

CITY OF MILFORD
Minutes of Finance & Public Works Committee Meeting
November 9, 2020

The City of Milford Finance and Public Works Committee met by way of video conferencing on November 9, 2020.

PRESIDING: Chairman Jason James

IN ATTENDANCE: Mayor Arthur Campbell

Committee/Councilmembers Daniel Marabello, Brian Baer and Douglas Morrow

City Manager Mark Whitfield, Director of Public Works Rob Pierce, Director of Finance Lou Vitola and City Clerk Terri Hudson

In an effort to adhere to social distancing protocols and best practices imposed by Governor John Carney's State of Emergency Declaration effective March 13, 2020, the City of Milford has canceled all public gatherings until further notice. See November 9, 2020 Committee Meeting agenda for additional information.

CALL TO ORDER

Chairman James called the Committee Meeting to order at 5:35 p.m.

The Chairman asked that the Finance and Public Works Committee meetings continue as scheduled. If not needed, it can be canceled. He also encouraged members with suggestions for future agendas to please inform him and he will work with the City Clerk and City Manager.

NEW BUSINESS

Monthly Finance Report

Finance Director Lou Vitola started by discussing the financial report. As shown on page one, the cash balances continue to be strong and stable with documented disbursements. Mr. Vitola explained that all expenses were budgeted as expected, and receipts of impact fees and other development-related fees are higher than expected. He then shared that the general reserve fund is down to \$300,000.00, which has been consistent over the last couple of months. The Municipal Street Aid fund was previously discussed.

As far as revenues, the City is well ahead of the localized budgeted amounts. As he stated last month, Mr. Vitola explained that the positive variance is skewed by the substantial property tax receipts and other cash-related items collected early each year. Even if adjusted, it still looks good from a revenue standpoint. It appears that we are ahead of where we would expect to be through the first quarter of the year.

For expense budgets, including the inner service department expenditures, all expenses have been well controlled through the first quarter of the year. There should be no significant surprises heading into October and beyond.

Chairman James wanted to share with the other finance committee members that Mr. Vitola is working on reformatting data for future use. The Chairman explained that this might not happen until the new system is in place. It would allow everyone to see the prior years along with the variances. It would also show the difference in revenues over expenses for the enterprise funds, versus having to piece them together as is currently done. Mr. Vitola agreed and would like to make those changes as soon as possible. He also explained that the electric fund margins are most interesting. For instance, the electric fund needs to produce a positive margin to support the two and half-million-dollar transfer to the general fund.

Councilman Marabello asked why the significant increase in the net total of \$49 million; the Finance Director stated that it was mainly due to the property tax receipts. He further explained that September is the bulk of when the cash comes in

and is reflected in the operating cash totals. Mr. Vitola further explained that the property tax bills are generated in August and the bills are due in September which is when most of the revenue comes in.

Chairman James commended Mr. Vitola for adding the footnotes at the bottom of the pages that are beneficial for other members.

Capital Improvements Projects Update

Mr. Vitola stated that capital Improvements projects is not a financial update and will be addressed in January. City Manager Whitfield agreed that Public Works will provide an update status of several ongoing projects.

City Engineer Puddicombe provided an update on the Southwest Second Street project which is near completion. He said the project included some sidewalks along the parks and recreation property to connect with. This is part of Planning Director Pierce's pedestrian and bike plan that has been discussed. The additional sidewalks should be installed within the next two weeks. DelDOT has the paving on their schedule this summer and will include ADA transitioning ramps.

The next project is the 10th Street project and a well test is scheduled for tomorrow. They hope to have it ready for the next Council meeting.

The Front Street water line project is currently out to bid. This was pushed back a week because of an issue with DelDOT. There was a misunderstanding about the road paving so an addendum was issued that created a week-long delay. This should put the project on schedule for the November 23rd Council meeting with a final bid to complete the waterlines on Front Street.

The replacement of lead service lines continues. The City Engineer is currently working with KCI on the 2020 street utilities and street design. They were provided with a map of areas that contain asbestos cement and possible lead services. It is being coordinated to run concurrently with the street projects as we move forward.

The design portion for the Mill Street project, which is a grant-funded project, has been completed. He added that Mr. Vitola should be seeing a final bill from KCI in the next couple weeks, after which reimbursement will be sought. The plan is to do a lot of the sewer alignment as part of the 2020 Street Project since Mill Street is being repaved.

Mayor Campbell asked if there was any money received from any legislators for the Second Street project; City Engineer Puddicombe stated none that he is aware of. There were funds received for Lovers Lane and some other projects throughout the City. City Manager Whitfield added that is the DelDOT paving project that includes the handicapped ramps.

Chairman James asked the committee to look at the department budget and determine if any work needs to be considered but not included in the budget. He also asked them to look at any potential asks that may come up so that Council is prepared.

Councilman Baer asked if there was any status on the Mispillion Street project and the City parking lots projects. The City Engineer stated that the parking lots are individual projects; however, a chunk of those have been put on hold temporarily. They were pushed out a year in expectation of lower funding coming in throughout this year. There was a pre-construction meeting for the Mispillion Street project where some concern was expressed about opening up the road and having to leave it as gravel for the winter. A timeline for construction has been requested from the contractor with the hope to have it completed prior to winter.

Police Department Bond Referendum

Finance Director Vitola has been in discussions with our public finance advisors and bond council about funding options for the police facility.

The first authorizing resolution was approved October 12th and the second is slated for approval at the December 12th Council meeting. A Public Hearing is also scheduled in mid-December. They will be working on a preliminary statement in preparation for a public debt offering, which is just one of several funding options. Mr. Vitola stated that he is in discussions with several banks to get information on several options available.

Work has been completed with the Chief and his staff to have Becker Morgan Group refine some of the assumptions and consider the committee's comparables. At this time, Mr. Vitola wanted to inform the committee of the status as well as the various financing options. At this time, nothing can be finalized though work is being completed on the scope and costs of the project.

Mayor Campbell asked if private or public borrowing is a better option from an interest standpoint. Mr. Vitola stated that usually a public debt issuance is going to result in a better interest rate. He added that the private sale to a local bank can be advantageous depending on the issuance amount.

A discussion was then held about the different options for financing along with the period of time paying the loan back. Chairman James explained that it could be risky considering taxpayers' dollars are being used and right now, rates are at rock bottom and he assumes they will only increase. Mr. Vitola agreed that interest rates are at historic lows again and agrees that most likely they will rise.

Councilman Marabello asked about USDA and what the 30-year program looked like. Mr. Vitola stated that if requested, we could go 30 years but they also considered 40 years because of lower payments. As long as the expected useful life of the underlying asset has that line of life, which the building does, the 40 years can be used with USDA. With a fixed rate, it is expected the rate would be in the high 2% range. There would be more interest paid over 40 years but it would be a smaller payment each year which is more beneficial to the taxpayers.

Mayor Campbell asked what the difference would be on the interest and payment for the 30 versus the 40-year loan. Mr. Vitola explained that it would depend on the principal amount and interest rate.

Public Works Director Mike Svaby asked if has been considered to refinance all of the debt. Mr. Vitola said that was considered for a non-USDA loan. However, it does not make sense to add any of the USDA items that have grants attached to them. If the issue is bank qualified, we are capped at \$10 million in 2021 and \$10 million in 2022, which could create a timing issue.

Chairman James shared for informational purposes, some figures based on an estimated loan amount and interest rate. After a discussion of potential payment amounts, Mr. Vitola shared that the fear of going 40 years rather than 30 years and the possibility of overpaying interest. Even though the taxpayers get a break by paying less per year in debt service, the City would end up paying much more in interest over the 40-year life.

Mayor Campbell asked what the tax rate would equate to in reference to the 46 cents per hundred that is being paid now; Director Vitola stated that it would be about 54 cents, so, about eight cents is needed to cover the USDA debt service. He added that it would be about 11 cents to cover the debt service at 30 years at 3% and about a 17.4% increase for the taxpayers. Mr. Vitola shared that could be mitigated with smaller borrowing or based on cost efficiencies with the building.

Councilman Marabello asked what was the average assessment for a home in Milford right now. Mr. Vitola stated around \$137,000. Councilman Marabello felt that on a new home it would be around \$200,000 would mean a \$150 increase in taxes. He felt it may be a viable solution to do it this in phases to ease the tax impact by finding other funding in reserves.

Chairman James felt that we should be careful when discussing the enterprise funds. He pointed out that we are still dealing with the cost of study and a rate increase except for the electric fund. He encouraged the committee to be smart about the finance options. Councilman Marabello stated that he agreed, though we do not want the public to vote against the borrowing and put us back at square one. Councilman James agrees but feels that taking money out of a reserve with an

increase in rates could be problematic and a better reason not to vote in favor it. As shared earlier, the general fund is down to \$270,000 so any reserves would come from the utility accounts.

Mr. Vitola stated that interim financing may be considered and that the debt would have to be issued in 2022 rather than 2021. He said there are always certain costs associated with a bond issuance that you can repay yourself. These costs include architectural, engineering, and legal fees. If Council passed an intent to reimburse resolution, we could spend some of our own cash reserves and then pay ourselves back. He explained that it is a way to use your own financing or short-term commercial bank financing. Chairman James pointed out that would allow the tax increase to smooth out over a longer period of time.

A discussion followed about potential interest and principal figures based on various funding options and the impact to taxpayers. Mr. Vitola reminded the committee that interest rates change often and there is a need to seriously consider what is actually being financed.

Audit Update

Mr. Vitola shared with the committee that the 2020 audit is moving slower than anticipated though not created by staff or the audit team. There is a balanced budget, but the caution is related to the end of the three years of funding from the reserve accounts for the five additional officers approved three years ago. There are also some issues with the structural balance in the general fund. There have been great strides in the water, sewer, and electric funds achieving balances and setting rates properly. All operating expenditures are being covered by the ratepayers but the same thing is not being done on the general fund side through taxpayers. There has not been a tax rate increase in 13 years and the growth related to the parcel counts leveled off during the years of 2004 through 2020.

Mr. Vitola pointed out that because the new police facility already requires a tax increase, he will try to be as moderate as possible with funding the five officers from property taxes. At this time, there is a deficit of \$334,000 that will be carried forward to 2021. The fourth year of the five officers is not funded and will have a full year of impact as a result. The plan would be to try to reverse those funds so that we can start to prevent the huge ask that is needed. Mr. Vitola emphasized that a tax increase is already needed based on the items already approved.. Chairman James pointed out that this has accumulated and gotten worse over time because it was never addressed. It will only get worse if that continues and does not include anything new that will be requested.

Councilman Marabello pointed out that if the taxes had been raised only a penny per year, the City would be in a better situation today. He asked that this information be presented rationally and clearly so the public understands the situation.

ADJOURNMENT

There being no further questions, Chairman James adjourned the Finance and Public Works Committee meeting at 7:01 p.m.

Respectfully submitted,

Tracy N. Torbert
Transcriptionist