

WORK SESSION OF AUGUST 12, 2014

Mayor Cosgrove called the meeting to order at 7:30 p.m.

PRESENT: Mayor Cosgrove, Deputy Mayors Dunay and Lefkowitz, Councilmembers Peluso and Swain.

ALSO PRESENT: Manager Van Kruiningen, Municipal Clerk/Deputy Manager Kwasniewski and CFO Palermo.

LONG TERM FINANCIAL PLANNING

Manager Van Kruiningen stated that he and CFO Palermo will discuss the capital budgeting layout for the next five years, including infrastructure, facilities and long term debt. CFO Palermo will also discuss projected analysis of their capital debt and their water capital debt. He distributed handouts to the Council.

He and CFO Palermo looked at what Departments had included in their budget for future capital items and sat with Engineer Garrison on multiple occasions to discuss infrastructure, capital infrastructure upgrades and Borough facilities and buildings.

He did an analysis from 2015 through 2019, broken down by individual departments. He noted what the Departments already had in their budgets as well as items included after his discussions with Engineer Garrison. He is putting in placeholders for future consideration and discussion.

He discussed matching funds for Open Space projects that fall under Historical Preservation and Municipal Park Open Space Improvements grants. He advised the Council of his intent to apply for the first phase of rehabilitation of the Naugle House, which will require \$117,000 in matching funds. The price will continue to rise with the next two phases. They need to think about what they intend to do with the Naugle House upon conclusion of the construction and rehabilitation phases. By the time they are done with the rehabilitation process they will be into the project for over \$2.5 million dollars. They must also maintain the three acres of land owned by the Borough to prevent the bamboo from running wild.

Deputy Mayor Dunay asked about the costs for the Naugle House. Manager Van Kruiningen stated that in 2015 they will need \$115,000 to \$120,000 to match the grant for the first phase of rehabilitation. The second phase increases to \$250,000 to \$270,000 and the final phase is \$300,000. These costs are specific to

only the Naugle House and do not include the funds they have historically used for parks and open space areas. The 2015 application deadline is October 31st.

The \$710,000 listed under the Fire Department is for the replacement of an engine that has been requested for the last two years, which has been pushed into 2015, as well as a Chief's vehicle. They are scheduled to replace a support vehicle and chief's vehicle for Fire Company #1 in the 2016 Capital budget and replace another chief's vehicle in 2017. This four year cycle replaces four chief's vehicles, which will then not be replaced for eight years.

The expense in Fire Prevention is for a fuel efficient vehicle to replace a used Police car currently used by Fire Prevention staff. The new vehicle should last 10 to 15 years. There are two old Police cars in Fire Prevention that will be replaced in 2015 and 2017.

The Animal Control Response Vehicle is due for replacement. Councilmember Swain asked why the van cost \$70,000. Manager Van Kruiningen explained they are required to have a specific design and layout for animal control, including stainless steel cages. There must also be a barrier to keep the driver away from sick animals.

The \$30,000 Memorial Pool line item is for a consultant. The following year there would be full scale architectural plans with conceptual drawings. He included Engineer Garrison's "guesstimate" of \$1.8 million to build a permanent facility in 2017 with a bathhouse, administrative office, new restrooms and refreshment stand and do some minor structural repairs to the pool. The cost could increase to \$3 million depending on what plan they used.

They had budgeted \$600,000 this year for roadway improvements but had to increase it to \$900,000 because of the extremely harsh winter. Engineer Garrison advised him that the \$1.2 million mark will only allow them to pave three to three and a half miles of roadway, because each time they pave they must re-evaluate each ramp and intersection to ensure that it meets current ADA codes. If not, the ramp must be removed and reinstalled at an additional cost. There are 81.46 miles of roadway in the Borough.

Deputy Mayor Dunay stated that if they wanted to repave on a 20 year cycle, they would have to pave 4 miles per year at a cost of \$1.2 million to \$1.5 million annually. Mayor Cosgrove pointed out that they have been able to obtain funding from the County which has been put towards these costs. Manager Van Kruiningen stressed that they needed to be prepared in case the funding dries up.

CFO Palermo indicated that road repaving has always been dollar based. They have done \$400,000 worth of paving each year for the last three years. Deputy Mayor Dunay stated that \$400,000 may have been adequate years ago but not any longer. Manager Van Kruijning noted that the roads took a beating because of the harsh winter. There were also water main breaks that did serious damage to Plaza Roads and other roads.

The Water Department needs to replace a vehicle. They will be updating their current facilities and wells. They are moving towards replacing current water meters with digital meters, starting with their largest commercial and industrial customers and working down to residential customers. The digital meters are amazingly accurate.

Although everything is subject to change, he wanted to give them an idea of what they are looking at in 2015 and beyond.

Deputy Mayor Dunay asked for the total amount of the capital budgets approved for 2014. CFO Palermo thought the amount was \$3.2 million. Deputy Mayor Dunay stated that based on this, there is a considerable anticipated increase over the next five years. Manager Van Kruijning confirmed that is the case if they continue operating the same way. Manager Van Kruijning stated that the projections are essentially the minimum needed to maintain their current activity level.

Deputy Mayor Dunay recognized that the largest item is roadway improvements. It would be helpful to understand where the money is going within the various categories for larger departments such as DPW and Police. Manager Van Kruijning stated that his intent tonight was to provide an overview rather than discuss specifics. CFO Palermo stated that the large increase in 2015 is because of road improvements and the purchase of the fire truck, ambulance and DPW vehicles.

CFO Palermo distributed an analysis of the Capital Debt for the current year and a projection for the next five years. They have \$32,101,248 in outstanding bonds. They have \$7,300,000 in BANS, which are one year renewable short term financing. The projected interest for the next ten years is \$1.2 million based on an interest rate of 3%. She set up the debt structure on a ten year cycle, which is the minimum amount. If they go with notes the interest could be less than 3%, but if they use long term financing and turn it over to bonds it could be more.

They have \$5.8 million of unfunded projects. She only finances projects when they are completed. She and Manager Van Kruijning review the unfunded projects every year. The interest for ten years at 3% amounts to \$957,000, bringing their total debt to \$47,386,000. She subtracted their current debt

payments of \$3.8 million for a total of \$43,581,000. She added in the new capital projects of \$4,292,000, which is the amount that will be incurred if they proceed on this capital project schedule. She anticipates a \$5 million debt payment in 2015.

Deputy Mayor Dunay clarified \$1.2 million of incremental debt service will have to be funded next year regardless of future capital spending needs. (They will need to find \$1 million plus somewhere else in the budget to pay this increase, and if they want to invest more in infrastructure it will increase the amount even more. They need to find ways to economize to help reduce the \$1 million increase and get them closer to what has been spent in the past.)

He felt they should have a separate conversation to learn about BANS versus bonds and the benefits and risks of different financing structures. It is all about optimizing their interest rate versus stability of their structure to make sure they are not in a risky position of having to pay off lots of debt.

Mayor Cosgrove stated they needed to come up with a plan to review this and learn more about BANS. They need to see what can be done to keep the debt down.

Councilmember Swain stated that she would like to know other options for financing their debt and what they are allowed to do so they can see ways to save money. CFO Palermo stated that they could do bonds or BANS. Deputy Mayor Dunay asked if the Bond Counsel can come do a presentation on the full range of options and what the different tradeoffs were. CFO Palermo stated that she broke out the projected interest so the Council could see those numbers. Once they decide what they are going to do they can look at financing options.

There was consensus to have Manager Van Kruiningen and CFO Palermo confer with the Bond Counsel to see if they could look at this for them.

Municipal Clerk/Deputy Manager Kwasniewski asked when they wanted the Bond Counsel to do a presentation. Mayor Cosgrove suggested having the Bond Counsel meet with the Manager and CFO and prepare a report first. Once the report is complete the Council could meet with the Bond Council if necessary.

Deputy Mayor Dunay noted the annual budget requirements stabilize in the \$5 million area through 2018 but jump to \$5.6 million in 2019. He asked if the amount continued to increase every year or did it stabilize. CFO Palermo stated that if the capital plan continues to escalate. Deputy Mayor Dunay asked if they pursued the plan and capital spending elevates to \$5 million per year,

would the annual debt service plateau at \$5.6 million or \$6 million. He worried that if they follow this spending plan for the next several years, in 2020 they could jump up another \$500,000. CFO Palermo stated that they could structure the debt so that it stayed at an even \$5 million. That is an option they could use if they were to stick with these plans. She straight-lined ten years, but they can do a debt structure so that it would remain consistently at \$5 million and they wouldn't have the \$500,000 spike between 2016 and 2017.

Deputy Mayor Dunay stated the Council needs to decide whether this capital plan is satisfactory. If there are other things the town needs that are not in this plan, then they must think about constructively making ends meet. He is seeing an incremental increase of \$1 million a year on debt service on status quo capital projects, which means they must tighten their belts on the operational budget to make it work. Manager Van Kruijning stressed that this was not about looking at just next year but rather the next five years and beyond.

CFO Palermo stated the Water Utility has an existing debt of \$1.9 million and there are BANS for \$2.2 million, which includes the water tower. The projected interest is \$347,000 over ten years, making their total Water debt \$6.7 million. She added in the new projects for 2015 and included a first time payment towards the 2014 debt in the amount of \$886,000 to bring their total debt to \$6.2 million in 2016. There are huge increases in debt payment.

Deputy Mayor Dunay asked if they were running a surplus in water utility. CFO Palermo stated they were. Deputy Mayor Dunay asked if that meant they needed to increase water rates. CFO Palermo stated that debt increases are excluded from the Cap calculation; however, there is going to have to be a rate increase.

Deputy Mayor Dunay asked the amount of surplus. CFO Palermo did not recall but thought it was \$500,000. Deputy Mayor Dunay stated that based on the schedule they were reviewing, they would not have a real problem until 2017 or 2018. CFO Palermo stated that she ran a surplus because she cancelled water purchases that were unnecessary. If there are deficits in the water they cannot use any surplus so the account must be watched carefully.

They haven't increased water rates since 2009 - it is something they must look at. Municipal Clerk/Deputy Manager Kwasniewski reminded them of what has happened in the past when they have implemented a big increase. Manager Van Kruijning stated that he was looking at a tiered, structured fee increase across the board. Deputy Mayor Dunay stated that if they know they are going to be in a position with the water utilities running a deficit based on their capital spending, they have to make sure they are not in a deficit position in five years.

CFO Palermo felt they needed to focus on the capital projects but they need the Council's input.

Mayor Cosgrove reiterated that CFO Palermo and Manager Van Kruiningen will meet with the Bond Counsel to discuss their debt and bring back a report to the Council. If necessary, they will have the Bond Counsel come and make a presentation. Councilmember Swain asked how they would look for ways to economize or improve the budget. She wondered if they should have a Finance Committee. Manager Van Kruiningen stated that this was an overall picture but it was only one piece. There are six or seven other items that will also require attention.

CFO Palermo asked for clarification regarding the meeting with the Bond Counsel. Deputy Mayor Dunay felt they needed advice and a tutorial on financing bonds versus BANS, etc. Manager Van Kruiningen felt it would be more productive for the Bond Counsel to meet directly with the Council.

Deputy Mayor Lefkowitz realized they had to make some strong decisions, but in order to be creative they needed guidance from the Manager and CFO Palermo. Deputy Mayor Dunay agreed. It would be extremely helpful to understand which items they can economize on and which they can pull. He felt they should compile a wish list of what they would like to do for the community so they can begin to think about what is possible and what is not. He reiterated the importance of a tutorial in the financing structure.

MICELLANEOUS PUBLIC COMMENTS

There were no comments from the public.

ADJOURNMENT

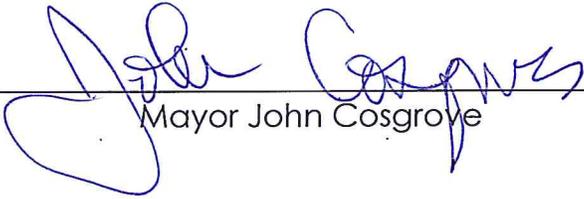
Upon motion by Councilmember Peluso and a second by Councilmember Swain, the Work Session was adjourned at 8:30 p.m.

Respectfully submitted,



Joanne M. Kwasniewski, RMC/MMC
Municipal Clerk/Deputy Manager

The undersigned have read and approve the foregoing minutes.



Mayor John Cosgrove



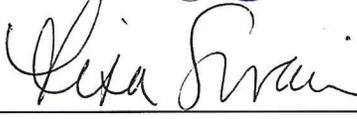
Deputy Mayor Daniel Dunay



Deputy Mayor Amy E. Lefkowitz



Councilmember Kurt Peluso



Councilmember Lisa Swain

