

MILFORD CITY COUNCIL
MINUTES OF 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 with the normally-scheduled date though if not needed, they 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 to schedule meetings.

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 all disbursements were documented. 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 the last couple of months. The Municipal Street Aid fund has all been spoken for of what is to be expected and collected.

As far as revenues, the City is well ahead of the localized budgeted amounts. Mr. Vitola further explained that as he stated last month, the positive variance is really skewed by the strong property tax receipts and other cash related items that are collected early each year. However, even if they are 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 are being controlled well through the first quarter of the year. He does not anticipate any real major surprises heading into October and beyond.

Mr. Vitola asked for any questions on any of the line items. Chairman James stated that he wanted to share with the other finance committee members that Mr. Vitola is working on reformatting the information for future use. The Chairman explained that this may not be able to happen until a new system is put into 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 each of the enterprise funds, instead of having to piece them together in the way it is currently being done. Mr. Vitola explained that he agreed and would like to make those changes as soon as possible. He also explained that the electric fund is what is most interesting with margins. For instance, the electric fund needs to produce a positive margin in order to support the two and half million-dollar transfer to the general fund.

Councilman Marabello asked the reason for the significant increase in the net grand total on page one in the amount of \$49 million; the Finance Director stated that was mostly due to the property tax receipts. He further explained that September

is the bulk of when the cash comes in as 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.

Mr. Vitola asked for any additional questions. Chairman James commended Mr. Vitola for adding the footnotes at the bottom of the pages which he believes are greatly beneficial for other members.

Capital Improvements Projects Update

Mr. Vitola stated that the next item, capital Improvements projects update, is not a financial update and will come in January. City Manager Whitfield stated that it was discussed for Public Works to provide an update of where the City was in 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 sidewalk should be going in within the next two weeks. He added that DelDOT has this on their schedule for this coming summer to be paved and to include ADA transitioning ramps.

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

The Front Street water line project is currently out to bid. This has been pushed back a week because of an issue with DelDOT. There was a misunderstanding about paving of the road so an addendum was issued to delay it by one week. 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 is ongoing. The City Engineer is currently working with KCI on the 2020 street utilities and street design. They have been provided a map of some areas that contain asbestos cement and potential lead services. Those services are being coordinated to go along 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 that none were received that he was aware of. There were funds received for Lovers Lane and some other projects throughout the City. City Manager Whitfield explained that will be the paving will be a DelDOT project along with the handicapped ramps.

Chairman James asked the committee to look at the department budget and determine if there is any work that needs to be done that was not included in the budget. He also asked them to look at any potential asks that may come up so that Council can be 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 their own 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. For the Mispillion Street project, they have had a pre-construction meeting and expressed some concern 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 it be 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 and they will be working on a preliminary official statement preparation for a public debt offering, which is just one of several of the funding options. Mr. Vitola stated that he is in discussions with several banks to get information on the different options available.

Work has been completed with the Chief and his staff to have Becker Morgan Group refine some of the assumptions and to consider some of the comparables shared with the committee. At this time, Mr. Vitola wanted to inform the committee of the status of where we currently are and as well as the various financing options. At this time, nothing is able to be finalized; work is being completed on the scope and cost of the project.

Mayor Campbell asked if private or public was 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 issue amount. A discussion was then held about the different options that could be completed 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 assuming they will only increase. Mr. Vitola agreed that interest rates are at historic lows again; however, it is unknown but likely that the interest rates 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 it can also be extended to a 40-year term. 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 believed the rate would be in the high 2% range which is great. There would be more interest paid over 40 years but it would be a smaller payment each year which would be beneficial to the taxpayers. Councilman Marabello expressed some concerns about the increase in property tax rates based on the information that was previously provided. Mr. Vitola stated that was true, but being able to spread the police facility over 40 years rather than 30 years could be an advantage. It was explained that if a USDA 40-year loan can be completed, it would be the smallest impact to the taxpayers. Councilman Marabello asked if this was a facility-type of loan from USDA and Mr. Vitola stated yes. Councilman Marabello asked about possible grants, and Mr. Vitola stated there may be some grants but not likely.

Mayor Campbell asked what the difference would be on the interest and payment for the 30 versus 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. He added that 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 and 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 for taxes based on the estimated figures discussed. Mr. 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%. It could also be 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 which 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 the 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 with the exception of the electric fund. He encouraged the committee to be smart about the finance options. Councilman Marabello stated that he agreed, however, we do not want the public to turn it down and we are back to square one. Councilman James agrees but feels that taking money out of a reserve with an increase in rates could be a problem 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 one of our utility accounts.

Mr. Vitola stated that there may be interim financing that could be completed. He added 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 was then held about potential figures for interest and principal based on various funding options and how it would affect taxpayers. Mr. Vitola reminded the committee that interest rates change often and you have to look at your needs that are being financed.

Audit Update

Mr. Vitola shared with the committee that the 2020 audit is moving slower than anticipated. He added that it is not an issue of staff or the audit team. There is a balanced budget, but the caution comes because we are at the end of the three years of the funding the five additional police officers out of reserve funds. 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 balance and setting rates properly. Therefore, all operating expenditures are being covered by the ratepayers but the same thing is not being done on the general fund side through our 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. At this time, there is a deficit of \$334,000 that is already carrying forward to 2021. The fourth year of the additional officers are not funded and there will be a full year of impact. The plan would be to try to reverse those funds so that we can start to rebuild to prevent such a huge ask. Mr. Vitola commented that when looking at the current figures, a tax increase will be needed based on the items that have already been approved. Chairman James pointed out that this has accumulated and gotten worse over time because nothing was done. It will only get worse if that continues.

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 added that this information needs to be presented rationally and clearly to the public.

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

