MINUTES OF THE CHESHIRE TOWN COUNCIL AND BUDGET COMMITTEE SPECIAL MEETING HELD ON TUESDAY, JULY 16, 2019 AT 6:00 P.M. IN ROOM 207 TOWN HALL, 84 SOUTH MAIN STREET, CHESHIRE CT 06410

Present
Robert J. Oris, Jr. Chairman; Paul A. Bowman, Vice-Chairman;
Budget Committee: Tim Slocum, Chairman; Jeffrey Falk and Sylvia Nichols
Council Members: Patti Flynn-Harris, Thomas Ruocco, Peter Talbot, David Veleber.
Staff: Town Manager Sean Kimball; Finance Director James Jaskot; Deputy Finance Director Gina DeFilio.
Guest: Matt Spoerndle, Phoenix Advisors, LLC.

Chairman Oris opened the meeting at 6:02 p.m.

1. ROLL CALL

The clerk called the roll and a quorum was determined to be present.

2. PLEDGE OF ALLEGIANCE

The group Pledged Allegiance to the Flag.

3. DISCUSSION RE: FISCAL YEAR 2019-2020 FIVE-YEAR CAPITAL EXPENDITURE PLAN AND ANNUAL CAPITAL EXPENDITURE BUDGET OVERVIEW AND DEBT DISCUSSION

Copies of the FY19-20 Town Manager's Recommended Capital Budget and Five Year Capital Plan FY20-24 and Debt Service Projections (est.) were given to Council members.

Town Manager Kimball and the Council reviewed the CEP information.

The CEP includes projects previously adopted in the Five-Year CEP, and new projects that will lead to future cost savings and returns on investment.

$76,355,000 department capital requests; 151 Projects; reduced by $17,897,000; Recommended Five-Year CEP - $58,368,000; 111 projects across five(5) years; increase of $7,686,000 over last year's adopted five-year capital plan; $8,320,500 in offsetting grants or available cash funding; reduces the net capital total cost to $50,047,500.

Adopted Five-Year CEPs average $53.06M gross and $42.81M net over the past five adopted budgets.

Historical Comparisons – Mr. Kimball reviewed the comparison FY 09-10 to FY 18-19. FY09-10 Year #1 net budget - $3,727M; FY 18-19 Year #1 net budget - $6,322M.

<u>Long Term Debt Service as % of Expenditures Ten Year History</u> – 2019 is 5.9% based on adopted budgets; 2020 (to 2029) is 8.1% based on projected debt service and use of reserve.   Ten (10) years ago debt service was as high as 13% to 14%, and it has been reduced over the years. One time reserve funds which will be relied on to mitigate the impact of the operating budget.

<u>FY 2020 Recommended CEP</u> – first year FY 2020 project appropriations of $11,494,000; increase of $3.5M over FY 19 adopted capital budget; this is before Council deliberations and adjustments.

<u>Five-Year Capital Budget Highlights</u> – Mr. Kimball reviewed the requested department projects in the CEP (pages 9-16).
Revaluation $530,000; Technology Replacement $1,050M; Town/School Security $310,000; Vehicle Replacements $1,485M; Capital Planning $100,000; Project Management $148,000; Admin/Finance $3.58M; Planning $400,000; Public Safety-Fire $440,000; Fire Engine/Pumper Replacements $2.75M; Public Works $20M; Board of Education $23M; WPCD $1.490M; Leisure Services $2.775M.

<u>Debt Service Projections (est</u>.) – Matt Spoerndle reviewed the debt service (color coded) information with the Council.   A forward looking model was developed based on bonds already issued and bonds to be issued for the CEP, and looking at impact if the BOE undertakes a school project.   A "middle school project" of $100M was looked at with $75M net cost to the town after state aid.
Blue bars– current debt service (gross) offset with resources; 2018 about $9M debt service.
White bars – CEP (as of few weeks ago); $81M (authorized bonds and CEP);
Take $1M (off CEP) it is $60M +/-; debt service would be in the $10M range for foreseeable future.
Information utilizes the town's strategy of issuing bonds every other year (in February). This is all based on assumptions – variables, interest rates, etc.

<u>School Project</u> - $75M broken up into three years at $25M each year; bond issue in February 2023, 2024 and 2025 tracking timing of the actual construction project.

The assumption built-ins are grand list growth, budget growth, interest rates, etc.

Chairman Oris asked about the AAA level bar showing 8% debt service as percentage of budget, and other benchmarks rating agencies look at in addition to this percentage for AAA rating.   Mr. Oris noted the Council has looked to the BOE for economic savings on a plan, i.e. consolidation of schools, reduction in expenses…which will help offset some of the school project debt service.

According to Mr. Spoerndle the town and BOE must look at operational savings. With a $75M project, where are the savings going forward, where will the savings come from, i.e. directly from the CEP, or annual utility savings.   This would have a positive net impact on the budget.

Mr. Spoerndle explained that the agencies also look at the other thresholds for a AAA rating…finances, fund balance, reserves, tax collection rates, economic activity, grand list growth, management policies implements and adherence, demographics, wealth, income, housing. There are communities over the 8% threshold due to having larger projects which taxpayers support. Cheshire's debt ceiling policy is 10%; this policy could be adjusted in the future; agencies want to see the municipality have a plan and control of the plan.   The agencies look at overall debt to full value, which is important, but will not lead to an immediate rating change.

Year 2023 was cited as an example – the town goes to just over 8% on the budget number; then go just over 3% on the next metric; fund balance ticks down a little bit…now there is an issue with the rating. This is five (5) years out, and with the right decisions this will not happen.

Mr. Slocum asked about predictability of a rating change and the cost of borrowing increasing, and what would be a typical increase.

This depends on the environment and where interest rates are, and Mr. Spoerndle noted we are in a low interest rate environment…2.50% for 20 year TIC, which is historically low.   In a relatively compressive environment we are looking at 10-15 basic points to go from AAA down to AA rating.   For a $75M project this would mean $1M extra interest cost over the life of those bonds.

Looking at the debt service projection chart, Mr. Spoerndle said Cheshire would be in the red bar level in 2026.

Mr. Kimball talked about debt service as percent of budget. During operating budget discussions that percent is what is budgeted net of reserves. Once these reserves are used up or not replaced, the percent is hovering close to 8% in a few years.

Chairman Oris talked about the future school project, the needed expertise and knowledge of the financial advisors as decisions are made. He asked what Mr. Spoerndle would recommend to the community and Town Council with a $70M plan.

With regard to the model for a future school project, Mr. Spoerndle commented on the huge number, looking at what is really needed, getting the community on board for what the plan should be/what the community can afford, building the model, review of financial information, insuring everything else is stable if not strengthened, keeping the financial advisors in the loop on the progress of the plan and changes.   Over time, rating criteria can change. We are talking about school projects three+ years out there from a bonding perspective.

Mr. Slocum stated the community must be told what their average costs will be over ten (10) years for the school project.

Setting the mill rate is a big concern and Mr. Oris said the other issues are grand list growth, consolidation and efficiencies gained, operating expenses, etc. with net cost to the taxpayer being zero. This is a different conversation which the Council and BOE need to have.

Mr. Spoerndle said the modeling assumes some growth rate, i.e. 0.7% in the grand list, everything is fine tuned and worked into the project numbers to present to the town. He commented on the bottom line being the community wanting a new middle school, needing to know what the BOE is considering with school consolidation, savings, offsetting costs with grand list growth, efficiencies, continued state grants, etc.

On the chart (white bars CEP), Mr. Kimball cited approving the five-year CEP, and in out years we expect to maintain the same level of CEP spending.

Mr. Talbot said that starting at this point in time the Council knows what it is facing, and is similar to what was done with the WPCD project. There is the opportunity to save extra money in debt reserve, and smooth out the spike coming in out years.

The Council members thanked Mr. Spoerndle for his presentation.

Mr. Kimball stated the presentation helps everyone understand how finances fit into the AAA guidelines. The BOE will meet with the Council to present their capital budget, which does not include a large project. Mr. Kimball attended the recent BOE Planning Committee meeting.

The Councilors agreed that there must be a meeting with the BOE on the school modernization plan.

Mr. Slocum informed the Council he attended a BOE subcommittee meeting which adopted their capital budget. The BOE members discussed the school plan, and the sitting BOE fully embraces the middle school concept which gives the most options for consolidation of schools etc. There are issues to be worked out and he said Council and BOE must meet on the proposed plan.

It was stated by Mr. Oris that the Council has requested the BOE to bring forward a revised plan based on fiscal prudence and to take ownership of the process. An open checkbook is not an option, and the Council is in favor of school modernization done in a fiscally prudent manner. The taxpayers must know the cost to them.

In the CEP, Ms. Flynn-Harris said this is not the perfect time for the BOE to come forward with 26 projects, if there is something in the future which will impact the decisions…i.e. where to put kindergarten. She noted these type of projects should be in the BOE capital plan…not just 26 maintenance projects. The BOE should be thinking ahead and have what needs to be planned to go forward with bigger plans.

Mr. Oris pointed out there is nothing reflected in the five-year plan which anticipates a school modernization plan. This must be a collaborative effort, and no wasting of money on the older school buildings as is now being done.

With regard to a plan, Mr. Slocum talked about kindergarten in the home schools, placement of special ed students within the schools, consolidation, closing schools, and a redistricting plan.

4. ADJOURNMENT

MOTION by Ms. Flynn-Harris; seconded by Mr. Talbot.

MOVED to adjourn the special meeting at 7:05 p.m.

VOTE The motion passed unanimously by those present.

Attest:

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Marilyn W. Milton, Clerk