



## Mayor's Letter November 15, 2019

**2019 INDEPENDENT AUDITORS REPORT.** At the November 14th Council meeting, our independent auditors presented their official findings for the 2019 fiscal year. This report will be the basis for our first-ever S&P credit rating and will be used by lenders to determine the interest rate on our upcoming bond issue. **We received a clean opinion for the 12th straight year. The auditors found no issues and pointed out that our financial controls and key financial measures were excellent.** The audit report and management letter are available on the Town website.

As the LWV Chief Financial Officer, I am responsible for writing the Management Discussion and Analysis (MD&A) section for each audit. This is a four to five-page summary and discussion of the year's financial results and my forecast of our future economic performance. I spent a large part of this year's MD&A discussing our utility system capital improvements and the current capacity of our water and wastewater facilities. I will only present a brief snapshot here, and I urge anyone interested to read the MD&A section of the audit report on the Town website.

Obviously, there are many numbers in the audit report. Fund accounting rules are used for the "Governmental" or General Fund which is responsible for the basic town services (Building Inspections, Town Hall operations, Fire and EMS, playgrounds, streetlights, annual audits, and the big one, roads). At the end of the audit, the most important measure, and the one that analysts zero in on, is called the fund balance ratio. In simplified terms, the auditor compares our cash balance to our annual expenses. The goal is 25%, that is, at year end, you should have enough cash in the bank (reserves) to pay for 3 months of **next years budgeted** expenses. In 2017, our ratio was 63 percent, which is excellent. In our 2018 audit, our ratio increased to 69 percent. **According to the 2019 Audit, our ratio is now 93 percent, or almost four times the target.** Financial controls were outstanding, expenses were significantly lower than budgeted, while simultaneously revenues were higher. Our strong financial controls, low taxes, and very high liquidity are critically important to potential lenders. **We are right on track for the March 12, 2020 bond issuance.**

**ROAD UPDATE.** On November 11th, Councilwoman Serena Lepley, Mayor Pro-tem Darrell West and



myself met with Kimley Horn Engineers in McKinney to discuss the latest road designs. We are focusing much of our attention on drainage issues. Our goal is to design engineering solutions to eliminate several drainage easements and culverts. In addition, we are looking at the feasibility of removing the bar-ditches on nearly all waterfront properties. This would allow the water to naturally sheet flow to the lake, minimizing erosion and allowing for natural filtration of runoff.

As you may have noticed, we have started the mailbox relocation project. Over the next two weeks, we will be extending the concrete pad at Town Hall, moving the Highridge mailboxes and demolishing the old concrete pad. We will also be adding a new parking area. And no, the current plan does not include repainting the boxes, we will have two different colors.

**WATER UTILITIES** Over the last five years we have been reinvesting nearly all our cash flow back into the utility system, improving efficiency, increasing capacity, replacing equipment, and implementing preventative maintenance programs. **Unfortunately, when I talk with citizens**, the perception is that our utility system is strained - we can't afford to use any of it on new development. Let me be absolutely clear. We are in great shape. In Summer 2017 and Summer 2018, we had well/aquifer problems combined with the fact that our new pressure and storage tanks were not fully integrated. We have since lowered our wells and all tanks were fully operational for Summer 2019.

Let's look at the numbers with everything operating normally. As you can see, our Summer demand peaked in July. The average daily demand of 140,600 gallons represented 51 percent of the total amount of water we could produce.

Water System Capacity Utilization - Summer 2019					
	June	July	August	September	Overall
Usage Gallons/Day	63,400	140,600	122,567	130,036	115,025
Well Run-time Hours/Day	6.4*	12.1	10.8	11.6	9.8
Production Capacity Utilization	23%	51%	44%	47%	42%
System Capacity Utilization	15%	34%	30%	32%	28%

More importantly, with the new tank, we now have 134,000 gallons of storage on the ground. We have almost an entire day's worth of water in the peak

month available in the tanks - we could almost meet the peak demand without turning the wells on ! During the entire Summer our average demand was only 42 percent of what the wells could produce. Overall, the system can meet demand with both production and ground storage. So, if you include the water in the tanks along with the well production, the System capacity used was only 28 percent. So, now that everything is operating normally, during the peak Summer months, we used just over a quarter of our system capacity. And unlike almost every other city, in Lakewood Village our water "restrictions" limit you to watering anywhere, anytime, any day, as much as you want.

**WASTEWATER UTILITIES** In 2014, as the sewer plant reached its twenty-year operating life, we rehabilitated it, replacing steel, replumbing lines, reconfiguring components, and improving operational efficiency. We

WasteWater System Capacity Utilization - Summer 2019				
	July	August	September	Overall
Meter Start	39,974,990	41,283,853	42,686,443	39,974,990
Meter End	41,283,853	42,686,443	43,966,219	43,966,219
Flow	1,308,863	1,402,590	1,279,776	3,991,229
Average/Day	42,221	45,245	42,659	43,383
<b>Capacity Utilization</b>	<b>42%</b>	<b>45%</b>	<b>43%</b>	<b>43%</b>

should be set for another 20 years. Looking at the numbers for the Summer, you can see that we averaged just over 43,000 gallons or 43 percent of our capacity. Given our current 240 houses, this means we would have to notify TCEQ and obtain the permits to start

expanding the plant when we get 500 houses connected to the system. Clearly, we are in great shape.

If you look at the overall numbers, you can also see that we discharged 4 million gallons of re-usable water into the lake this Summer (over 15 million gallons annually). Councilman Eric Farage and Councilwoman Serena Lepley are working on obtaining the permits for us to capture and recycle this water. They are also working with our engineers and Little Elm Services on designing the reuse system including running the necessary lines prior to the road construction. It's another example of the road construction driving our forward thinking on overall town improvements.

Our future is now, and we are ready for it. There's never been a better time to be in Lakewood Village.

**Dr. Mark E. Vargus**  
Mayor



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