



TOWN OF HAYMARKET TOWN COUNCIL

WORK SESSION ~ AGENDA ~

Shelley M. Kozlowski, Clerk of Council
<http://www.townofhaymarket.org/>

15000 Washington St
Haymarket, VA 20169

Monday, November 27, 2017

5:30 PM

Council Chambers

I. Call to Order

II. Pledge of Allegiance

III. Staff Reports on Town Center Renovation

1. Staff Reports on Town Center Renovation

IV. Briefing on Building Inspections

V. Council Comments

VI. Adjourn



Town of Haymarket
15000 Washington Street, #100
Haymarket, VA 20169
703-753-2600

JERRY M. SCHIRO
Business Manager

MEMORANDUM

TO: Haymarket Mayor and Town Council
FROM: Jerry Schiro, Business Manager
SUBJECT: Town Center Project
DATE: November 27, 2017

Council directed that I provide an analysis of the Town Center Project and provide feedback regarding the scope of the work and the financing alternatives. The Town Treasurer assisted me with this review and analysis. The Council is holding a work session on November 27, 2017 to discuss the project.

IMPACT OF THE SEPTEMBER REDUCTION IN PROJECT SCOPE

The project was originally designed to be completed in phases including site work, exterior façade changes and interior office reconfiguration. An addition to the rear of the building was incorporated into the design to accommodate an elevator, mechanical, electrical and IT closets. Driven by cost, the Council decided at a meeting in late September 2017 to reduce the scope of the work. The change focuses on the Washington St. site work, the building façade and increasing the size of the Town Manager's office. The addition and any work to the second floor was eliminated. The original plan was to incorporate the work into two phases, the September changes require combining design and documents into one phase.

The design and documents for the original plan are nearly complete. The proposed September changes will require design modifications which affect numerous aspects of the nearly completed plans. Eliminating the rear addition requires modifying the core area of the building to allow space for the electrical service, mechanical systems and IT closets. The changes also drive modification to the existing sanitary lines and a first-floor sprinkler room. On October 4, 2017 Rinker Design Associates (RDA), the project design group, issued a change order in the amount of \$47,503.50 to incorporate these changes into the nearly completed documents. That amount was reduced to \$36,508.50 once credit was applied for previously approved unbilled architectural services. The cost includes a 10% contingency for any additional scope that might come up during the development of the new concept. The total amount spent with RDA on the project since 2014 to date is \$216,237.00. The total contract, including several previous change orders, is \$273,861.39, reflecting 80% completion of the design and documents.

Changes to design at 80% completion drive changes to many aspects of the plans. Should Council decide to proceed with the September changes, the change order seems to be in line with the requested scope of work. It represents 13% of the total contract.

CONSIDER FURTHER REDUCING PROJECT SCOPE

The September 2017 changes Council decided on reduce the scope of the work considerably. However, as part of this review, we looked at alternatives to further reduce the scope; thereby eliminating some of the change order and overall project costs. We offer the following for consideration:

- Defer any renovation to the interior of the building, except as noted below
- Focus resources on the building façade and site improvements
- Demo the existing kitchen and convert the space to additional office space
- Leave all other offices and the Council area as they exist
- Convert the entrance and vestibule currently serving the Police Department to be the primary public entrance to the building during normal office hours
- Provide a customer window in the new “kitchen” office space, opening into the vestibule, allowing customer access to administrative services
- Convert the Hallway behind the kitchen for public access to public meetings; or, depending on the final façade design, designate the existing entrance to the Council Chambers for use by the public to access public meetings
- Simplify the façade improvements to accommodate existing window and door openings

JUSTIFICATION

Our real need is a bit more office space, not nicer office space. This might be a logical next step. The kitchen is not utilized enough to justify the amount of real estate it takes up on the floor. This is especially true since the building is no longer rented out for meetings and functions. The plan creates new office space without moving any existing walls; thereby eliminating the need for mechanical and HVAC changes. It also allows the Town to preserve the design work completed to date for a second phase at some time in the future. From a functional standpoint, this layout would better accommodate our customers, as opposed to maintaining two separate public entrances, which is often confusing and inefficient. Staff functionality is also improved since the administrative staff would be better positioned to assist the police and assist the public in locating an officer if no one is in the PD. A high volume of the customer traffic in the Administrative office is generated by those looking for the Police Department. Prior experience demonstrates that sharing a common point of customer contact among all Departments is desirable from a customer and staff standpoint.

I met with RDA and discussed the concept. They believe this would reduce the cost considerably regarding construction, design and change orders. They did recommend that we complete the comprehensive site redevelopment rather than phasing that work. The work includes some additional storm water management and utility relocation.

PROJECT FINANCING

Current plans for financing the project are via VML/VACo. This a State bond pool administered by the Virginia Municipal League and the Virginia Association of Counties. The scenario proposes a \$2M, twenty-year, General Obligation Bond (G.O.B.) Our Financial Advisor, Steve Mulroy, also looked at a thirty-year G.O.B through the Virginia Resources Authority (VRA). This chart below demonstrates the payments to service the debt under both scenarios. VRA loans amortize at a minimum of thirty years. VRA only accepts requests for new bonds once a year. VML/VACo provides a more streamlined bond application process and generally provides more competitive rates. Both loan scenarios propose interest only payments initially while paying off the Town’s existing debt.



Debt Service Comparison (Estimates)
\$2,000,000 Project Costs

Date	VML/VACo Fiscal Total	VML/VACo plus existing Fiscal Total	VRA Fiscal Total	VRA plus existing Fiscal Total
FY 2018	16,404.38	29,304.24	67,847.08	80,746.94
FY 2019	65,617.50	246,121.90	74,015.00	254,519.40
FY 2020	65,617.50	243,020.52	74,015.00	251,418.02
FY 2021	65,617.50	240,194.32	74,015.00	248,591.82
FY 2022	65,617.50	237,241.11	74,015.00	245,638.61
FY 2023	65,617.50	234,261.52	74,015.00	242,659.02
FY 2024	65,617.50	207,162.43	74,015.00	215,559.93
FY 2025	118,740.00	191,901.63	74,015.00	147,176.63
FY 2026	121,903.75	192,119.20	127,640.00	197,855.45
FY 2027	191,800.00	191,800.00	124,890.00	124,890.00
FY 2028	191,445.00	191,445.00	127,015.00	127,015.00
FY 2029	191,943.75	191,943.75	124,015.00	124,015.00
FY 2030	192,280.00	192,280.00	125,890.00	125,890.00
FY 2031	191,470.00	191,470.00	127,865.00	127,865.00
FY 2032	191,513.75	191,513.75	125,065.00	125,065.00
FY 2033	191,395.00	191,395.00	127,165.00	127,165.00
FY 2034	192,097.50	192,097.50	124,540.00	124,540.00
FY 2035	191,621.25	191,621.25	127,215.00	127,215.00
FY 2036	191,966.25	191,966.25	124,415.00	124,415.00
FY 2037	192,116.25	192,116.25	126,115.00	126,115.00
FY 2038	192,071.25	192,071.25	127,615.00	127,615.00
FY 2039			128,440.00	128,440.00
FY 2040			124,426.25	124,426.25
FY 2041			126,062.50	126,062.50
FY 2042			127,526.25	127,526.25
FY 2043			128,817.50	128,817.50
FY 2044			124,940.00	124,940.00
FY 2045			125,890.00	125,890.00
FY 2046			126,660.00	126,660.00
FY 2047			127,250.00	127,250.00
Total	\$2,952,473.13	\$4,123,046.87	\$3,365,409.58	\$4,535,983.32

*Preliminary debt service is an estimate based on current market conditions.
 Principal deferred until FY 2027 to wrap around existing debt. Subject to credit approval,
 results of bids or bond sale, and bond counsel review.*

The VML/VACo scenario wraps the Town’s existing debt into the loan requiring interest only payments on the “new” money for the first seven years. This is not the best scenario to obtain an attractive interest rate; but, does meet the Town’s capacity to service the existing and new debt. The amortization is computed at 3.5%. The rate accounts for the potential markets at the time of the bond issuance and reflects the less competitive debt service structuring. Should the Town move ahead with this financing

VML/VACo will issue a RFP to national, regional and community banks to identify those that offer the best rates and terms.

ANALYSIS OF EXISTING DEBT

The Town has existing debt in the amount of \$1.4M. The summary below demonstrates the debt breakout and debt service payments. The debt consists of General Obligation Bonds totaling \$1,223,900, equipment lease purchases (Police Vehicles) at \$149,731 and Compensated Absences (accrued employee vacation time) at \$28,243. The equipment lease purchase payments end in 2022 and the existing General Obligation Bonds are fully serviced in 2026. Compensated absences vary with no scheduled payout, but do grow with employee tenure. Neither the equipment leases nor the compensated absences were wrapped into the debt structure proposed by VML/VACo. While the compensated absences do not constitute a reoccurring expenditure, the leases do. These leases should be considered along with the proposed new payment schedule until 2022, and perhaps beyond, to accommodate future police fleet replacement.

Annual requirements to amortize the Town's long-term obligations are as follows:

Year Ending June 30,	General Obligation Bonds		Capital Leases	
	Principal	Interest	Principal	Interest
2018	\$ 155,700	\$ 27,682	\$ 28,784	\$ 2,809
2019	156,600	23,904	29,354	2,239
2020	157,300	20,103	29,935	1,658
2021	158,300	16,377	30,527	1,065
2022	159,200	12,424	31,131	461
2023	160,100	8,544	-	-
2024	136,600	4,945	-	-
2025	70,700	2,462	-	-
2026	69,400	815	-	-
Total	\$ 1,223,900	\$ 117,256	\$ 149,731	\$ 8,232

Details of the Town's long-term obligations are as follows:

General Obligation Bonds:

\$1,458,000 2014 A General Obligation Refunding Bond Series 2014A, payable in semi-annual installments ranging from \$144,300 to \$69,400 beginning August 1, 2014 through August 1, 2025, interest payable at 2.28%	\$ 1,049,800
\$243,500 2014 B Taxable General Obligation Refunding Bond Series 2014B, payable in semi-annual installments ranging from \$24,400 to \$20,400 beginning August 1, 2014 through August 1, 2023, interest payable at 3.25%	174,100
Total general obligation bonds	\$ 1,223,900
\$149,731 Equipment Lease Purchase, Series 2017, for purchase of five police vehicles, payable in semi-annual installments in the amount of \$15,796 beginning September 30, 2017 through March 30, 2022, interest payable at 1.97%	149,731
Compensated absences	28,243
Total long-term obligations	\$ 1,401,874

The spreadsheet below provides an overview and comparison of the annual cost to service the existing debt compared with the annual cost to service the existing plus the new debt. The column to the far right demonstrates the impact on the budget over the next twenty years. The average budget increase is \$139,094.

COMPARISON OF EXISTING NEW DEBT - BUDGET IMPACT

	Existing Debt	Equipment Lease	Annual Payment	Existing w/ New Money	Equipment Lease	Annual Payment	Budget Difference
FY 2018	183,382	31,593	214,975	29,304	31,593	60,897	-154,078
FY 2019	180,504	31,593	212,097	246,122	31,593	277,715	65,618
FY 2020	177,403	31,593	208,996	243,021	31,593	274,614	65,618
FY 2021	174,677	31,592	206,269	240,194	31,592	271,786	65,517
FY 2022	171,624	31,592	203,216	237,241	31,592	268,833	65,617
FY 2023	168,644	<u>Lease Paid</u>	168,644	234,262	<u>Lease Paid</u>	234,262	65,618
FY 2024	141,545		141,545	207,162		207,162	65,617
FY 2025	73,162		73,162	191,902		191,902	118,740
FY 2026	70,215		70,215	192,119		192,119	121,904
FY 2027	<u>Debt Serviced</u>			191,800		191,800	191,800
FY 2028				191,445		191,445	191,445
FY 2029				191,944		191,944	191,944
FY 2030				192,280		192,280	192,280
FY 2031				191,470		191,470	191,470
FY 2032				191,514		191,514	191,514
FY 2033				191,395		191,395	191,395
FY 2034				192,098		192,098	192,098
FY 2035				191,621		191,621	191,621
FY 2036				191,966		191,966	191,966
FY 2037				192,116		192,116	192,116
FY 2038				192,071		192,071	192,071
	<u>Debt Serviced</u>						
Total	1,341,156	157,963	1,499,119	4,123,047	157,963	4,281,010	2,781,891

EVALUATION OF THE BORROWING AND FISCAL IMPACTS

During my review of the project and the proposed funding, I had several conversations with Steve Mulroy, VML/VACo Municipal Advisor. I asked for a candid response on the proposed bond issuance based on the financial soundness of the Town. I also reviewed the most recent audit and pulled some information from the Credit Benchmark report provided by VML/VACo in January 2017. Steve and I agree the Town is in a financial position to service the new debt; however, it is tight and could require new revenue or a reallocation of existing revenue.

Positive factors regarding the financing

- The Town Center Project will send a strong message regarding the direction of the Town
- The project will encourage redevelopment of blighted property in the area
- The Town finished FYE 2017 in a stronger financial position than was the case in the prior year.
- The FYE 2017 audit reports the Town ending with a fund balance of \$1,422,119. This represents an increase of \$38,380 over the previous year.
- The unassigned fund balance totals \$1,416,119
- The debt repayment allows interest only payments on the new loan initially, allowing time for revenues to catch up prior to the higher payments beginning seven years out
- Taxable assessed value of real estate continues to increase
- Although flat for several previous years, the addition of a new chain restaurant has significantly increased the meals tax, and there is interest from other restaurants to locate in Haymarket
- Interest rates remain at historic lows

Negative Factors

- The bond issuance will impact the budget an average of +\$139,094 over the term of the loan
- The structure of the repayment may impact the Town's ability to obtain the most competitive interest rate
- Final interest rates are unknown until the loan goes out in an RFP from VML/VACo
- While the property values are increasing, Council has traditionally adjusted the tax rate to neutralize the additional tax burden. Funding the new debt may require at least leveling the tax rate to gain additional revenue, if new businesses do not provide the revenue needed
- The Town has few sources for new revenue
- The size of the Town necessitates that a healthy reserve balance be maintained

In summary, the Town can fund the new debt service for the project so long as the revenue stream continues in a positive direction. We should be mindful of the reserve balance. If the amount financed can be reduced by further reducing the scope of work, that would be a positive factor in the scenario.

The Town Treasurer has prepared some revenue projections for the Council's information. We look forward to a dialogue with Council on this and are available to answer any questions.



Town of Haymarket
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 703-753-2600

Roberto Gonzalez
 TOWN TREASURER

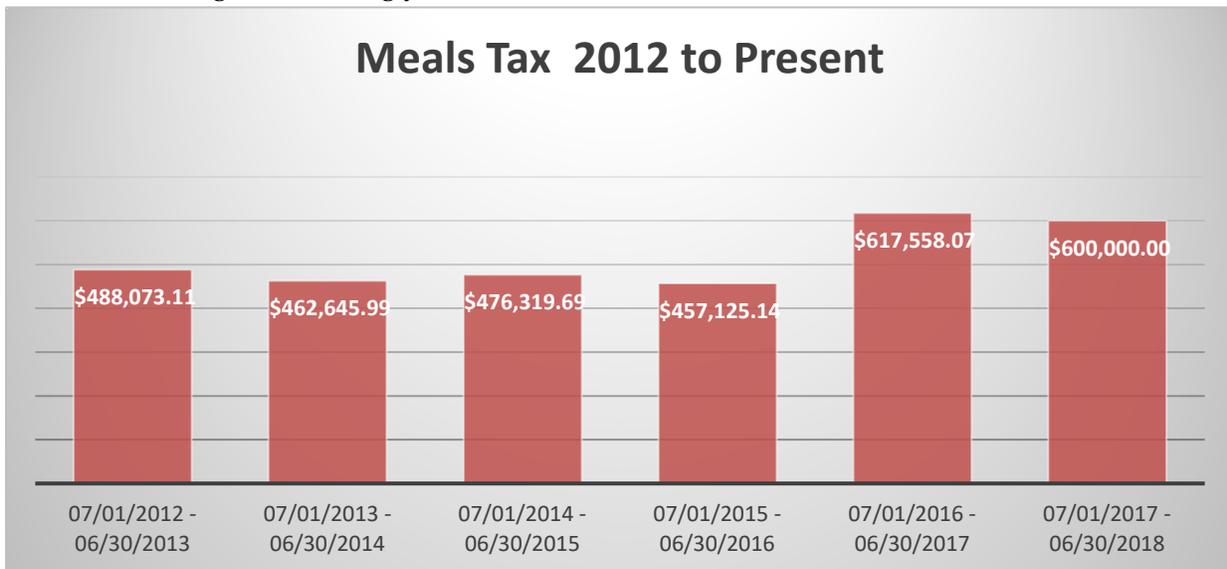
**Staff Report
 Work Session
 November 27, 2017**

Council,

This report is intended to inform you and the public on some of our revenue streams. This memo will showcase 3 of the main sources of revenues being Meals Taxes, Real Estate Taxes, and Business Taxes.

Meals Tax:

As you will see in the graph below the meals tax revenue is a very consistent and strong source of revenue. The graph below also tells us from 2012 to 2016 this source had peaked as to how much the town can expect in a fiscal year. In the second half of 2016, Chick-Fila opened for business in the Town and it gave the meals tax revenue a boost of about 33% from the prior fiscal year. This addition made an already strong revenue source even stronger, but from past trends with no new additional business coming it has reached its max threshold as to what the Town can expect in a fiscal year. The tax maintains a strong stream with a potential fluxiasiaon of 4 to 5% through the coming years.



Attachment: Town Center Staff Report - Work Session 11-27-2017 (3373 : Staff Reports on Town Center Renovation)

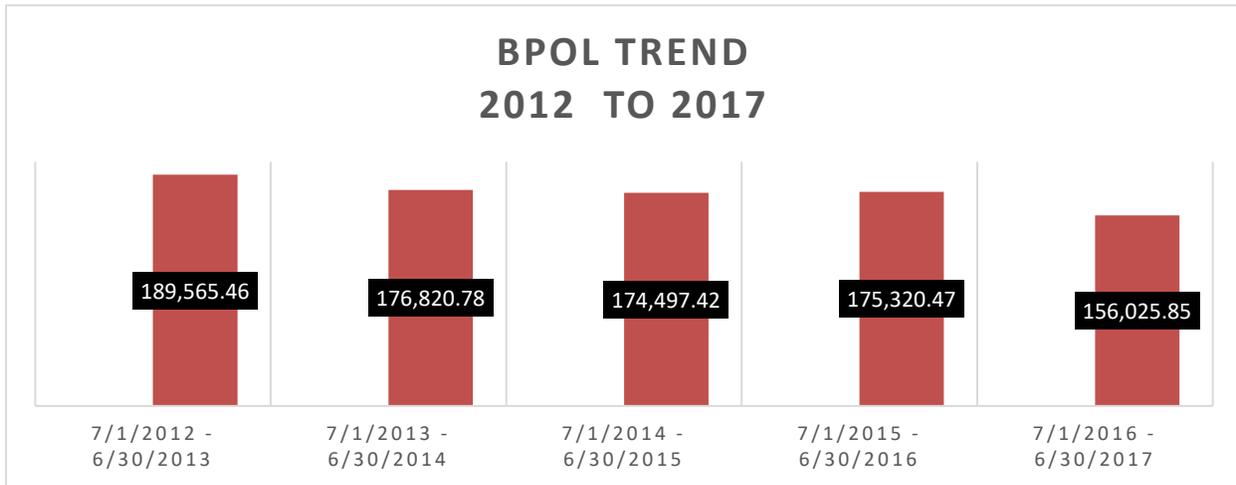
Real Estate Tax:

Real Estate taxes is another source of revenue that the Town receives every fiscal year. This fiscal year we increased the rate by .02 to help with the debt service. Real Estate Assessments have continued to increase, which will bring in more revenue to the Town. Council should know that decreasing/equalizing the Real Estate Tax rate as done in the past will hurt the Town’s ability to meet the Debt Service obligation. If the Town does not lower the rate, it could continue to see an increase in this revenue line as the County assessments continue to increase. The Town of Haymarket is still has the lowest RE tax rate compared to its surrounding Town’s.

Year	Total Assessments	Actual Tax Revenue	Tax Rate	PWC Tax Rate
2012	185,628,400	280,215	0.164	1.204
2013	200,283,498	300,000	0.153	1.209
2014	218,017,668	292,415	0.139	1.181
2015	233,541,300	292,000	0.129	1.148
2016	237,936,941	298,000	0.126	1.122
2017	243,387,100	340,516	0.146	1.125

BPOL (Business Professional Occupational License) Tax:

BPOL has been another source of our revenue stream and this is the one revenue stream that is hard to determine as its only collected once a year. We don’t really have a way of knowing until the renewal period how many businesses leave or stay in town until April 30th of each year.



In conclusion, the Town does have a strong source a revenue that has the potential to increase with the introduction of new businesses joining the Town. This past year businesses did well considering the difficulties ongoing construction presented during the fiscal year of 2016-2017, overall I did not see much of a difference in the revenue stream to the Town.

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