



Mayor's Letter

December 15, 2018

Hello Everyone,

In this Mayor letter I will continue the discussion on issues relating to Phase two of our concrete road replacement. First, an update on several things going on in the Village.

2018 INDEPENDENT AUDITORS REPORT. At our December 13th Council meeting, our independent auditors presented their official findings for the 2018 fiscal year. We received a clean opinion for the 11th straight year. The auditors pointed out that all our financial ratios were excellent, with our liquidity and cash reserves far above normal. All our annual audit reports are available on the Town website. Our financial strength will continue to increase in 2019 in preparation of our first-ever credit rating by Standard and Poors (S&P) for financing the next phase of our concrete road project.

GOLF CARTS. The Town Council voted unanimously to approve an updated Golf Cart Ordinance authored by Councilman Darrell West. **Under the Texas Transportation Code Section 663, it is illegal to operate golf-carts, all-terrain vehicles (ATV), utility vehicles, and recreational off-highway vehicles on public roads.** That is the state law, and state law supersedes all municipal laws. However, the State Law does give municipalities one exception. Under Texas Transportation Code Section 551.404, a municipality may adopt an ordinance that allows golf carts (**only golf carts**) to be driven on city streets with speed limits of 35 MPH or less. This is the ordinance that Councilman West revised which was passed by the Council.

Let me be clear. Under the law, we have approved golf carts only, not ATV's and the other types of off-road utility vehicles you see around town. **They have always been and continue to be illegal to operate on the street.** And the Transportation Code defines a golf cart to be a vehicle that is commonly used on a golf course, so there is no wiggle room. Interestingly, the code does not impose a minimum age limitation, just a requirement that each golf cart have mandatory safety equipment (headlights, tail-lights, reflectors, mirrors, and a parking brake, note: the slow-moving red triangle sign is not required).

ZONING. As part of our periodic review of ordinances, the Council has spent the last four months discussing various minor changes to our comprehensive zoning ordinance. After analyzing the types of variances granted, and based on questions from citizens, we are making some minor tweaks. **There will be no changes to the district boundaries, and no changes to minimum lot sizes, set-back dimensions, minimum house sizes, etc.** For example, we require a 6/12 roof pitch because that is the recommended pitch to keep significant down-force on the shingles in high winds so they won't peel off. However, metal roofs are designed to be flatter (2/12) because they don't have shingles. Rather than continuing to make the homeowner/builder wait for our monthly meeting to obtain a variance (which we grant every time), we have changed the zoning ordinance to allow metal roofs to be 2/12. Following changes to the zoning ordinance in 2014, we have granted many variance requests by new home builders to place a portion of the driveway in the side-setback to better access their side-entry garages. So, we have also clarified the language pertaining to what is permissible in the side yard set-back.

STOP THE BLEED. There will be free class on training for bleeding emergencies on February 2nd at Town Hall from 10 am to noon. Linda has taken the class. Contact her for more details.

OVER ↘

CONCRETE ROADS - PHASE 2

Last month I discussed the issues relating to the decision to move forward with the reconstruction of our streets. This month I will address the costs and financing. In 2013 the Council unanimously approved the decision to rebuild all our streets, but due to financial considerations, we had to perform the task in two phases. Now is the time to get it done and finish the job.

Q: WHAT ARE THE ASSUMPTIONS IN THE COST ANALYSIS ?

First, the cost estimates include all the remaining streets except (1) Green Meadow - the street across from the mailbox facility on Highridge, and (2) Lakecrest from the entrance to Town Hall. The costs **do not** include the expenses of peripheral issues like moving the Highridge mailboxes, replacing street signs, or utility line improvements. The costs do not include any expenses for unseen contingencies or errors. **The total cost includes both the estimated construction costs and non-construction costs which include engineering, survey work, geotechnical analysis, construction services (inspections, validating expense requests, and quality assurance testing).** We also have drainage-related expenses of replacing all the underground reinforced concrete pipe (RCP) and new construction of surface drains and inlets at various drainage easements.

The engineering costs include design, preparing all technical drawings, advertising, administering the sealed bid process, and recommending and evaluating the technical capabilities of the winning bidder.

Q: WHAT ARE THE ESTIMATED COSTS ?

Based on discussions with the Town's Engineer Kimley-Horn and their latest Opinion of Probable Construction Cost (OPCC), the current estimates are:

Non-Construction Costs	\$ 550,000
Construction Costs	\$ 3,490,000
Drainage	\$ 95,000
=====	
TOTAL	\$ 4,135,000

Q: HOW DOES THIS COMPARE TO THE COSTS FROM PHASE 1 ?

The total costs of Phase 1 were \$1,847,296 and we laid 7,890 feet of new road. Thus, the cost per running foot was approximately **\$234** in April-December 2014.

Today's estimated total costs of Phase 2 are \$4,135,000 and it will cover 14,460 feet of new road. That works out to approximately **\$286** per running foot. So, in four years the estimated construction costs have risen 22 percent, or a little over five percent annually.

Q: ARE THERE WAYS WE CAN SAVE MONEY ?

That is the challenge and the part I most enjoy. One area where we have issues is in our cul-de-sacs. None of the cul-de-sacs in the Shores are the desired 100-foot diameter. The cul-de-sac on Meadowlake is more like a dead-end alley, with mature trees in the actual platted street. I have had discussions with the Little Elm Fire Chief and Battalion Chief on ways of providing the necessary space for their vehicles within these smaller areas. For Stowe Court, Carrie Court, and the Meadowlake dead-end, the distance is short enough that the fire-trucks can back out, so we can get by without significantly expanding the road. However, on the north and south ends of Carrie Lane we must build the full 100-foot diameter. Our construction cost of a 100-foot diameter cul-de-sac is \$102,000, while the cost of a 75-foot is only \$57,000. So, we may save about \$135,000 on the three smaller ones. We may also be able to save disposal costs by placing the excavated soil on the berm in front of the wastewater plant. Value engineering is an ongoing process.

Q: HOW WILL WE PAY FOR THE PROJECT ?

We will borrow the funds. The specifics of the bond issue will be based on the market rates, yield curve, and various technical factors in early 2020.

Q: CAN WE SAVE THE MONEY INSTEAD OF BORROWING ?

I am certain we will have someone who will say that all debt is evil and we should just wait until we have the money in the bank. That sounds good if you are saving for a family vacation trip to Disney World. But municipal improvements are so large that you can never get there trying to accumulate the money in savings.

Our 2019 budget surplus is projected to be \$34,000. The construction costs are \$4,135,000. Assume that the construction costs will never increase but will stay exactly the same forever. **It will only take 121 years to save the money.** But, that's okay, with global warming and the polar ice melting, Lakewood Village will be on the gulf coast and we will all be traveling by boat anyway. But seriously it is simpler than that.

Suppose you played a game with your five-year-old. You stand 10 feet apart with a large piece of candy. You then tell the child that if they touch you, they can have the candy. Then you allow them to take one step toward you and you take one adult step backwards. **In less than 30 seconds** your child will understand they can't ever get the prize. Our largest increase in property tax values was 6.8 percent, the largest decline -6.6 percent. This excludes the effects from new houses completed during the year. Over the last decade, our

Largest Annual Increase	6.8%	2017
Largest Annual Decrease	-6.6%	2012
Average Change (2007-2018)	3.3%	(2.2% + 1.1% new)

average annual increase in appraised values has averaged 3.3 percent, with 2.2 % from existing homes and 1.1 % from new houses completed each year.

We will collect \$306,000 in property taxes this year. Assume that we have a **Lakewood Village record increase of 7 percent in property values.** That means our tax collections would increase by \$21,400. Our construction costs are \$4,135,000 and they are increasing at just over 5 percent per year. That means our expected costs would increase by \$206,750. Even if you assumed construction costs would only increase by one percent in the future (unlikely), that is still an increase of \$41,350 or more than twice our record increase in property tax revenues. You cannot get there by waiting. Please refer anyone who tells you we can to your five-year-old for schooling.

Q: WHY DID WE WAIT UNTIL NOW ?

In 2014, we decided to minimize the tax increase and pay most of our annual bond payments by dipping into our reserves. Before we could consider borrowing again, we had to reach the point where we were generating an annual budget surplus and **adding to our reserves.** That happened last year.

In addition, when they begin a new subdivision, developers can often negotiate better deals with contractors than cities can. Legally, a town is permitted to piggy-back on a developer's project, so there was some potential savings there. So, we waited, but no development happened and I don't see any coming soon.

Q: WILL WE PAY OFF OUR EXISTING BONDS EARLY ?

No. That would be a mistake for two reasons. First, the interest rate on the debt is 1.99 percent. Our reserve funds are earning 2.5 % interest, so if we paid it off early, we would lose **\$30,000** more in interest than we would save.

Second, we don't want to be "cash poor" when we borrow money for Phase 2. This lowers our credit rating and increases the interest rate we will be charged. Think about it, if you were going to loan us \$4 million, would you rather we had \$25,000 in the bank or \$600,000 ?

Q: WHAT WILL OUR TAX RATE BE ?

First, let me talk about the key assumptions underlying my analysis. **I am assuming that everything stays as it is today with no new developments, no additional houses, and no appreciation.** I am not going to

Current Property Tax Rates	
Little Elm	\$0.6500
Lake Dallas	\$0.6617
The Colony	\$0.6625
Corinth	\$0.5300
Oak Point	\$0.5200
Frisco	\$0.4466

bake into the numbers some aggressive estimates. This is a worst-case scenario - obviously I expect to have new houses and continued home appreciation. Based on these assumptions, I believe, to finance the road construction our tax rate would need to be \$0.45 As the Table illustrates, our tax rate would still be significantly lower than all of our surrounding communities. The bonds would be callable - this means that we could refinance the debt. So, in the future if our tax base expands due to a new development, we could always issue new bonds with a shorter term and lower interest rate. And of course, our tax rate must go back down to \$0.25 once the debt is paid.

Q: HOW MUCH WOULD MY TAXES INCREASE ?

Our property tax payments have three components, Lakewood Village, Denton County, and the Little Elm School District. At the current \$1.64 rate, the LEISD taxes far exceed ours and Denton County. So, in the great tax hamburger meal, Little Elm ISD is the beef and we are the pickle. If we adopt the \$0.45 tax rate, then everyone's

overall tax payments will increase by an average of 6.9 percent. So, for a typical house on Hillside appraised at \$150,000 the property tax bill for LEISD, Denton County, and LWV will increase by \$225 from \$3,248 to \$3,473. And once again, because the tax increase is for

Total Taxes (LEISD, DC, and LWV)			
Appraised Value	Current Taxes	Future Taxes	Change
\$150,000	\$3,248	\$3,473	\$225
\$400,000	\$8,662	\$9,262	\$600
\$1,000,000	\$21,656	\$23,156	\$1,500

debt servicing, once the debt is paid off, legally the debt servicing tax must be removed. Also, if we have new development, it is likely that the rate would decrease due to us refinancing the debt.

If you have any questions that I haven't addressed, you can email me or stop in anytime at Town Hall and we can talk face to face. It's a big project with a big-time commitment by the Council and Staff. In 2019 we will begin making utility line improvements including a new six-inch water main and fire hydrants for Meadowlake. I am looking forward to breaking ground on the roads in February 2020.

KEY FIGURES: Building up our financial reserves is very important as liquidity is one of the key drivers of our future bond rating from S&P.

Last year, on December 15, 2017 the Town had \$265,993 in the bank.

Today, December 15, 2018, we have **\$369,236** in the bank.

We are \$103,243 ahead of last year and things are only getting better.

There's never been a better time to be in Lakewood Village.

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Mayor



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