to have a balance of 25 percent of your expenses. **In 2017 our reserves were 63 percent.** In the credit ratings process, the ratings agencies focus on the fund balance - this is the key measure of a borrowers financial strength and risk profile. I have the credit scoring formulas. I anticipate our fund balance continuing to increase and approaching 100 percent at the end of our current year. To finance the final phase of the concrete road project we will be going to Wall Street in a couple of years. Our bond advisors tell me we are in great shape. I've told them just wait and see.

MANAGEMENT DISCUSSION AND ANALYSIS. Along with the financial statements, I am responsible for writing the MD&A portion of the annual audit report. In it I provide an analysis our performance and give guidance on our future economic outlook, cash flows and tax rates. **2017 was a historical year for us. Here's why :**

We made our first bond payments in fiscal 2015. The debt-servicing required based on our 2015 tax-roles was \$0.21 per

<i>Debt Servicing Payments and Operating Surplus</i>			
		2015 Audit	2017 Audit
Revenues:	Total	\$376,469	\$428,692
Expenses:	General Government	(\$167,876)	(\$158,884)
	Public Safety	(\$28,750)	(\$24,900)
	Public Works	(\$43,452)	(\$40,218)
	Parks & Playground	\$0	(\$2,588)
	Capital Improvements	\$0	(\$12,624)
Income Before Bond Payment		\$136,391	\$189,478
Bonds:	Principle Payment	(\$128,000)	(\$149,000)
	Interest Payment	(\$38,084)	(\$24,925)
Surplus(Deficit) After Bond Payment		(\$29,693)	\$15,553
General Fund CASH - Unrestricted		\$177,416	\$238,562

\$100 of assessed value. So, any other town would have raised the tax rate from \$0.25 to \$0.46. But as you know, we only raised the rate to \$0.30. The plan was to cut discretionary expenses (parks) to zero, and defer all city related CAPX, and make up the difference by using some of our reserves. The auditors were very clear in 2015, we had a short window to close the gap or raise taxes. As you can see from our 2015 audit, \$29,693 of reserves were needed to make the bond payment. **Our 2017 audit shows after we resumed expenditures for our parks and capital improvements and made our increased bond payments, we have a surplus.**

Expenses have been reduced, revenues have grown (sales taxes !) and our cash reserves are increasing. We've cut our expenses through lots of little things; it's Ed Reed taking down our faded street signs and having them re-laminated rather than buying new ones, its Clint Bushong updating our website, instead of paying our IT people; its Gary Newsome squeezing our road repair firms on their bids; its myself and Clint Bushong driving to Frisco and McKinney to meet our attorneys and engineers to avoid them billing us to come to LWV. Lots of small things that add up.

LOOKING BACK TO 2006. Eleven years ago, in the last full year prior to my election, the town spent a total of \$185,811 in the general fund to run the town. However, back in 2006 they didn't pay Little Elm for Fire/EMS, they spent zero on the park, they spent zero on CAPX, and they spent zero on employee benefits. In 2017, if you exclude our Fire/EMS payments, playground, CAPX, and Linda's benefits, we spent \$185,229 to run the town. **That's 0.3 percent less than in 2006. Less expenses, eleven years later with 25 percent more houses.** A decade ago we spent \$7,653 on electricity for Town Hall, in 2017 we spent \$6,045 or **21 percent less.** Over the last several years, we invested in smart thermostats (with timers and remote access), we installed high efficiency LED lighting fixtures, we mounted thermal window screens, and the HVAC unit was replaced. Eleven years ago we spent \$8,670 for town mowing. Two years ago we bought a commercial mower, now we pay only \$4,700 a year; the mower paid for itself in the first year. There are many more examples. We use a credit card to make purchases online to save money, then we use our rewards points to buy items like Linda's I-Pad, chairs, office furniture, and additional lawn equipment. **Its easy to do nothing.** I am very proud of the efforts of my Council colleagues, Linda and Summer to find ways to be more efficient and jumping in to do the jobs that need to get done. In the universe of all government organizations, I think there are few who have reduced costs over a decade.

HOW ABOUT THE UTILITIES. In conjunction with the planning and engineering of the new roads, in 2014 the Town invested significant resources in replacing and upsizing water mains in the affected area. We also embarked on a multi-year commitment to bring the town's infrastructure up to modern fire-fighting standards. This project resulted in a three-fold increase in the number of fire-hydrants, and a five-fold increase in our pumping capacity. We completely refurbished the wastewater plant, rebuilt the digester and replaced the clarifier. In 2016-2017, the town added a new ground storage tank and hydro-pneumatic pressure tank which significantly increased our distribution system. As the Table below shows, since 2014 the Town has invested almost one-half million dollars in water and sewer improvements, which, although exceeding our operating cash flow, was a **planned draw-down in our utility fund capital reserves.** We're putting your money right back in LWV investing in our Town.

OPERATING CASH FLOW is the net amount of cash revenues after you have paid your basic operating costs, and excludes any capital expenditures and debt payments. In the business world, it's the cash you have after doing "what you do". For American Airlines, it's the revenues from flying passengers minus the costs of the pilots,

Utility Fund Cash Flow and CAPX					
	<i>Audit Reports</i>				
	2014	2015	2016	2017	Total
Operating Cash Flow	\$123,684	\$161,666	\$69,510	\$60,512	\$415,372
Capital Improvements	(\$250,630)	(\$43,760)	(\$92,331)	(\$103,320)	(\$490,041)

mechanics, fuel, etc., but does not include the costs of buying any new planes. For a successful corporation, the operating cash flow is what you use to buy

equipment, pay off debt, and pay shareholder dividends. In the past, we would generate about \$110,000 in operating cash flow from our water and sewer operations (2015 is unusual due to receiving restitution related to the 2005 embezzlement). For 2016 and 2017 our operating cash flow significantly declined from our long-term trend. Some of this decline is temporary **due to one-time spending on impact fees and the associated well feasibility study.** We also had unusually high sewer repairs, with a significant amount due to repairs **from those wipes that are not flushable.** It's not a joke, you can see that there is a financial impact that we all end up paying.

However, some of the decline is likely structural due to our implementation of new preventative maintenance routines for both water and sewer infrastructure (e.g. quarterly cleaning of sewer lines, lift stations, exercising the new hydrants and valves, etc.). With the fire hydrant project complete, our near term-goal is to increase our capital reserves. I expect the level of capital expenditures to decrease this year as planned in our fiscal 2018 budget, resulting in an increase in our cash balances. In addition, although the timing is uncertain, some of our spending on capital improvements and engineering will ultimately be recoverable from developers through our impact fee regime.

LEWISVILLE LAKE MASTER PLAN. The U.S. Army Corps of Engineers (USACE) is updating the Lewisville Lake master plan; the previous 25-year plan was adopted in 1985 and is over due for revision. In



early May the process kicked-off with public information sessions in Lewisville and Little Elm. **I attended and talked with various personnel including the Lake Manager.** After receiving written comments, the USACE has begun meeting with the local municipalities and stakeholders. On December 5th, I met with USACE representatives including Natural Resources Specialists, Park Rangers, and Lake Manager Rob Jordan at Town Hall. Our initial meeting was very productive, we discussed the new designations, looked at lots of maps and discussed various possibilities. The entire process will likely take two years and require many more meetings prior to it's adoption. Some features of the proposed new plan include many more land use categories. As lakefront owners are aware, currently the lake is divided into wildlife and recreation, **with LWV classified entirely as wildlife.** The new plan will likely have new recreational categories which I think will fit well into the

current land uses here in the village. Also, some areas around the lake will be designated as environmentally sensitive (new), which will preserve existing natural areas. And just to be clear, these regulations apply to the Federal land - not your back yard - just the Corps property.

COUNCIL ACTIONS. In November, Darrell West presented the Impact Fee Advisory Committee's recommendations to revise the impact fee ordinance. By a 4-1 vote the Council approved the revision which

Council Vote on Consideration Items

	✔	✘
Impact Fee Revision	Reed, Newsome, Bushong, Shields	Tantalo
2017 Audit Report	Unanimous	

reduced the Towns future build-out costs by \$3 million. The 2017 audit report was unanimously approved. The Council also approved \$250 for neighborhood watch signs. In other items, the Council discussed (no action) a proposed finance and audit committee ordinance.

KEY FIGURES: For the first half of December:

- Average daily water production was 56,400 gallons or 19% of our maximum production.
- At the sewer plant, the average daily flow was 40,765 gallons or 40.7 % of our capacity.

Have a wonderful holiday and a happy New Year. Our future has never been brighter, 2018 will be a great year for us, and I can't wait. There's never been a better time to be in Lakewood Village.

Dr. Mark E. Vargus
Mayor

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