MINUTES OF THE CHESHIRE TOWN COUNCIL SPECIAL MEETING HELD ON WEDNESDAY, JUNE 7, 2017, AT 7:00 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; Councilors – Michael Ecke, Jeffrey Falk, Sylvia Nichols, Timothy Slocum, Peter Talbot.
Absent: Patti Flynn-Harris and Thomas Ruocco.
Staff: Town Manager Michael A. Milone; Assistant Town Manager Arnett Talbot, Finance Director James Jaskot; Vincent Masciana, COO, Dept. of Education.

1. ROLL CALL
The Clerk called the roll and a quorum as determined to be present.

2. PLEDGE OF ALLEGIANCE
The group Pledged Allegiance to the Flag.

3. DISCUSSION REGARDING FINANCES FOR MIDDLE SCHOOL PROJECT
Chairman Oris commented on the need for the Council to have detailed information and facts on the true impact of the school project on the community, particularly the taxpayers. He extended appreciation to Town Manager Milone, Mr. Jaskot, and Ms. Talbot for their hard work on the submitted information. Mr. Oris said the Council needs to have the facts before making a final decision on the proposed school project going forward.

Town Manager Milone reported that he and Mr. Jaskot met with Mr. Oris and Mr. Bowman on June 5th to inform them of the available information, and additional information needed and formatting the information. It is clear from these discussions that the information is hard to understand and read now that the numbers stand out. Ms. Talbot put everything onto Excel spreadsheets; 12 pages of details in the handouts; and about 20 slides.

The handout distributed at this meeting is the same as that sent to the Town Council. There is analysis of scenarios that are status quo with no non-tax revenue growth, with loss of $2.5 million and loss $5 million non-tax revenues over five (5) years. Mr. Milone explained what is contained in the handout, and said Council will review and determine what should be taken out of the information.

All the debt scenarios were established; expenditure side of the budget was developed; and this was built on top of the debt. The next step was revenue assumptions; these assumptions were built into the budget component and debt; so there is a look at the totality of a budget. The next phase was to take that budget and assume three scenarios of revenues…revenues with no growth, revenues with loss of $2.5 million and revenues with loss of $5 million. The last step was to combine this information; come up with a mill rate for each scenario; and show the impact on the taxpayer under the three scenarios (status quo, $2.5 million or $5 million loss of non-tax revenue).

Mill Rate Analysis – five (5) samples of assessments were looked at for average residential assessment, low assessment, high assessment and two (2) commercial properties.

Scenarios were cited as follows: A – Status quo without additional debt built in; B - $106 Million referendum in 2018; C - $111 Million referendum in 2019.

Handout

Page 1 – Debt Service Projections.

B - proposed $106 million (185,000 sq.ft. school) at 33.9% State reimbursement; $34 million in grants; bonding $71.1 million.

C - proposed $111 million (160,000 sq.ft. school) is waiting one year, effect of inflation, at 29.38% (further reduced to 25%) State reimbursement; $27 million in grants; bonding $84 million. This recognizes $5 million more in debt, and reduced reimbursement rate, and further going down to 25%.

Mr. Milone stated that both scenarios (B and C) are for an 185,000 sq. ft. building; reimbursement; the reimbursement rate is a best guess; and the architect has said the reimbursement cannot go below 25%. The Town loses reimbursement on the difference between the 185,000 sq.ft. building and the 160,000 sq. ft. building.

Mr. Jaskot stated the interest rate assumption is 4% for the project.

Page 2 – Five Year Expenditure Plan FY 2017-2021.

The far right columns on this page show the increase in debt service from one year to the next; over the next five (5) years there could be use of the $8.6 million in reserve funds; and once this money is gone there is no cushion available.

The $8.6 million would include the following: $7.1 Debt Reserve; $400,000 WPCD Fund Balance; $400,000 Energy Rebate; $674,000 from the commercial sewer rate structure rebate. Once these funds are used the Town will not have reserves left except for fund balance.

$674,00 is from the user fee restructuring which will be a compensating amount of about $375,000, and other reserves will be depleted. This information shows where the Town is today, without the school projects. Page #2 shows the debt increase year over year, and this is all built on the Five Year Capital Plan.

Page 3 - Debt Service FY 2017-2021 (Schedule 2) $106 million school project

The information shows the general fund debt before use of the reserves, and how much debt must be added on with the $106 million school project. The total general fund debt increases with the bonds associated with the school project. Estimated school plan debt in 2020 is $2.607 million; 2021 has a spike of $4.1 million.

<u>Page 4– Projected Debt Analysis FY 2017-2021 - $111 million school project</u>
There could be redesign and rearrangement of the Capital Plan; column #4 is the payment on the WWTP loan; column #2 is the various projects on which there is no borrowing at this time; column #3 is everything else in the CEP, and Council could defer projects and change these numbers.

Mr.Masciana said in the CEP there is what Council approved last year including school items, and some reductions could be made. The BOE capital plan was just under $20 million; some funding was for Dodd, Norton, Doolittle Schools, about $10 million; and they could be pushed off the CEP.

<u>Page 5 – Five Year Projected Budget Increases-Status Quo Debt Service No Middle School Debt.</u>
This is the five year projected increase; missing are assumptions noted at the bottom of the page; far right column shows the average increase. In looking at the last five years of General Government and BOE increases they are: General Government 2.85% and BOE 2.33%. Debt service is known by the debt service schedule developed; this information is status quo, without either of the school scenarios; CNR and Contingency are consistent throughout the five years. The budget increase over previous five years equalizes to1.93% in terms of expenditures without the new school. The far right column shows the total increase and percentage increase. Average increase is $3,330,727, 3.07% increase. Debt service without WPCA is significantly rising over the years. Another thing contributing to this is the unissued debt and new CEP. The WPCA debt spikes this year and then stays consistent for a few years.

Mr. Oris has concerns about debt as a percentage of the budget. FY 2019, status quo, it is 6.8%; 2023 it is 8.3%. Under the school scenarios at FY 2023 it goes up to 12.42% and 13.29% depending on which scenario (B or C) is used. With debt going up rapidly, and percentage of the overall budget, he questioned if there is a litmus test or standards looked at from the credit rating perspective on debt service. He asked if there is a 10% mark over the last few years; if this is relevant; and rating agency standards.

<u>Page 6 – Five Year Projected Budget Increases</u>
The Council was told by Mr. Milone that 10% has been the Town's standard for the last 8 or 9 years as part of the policy. The standard was to keep debt at or below 10%. In the 1990's the debt was +13% of the operating budget, and this has been declining over the years with paying of infrastructure improvements. Credit agencies will look at debt as a percentage of the operating budget. With the $106 million school the debt increase is12.42%; with $111 million school the debt increase is 13.29%.

Credit Agencies also look at the totality of the debt. They run models to determine if the gross debt amount, outstanding principle amount, as a percentage of the Town's equalized net grand list. The State does a fiscal indicators book, which is a good summary of the debt of other towns, and this information will be helpful. When the financial advisor looks at these numbers he can provide insight on where the Town starts to push the limits of its credit rating.   The advisor could review the information and give his opinion at the 2nd Council meeting in June.   The State puts out a good summary of municipalities. Mr. Milone said he would look at municipalities with AAA rating; the percentage of their debt of the total budget; and the total amount of the principle of the debt.

It was stated by Mr. Oris that revenue plays into all of this, and revenue could drop significantly.

Mr. Milone said staff looks at the taxing ability and taxing authority, and the Town has a strong tax base and growth potential and high tax collection rate. The concern of the agencies is the Town’s ability to pay and manage the debt by virtue of the tax base.

According to Mr.Ecke there will be break point, and the State has met this, and municipalities will meet it soon.

Cheshire could do nothing and still have its credit rating reduced, and Mr. Milone said this could happen. Credit agencies can start to re-local at municipal credit and this was discussed with the agencies in February. He noted Cheshire is very conservative with the borrowing at 4%, and it has been in the high 2% or low 3% ranges.

<u>Page 7 – Five Year Projected Budget Increases – No Revenue Growth</u>
Mr. Milone explained that three scenarios of revenues are introduced on the next few pages.   This page is “status quo” information without the school project. The non-tax revenue FY 2018 budget was used; no change is assumed through the next five years; but the grand list will grow, generating average revenue of $650,000 to $750,000 per year. This is not built into the scenarios; non-tax revenue is constant to balance the budget. Under each of the five years the expenditures are known based on the previous schedule.

Mr. Milone explained what is done…subtract the non-tax revenue from the total budget which tells the amount of revenue needed in taxes to balance the budget. The tax revenue needed is taken, divide by value of one mill ($2,718,498). The mill rate must be established in order to do the scenarios at the end to determine taxpayer impact.

Average tax payer – one house and two motor vehicles.   Annual increase to the average taxpayer, year to year is stated, and the cumulative dollar increase over five years.

<u>Status Quo Budget</u> – total additional tax burden is $3,830 over five years.
Average annual tax increase in each of the last five years has been 1.76%. This is holding taxes consistent without grand list growth.

Mr. Ecke pointed out that the losses from the State will out-stripe the Town’s grand list growth. So, there is no offset to the potential State cuts.

Scenario B - $106 million Middle School Project – debt service numbers change by the additional debt service; the mill rates change; mill rate increases; percentages and dollar amounts increase. For the average tax payer the cumulative total dollar increase over five years is $5,703.

Scenario C - $111 million Middle School Project – The cumulative total dollar increase over five years for the average taxpayer is $5,401; this project starts two years later than the $106 million project.

Mr. Jaskot explained that the second scenario is two separate bond issues, two years apart; the totals are correct; the cumulative increases do decrease in the second scenario (C) because this project would start two years later. These scenarios are all on the assumption of no loss of tax revenue.

Page 8 – Five Year Projected Budget Increases – Revenue loss of $2.5 million Status Quo Budget
Revenue is reduced by $2.5 million with more burden on the taxes needed to balance the budget; the mill rate increases; the cumulative total dollar increase over five years for the average taxpayer is $4,685.

Scenario B - $106 million Middle School Project – Revenue loss of $2.5 million
The cumulative total dollar tax increase, average taxpayer, would be $6,558; each year going forward shows a loss of $2.5 million.

Scenario C - $111 million Middle School Project – Revenue loss of $5 million
The cumulative total dollar tax increase, average taxpayer, would be $6,256; the project starts two years later than the $106 million project; each year going forward shows a loss of $5 million.

Mr. Oris stated there is not as big a difference from the $111 million to the $106 million school project, as he thought. There have been statements from the architects and others of a doomsday scenario by waiting a year to start the middle school project. He noted it is less than he thought.

With the loss of $5million of non-tax revenue, the following information was summarized.

Page 9 - Five Year Projected Budget Increases – Revenue loss of $5 million
There is no change in expenditures from the prior scenarios. What does change is the non-tax revenue going from today's number of $21,799,000 to $16,799,000. This drives up the amount of money to be generated in taxes to balance the budget; this is divided by one mill ($2.718 million); mill rates increase; and it shows what the average taxpayer would pay. The cumulative of the three scenarios is illustrated with the $5million loss.

<u>Status Quo Budget</u> - Revenue is reduced by $5 million with more burden on the taxes needed to balance the budget; the mill rate increases; the cumulative total dollar increase over five years for the average taxpayer is $5,540.

<u>Scenario B - $106 million Middle School Project – Revenue loss of $5 million</u>
The cumulative total dollar tax increase, average taxpayer, would be $7,413; each year going forward shows a loss of $5 million.

<u>Scenario C - $111 million Middle School Project – Revenue loss of $5 million</u>
The cumulative total dollar tax increase, average taxpayer, would be $7,111; the project starts two years later than the $106 million project; each year going forward shows a loss of $5 million.

Mr. Slocum commented on the Governor's projected cuts totaling $10 million in additional cuts. $7.5 million and $3.5 million for teacher retirement contribution.

The Town currently receives about $18 million from the State.

With the loss of $5million non-tax revenue, Mr. Milone said it is the worst of the worst because Scenario C is the most expensive of the proposals.

Mr. Oris asked about putting into perspective the "average taxpayer"…which is a home assessment of $232,000, and $18,000 for two motor vehicles assessment.

Mr. Milone advised this is about $332,000 in house market value and $24,000 in motor vehicle value.

With this information, Mr. Oris said someone living in the $332,000 house with two cars valued at $24,000, in FY 2023 on the status quo budget scenario would pay $1,851 more in home taxes.   With the school project of $106 million, this taxpayer would pay $2,400 in home taxes in one year.

Mr. Milone reviewed the information.   Mills are based on thousands of dollars in value; a mill rate of 36.7 is 3.67% of the value of the house; it is a percentage of the assessed value.

Mr. Oris stated this is disturbing to him, and he commented on people with higher home values and motor vehicle values will be even more severely impacted with taxes.   He also noted many senior citizens living on fixed incomes in homes valued at $332,000 would have +$2,000 in property taxes.

<u>Page 10 – No Revenue Growth; Status Quo Debt Service; No Middle School</u>
The scenarios show the projected mill rate increase; percentage mill rate increase; average taxpayer; large taxpayer; small taxpayer; average commercial property.

Columns reflect the market value; 70% assessed value house and two motor vehicles; taxes for FY 2018 to 2023.
FY 2018-2023 - Average Taxpayer - $1,425; Large Taxpayer - $4,209; Smaller Taxpayer - $914; Commercial Taxpayer - $4,818.

No Revenue Growth-$106 million Middle School.
FY 2018-2023: Average Taxpayer - $1,962; Large Taxpayer - $5,796; Smaller Taxpayer $1,259; Commercial Taxpayer - $6,634.

No Revenue Growth-$111 million Middle School.
FY 2018-2023: Average Taxpayer - $2,073; Large Taxpayer - $6,125; Smaller Taxpayer $1,330; Commercial Taxpayer - $7,011.

Page 11 – $2.5 million revenue loss; Status Quo Debt Service; No Middle School
The scenarios show the projected mill rate increase; percentage mill rate increase; average taxpayer; large taxpayer; small taxpayer; average commercial property. Columns reflect the market value; 70% assessed value house and two motor vehicles; taxes for FY 2018 to 2023.
FY 2018-2023 - Average Taxpayer - $1,425; Large Taxpayer - $4,209; Smaller Taxpayer - $914; Commercial Taxpayer - $4,818.

$2.5 million revenue loss - $106 million Middle School.
FY 2018-2023: Average Taxpayer - $2,176; Large Taxpayer - $6,427; Smaller Taxpayer $1,396; Commercial Taxpayer - $7,357.

$2.5 million revenue loss - $111 million Middle School.
FY 2018-2023: Average Taxpayer - $2,287; Large Taxpayer - $6,757; Smaller Taxpayer $1,467; Commercial Taxpayer - $7,735.

Page 12 - $5 million revenue loss; Status Quo Debt Service; No Middle School
The scenarios show the projected mill rate increase; percentage mill rate increase; average taxpayer; large taxpayer; small taxpayer; average commercial property. Columns reflect the market value; 70% assessed value house and two motor vehicles; taxes for FY 2018 to 2023.
FY 2018-2023 – Average Taxpayer - $1,853; Large Taxpayer -$5,473; Small Taxpayer - $1,188; Commercial Taxpayer - $6,265.

$5 million revenue loss - $106 million Middle School.
FY 2018-2023: Average Taxpayer - $2,390; Large Taxpayer - $7.059; Smaller Taxpayer $1,533; Commercial Taxpayer - $8,080.

$5 million revenue loss - $111 million Middle School.
FY 2018-2023: Average Taxpayer - $2,501; Large Taxpayer - $7,389; Smaller Taxpayer $1,605; Commercial Taxpayer - $8,458.

In the last five years the average mill rate increase has been 1.93%. The cited scenarios show a mill rate increase totaling 17.74% with the status quo budget. The cumulative percentage mill rate increase for the $106 million Middle School Project is about 20%; for the $111 million Middle School Project the increase is close to 25%. Over the last five years the total mill rate increase was 8.8%; the increase in taxes was 1.76%. This information gives a sense of how significant the tax increases will be.

Mr. Oris talked about the loss of $5 million non-tax revenue from the State, plus the $106 million expenditure for the middle school, and said the five year cumulative increase is $508,000. Without the schools project, and all staying the same, there is a cumulative tax increase of $468,000. Mr. Oris asked about the breaking point for grand list drivers, with businesses stating they will move to another town and save money. The assumption is the grand list stays the same; expectation is a higher mill rate; and companies will leave Cheshire.

While residents have a vote, Mr. Bowman pointed out that businesses in the community do not have a vote, and the tax impact to both small and large businesses will be devastating.

Mr. Ecke commented on a past Council meeting when the Fire Chief laid out the strong case for a paid Cheshire Fire Department, at a $5 million start-up cost. This may come forward within five years for a paid department.

With a status quo scenario, Mr. Milone said there is no reflection of a paid fire department. During the budget process, a “dooms day budget” was projected, and this will be laid out at the June 13th Council meeting.

Mr. Slocum said that was based on $3.5 million. With the school renovations the BOE will be looking at the same numbers.

It was stated by Mr. Oris that we are struggling with the financial situation of the Town, not just the BOE. He supports modernization of the schools, but is unsure how to do it now, with the unknowns and many questions. Mr. Oris commended Mr. Milone, Mr. Jaskot, and Ms. Talbot for the excellent job and detailed information provided to the Council for review and consideration. It will show the big picture to the taxpayers what the financial picture looks like.

At the June 13th Town Council meeting, Mr. Milone said recommended a presentation to the public on the last three pages of the information in the handout. Slides with the budget increase will be back up information, and people will see the meager budget growth over the last five years.

Ms. Nichols stated it must be made clear that this is only over five years.

It was suggested by Mr. Oris that the Council see the capital expenditures/savings not factored into the assumptions, year to year basis, as a result of the first phase of the school projects.

Mr. Bowman noted this is only the first part of the facilities plan, and it will escalate going out years.

Mr. Masciana said he will provide information, school by school, in the facilities plan to the Council. Mr. Masciana stated the trade-off for the plan is tax increases of $600 over 10 years, totaling $6,000. As a homeowner this is an investment of $6,000 over the 10 years to protect property value. Surrounding communities have refurbished their schools, and Mr. Masciana said Cheshire should not fall behind.

Many people understand the importance of the school system and modernization of our schools, but Mr. Oris said the Council is looking at a major impact on the taxpayers. The BOE has been looking at the facilities plan for two years, and the Council only received it a short time ago.

Council Chairman Oris thanked Mr. Milone, Mr. Jaskot and Ms. Talbot for the detailed information presented to the Council. He said the BOE should also have this type of analysis. The Middle School Project will be an item on the June 13th Council agenda.

4. ADJOURNMENT

MOTION by Mr. Bowman; seconded by Ms. Nichols

MOVED to adjourn the special meeting at 8:30 p.m.

VOTE The motion passed unanimously by those present.

Attest:

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Marilyn W. Milton, Clerk