



Mayor's Letter

June 15, 2017

Hello Everyone,

AT OUR JUNE MEETING I had the honor of swearing in Clint Bushong for a fourth term, Ed Reed for a third term, and our newest member Elizabeth Shields for her inaugural term. I am very pleased that the council unanimously re-elected Ed Reed as Mayor Pro-tem. Ed has my unqualified support and has been a valuable resource and worked tirelessly in support of the Village. At the meeting I presented to the council next year's proposed budget for fiscal 2018 (October 2017 to September 2018). The financial information and my explanatory memo is available online at the Town website in the June council packet. Rather than discussing a lot of the individual numbers, I would like to provide some insights on the process.

SPEAKING AS A PROFESSOR WHO TEACHES BUDGETING, for LWV it is a relatively straightforward process as many of our budget lines are in steady state - or in statistical terms "stationary", which makes them easy to forecast. So for example, the costs of our phones and internet services, pest control, alarm monitoring, postage, office supplies, etc. are virtually unchanged year to year. In these cases, standard budgeting techniques would be to just use the previous year's actual expenditure and possibly add a slight upward bias (what we refer to as a "drift") to account for inflation.

A few of our expenses are not "stationary" and they are **not controllable**. So for example, we cannot control water main leaks, sewer line breaks, or motor failures. In these cases, you have little hope of forecasting the actual expense for the year. Instead **you forecast to get it right on average**. Looking back nine years at my data, our annual water repairs have ranged from \$ 1,725 to \$13,603, while sewer repairs have ranged from \$1,106 to \$28,029. **The average annual water repair is \$8,535 and the average sewer repair is \$10,103**. In the proposed 2018 budget, I am including \$10,000 for water repairs and \$10,000 for sewer repairs (as in prior years). In the calculations I have excluded a portion of our 2017 sewer repairs, as we incurred a one-time planned expense relating to our Hillside main. We had been deferring the work until the four empty back-to-back lots were built on.

Lastly, some expenditures are not stationary but they **are controllable** - you often hear these described as **discretionary expenses**. For us this is the parks and road repairs. In 2013, when we discussed financing the concrete road project, I proposed that we only impose a debt servicing rate (I&S) of \$0.05 rather than the actual cost of \$0.21. To make it up, we would divert a large portion of our operating taxes (M&O) to pay the debt but,

	Bond Payment	I&S Taxes (\$0.05)	Sales Tax increase since 2013	M&O Taxes used to Pay Bonds	
2013 Fiscal Year	\$0	\$0	\$0	\$0	0%
Feb-15	\$166,384	\$38,589	\$4,960	\$122,835	64%
Feb-16	\$173,150	\$41,743	\$21,725	\$109,682	53%
Feb-17	\$174,225	\$43,764	\$21,164	\$109,297	50%
Feb-18*	\$176,210	\$48,000	\$24,672	\$103,538	43%

as part of the deal, we would zero out our discretionary expenses.

No road repairs and no park money until further notice. As you can see from the chart, the amount of our operating taxes used for our bond

payment has dropped from 64 percent to 43 percent in the proposed budget. A significant help has been your vigilance in paying sales tax to 75068 - Lakewood Village, you are doing a great job. Based on our financial performance I have budgeted for park improvements and road repairs for the upcoming year. I believe we should replace the "mulch" on the playground ASAP. I also think we should devise a plan for Witt Park. I would like to hear from you. If you would like to serve on a parks advisory committee, please let us know. If you have kids - this is your chance to participate. Tell us what you want.

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SPEAKING OF BOND PAYMENTS. Let me clear up some misinformation. A bond is not like a car loan, student loan, or a mortgage where you pay down the principle and, after your last payment you owe zero. You can't "pay down" a bond. When I was much much younger I owned U.S. savings bonds. Well, if you had a \$25 savings bond, the government couldn't decide to pay off \$4 of it. What would you do, tear off a piece and mail it in ? No, the government had to redeem the entire bond - all or nothing. It's the same with municipal debt. With bonds, you pay interest each year - not the principle - **you pay that at the end**. So if you owned a \$1000, 10 year bond that pays you two percent interest, you would get \$20 each year (\$10 paid twice a year) and then, **at the end of ten years** you would get your original \$1000 back. Bonds are a financing tool where you borrow money - but they are very different from a loan.

You probably only have one mortgage on your house. Well, when we borrowed the \$1,600,000 for the roads, **we actually sold one thousand six hundred** individual \$1,000 bonds. Lower denomination bonds are easier for investors to buy and sell which can give us lower interest rates. It also allows us greater flexibility when we

Term	Principle
1 yr	\$128,000
2	\$145,000
3	\$149,000
4	\$154,000
5	\$158,000
6	\$163,000
7	\$168,000
8	\$173,000
9	\$178,000
10	\$184,000

redeem bonds each year - that's how we lower our debt. Let me explain. As part of creating our financing plan, I had to decide how many bonds were going to expire each year. So, in other words, in 2013 I had ten buckets to fill, some of our bonds would expire in one year, some in two years, ... and so on until the tenth year. There were 1600 bonds that I had to spread across the ten years. The bond buyers were bidding on all of the bonds **but had to offer just one rate for all of them**. The table shows how I decided to sequence the maturities of our bonds. We sold 128 bonds that expired in one year, 145 that expired in two years, 149 that expired in three years, etc. As you can see, I set it up that we would increase the amount of bonds we redeemed each year. Our next bond payment in February 2018, the four year bonds will mature, and we will pay \$154,000 and redeem and cancel them. After next year, we have the option to redeem some bonds early. The only thing that makes us different from other cities is that they issue bonds that have much longer maturities such as 25 or 30 years. It is very unusual to issue ten year debt like LWV. Why ? Because it's hard to make the payments ! **It's would have been easy to take the easy way out**. We're powering forward, the hardest part is behind us.

CONCRETE ROADS PART 2. I often get asked when do I think we will finish the roads in Town. Let me give you my opinion. **I think we are four years away**. My opinion doesn't depend on LandPlan or any other developments - it would take years for any project to even begin to put houses on the tax rolls, so I ignore that possibility. The logic is straight-forward. Suppose you were going to buy a new car. You want to get the best interest rate, so you decide to spend the next couple of years paying off your credit cards, student loans, etc., to boost your credit score. But, while your credit is getting better each year, the cost of the car is also going up each year. There is an optimal point when it is best to pull the trigger.

We have about 2/3 of the town to be paved. So a ballpark estimate would be the cost of finishing the town will be somewhere in the \$4M range. If we wait until year 10 and pay off the old debt entirely that is great. However, according to the **U.S. Bureau of Labor Statistics, the Producer Price Index** for ready-mix concrete has increased 20.8 percent over the last four years. So assuming a five percent annual increase, for each year we delay the new roads the costs could increase by \$4,000,000 x 0.05 or \$200,000 ! **In my opinion**, based on my financial analysis, I think that year 8 will be the best time. Of course, things will be different if the housing market crashes, we get into a war, or Tony Romo comes out of retirement.

LWV MUNICIPAL DEVELOPMENT DISTRICT BOARD. We have an opening on the board. If you are interested, you can send a letter of introduction and any other information to Linda. I would strongly recommend you talk with MDD President Eric Farage to familiarize yourself with the mission and goals of the organization. For more information contact Linda or Eric.

NATURAL DISASTERS. We don't really associate them with our area due to the lake seeming to act as a buffer, but the hail damage here was unprecedented for us. In LWV we do not inspect roof repairs unless there is a structural issue - only if you are replacing significant portions of the roof trusses or decking. Please keep this in mind as you determine the best repair option of the many available.

The Town facilities were not spared. However, unlike you or me, we have five buildings that were damaged, with the Rocky Point Pump house being the most heavily impacted. The process of going through our municipal risk pool insurer took longer than anticipated, but we are fully covered for our damages and will incur no out of pocket expenses. Repair work on the facilities has been delayed while I coordinated with the roofer and our facilities people to take every precaution with our critical infrastructure. In addition, I have been consulting closely with Eric Farage, MDD President, to minimize any service interruptions and coordinate the critical repairs to the MDD's Rocky Point Water facility.

As you can imagine, a leak or a few errant nail gun shots in our pump house with all our controls and electronics would be a bad thing. Having outsiders operating with equipment in close proximity to our wells and storage tanks requires planning and extra vigilance by us. As you read this, work should be underway. I will be glad when the nail guns are put away and the buildings are secure.

There is going to be a new roof on Town Hall, the mailbox facility will also have a new roof, as will the utility buildings at Town Hall and Rocky Point. The fence will be power washed and stained - the entire fence - all four sides, inside and out. In addition, the broken pickets will be replaced. There will be no out-of-pocket costs to the Town for any of the repair work. All of our repairs will have a GAF factory certified warranty - I don't care about warranties from Buffalo Bobs Shingle World or Ralph's Roofers-R-Us. We're not taking any chances with our infrastructure.

TOWN HALL MEETING. I will be scheduling a State of the Town - open forum meeting for the week of July 15th, prior to Thursday July 13th (our council meeting). I will provide opening remarks and open the floor to any question on any topic relating to the Town. **In addition, I will be available at Town Hall on Monday June 26th through Friday June 30th each evening from 6pm to 9pm. I will be available at Town Hall Saturday July 1st from 9am to noon.** If you have any questions or would like to give me your opinions, I will be there. This is your opportunity to learn as little or as much about the Town as you want. I hope to see you there. I'm excited to share with everyone how great things are going.

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

Dr. Mark E. Vargus
Mayor



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