

COMMON COUNCIL MEETING with MUNICIPAL SOLUTIONS

Tuesday, April 25, 2017 – 5:30 p.m.

Council Chambers – Olean Municipal Building

Present: Aldermen Gonzalez, Witte, Andreano, Crawford, and Smith. Others: Mayor William Aiello; Fred Saradin, City Auditor; Jeff Rowley, Police Chief; Tiffany Taylor, Managerial Confidential Administrative Secretary; Mary Chappell, Municipal Solutions, and Jeff Smith, Municipal Solutions.

BAN renewal / Bond conversion

Ms. Chappell began by providing a handout to the Council and explaining that the main reason for this discussion is to determine what to do with the current \$8.299 million in funding that we have in the form of Bond Anticipation Notes (BANs). She stated that we have choices as to how we want to proceed regarding these BANs. We have the option of renewing the BANs on all of the borrowing items, with a potential conversion to a Bond next year when the Recreation Center project is complete, or we can convert all of the BANs to a Bond this year with the exception of the Recreation Center, which can be converted to a Bond when the project is finished. She mentioned that we will also need to increase the amount borrowed on the Recreation Center in order to cover the funding that we will not get back from grants until the project is finished and reimbursed.

Mr. Smith stated that he recommends renewing the BANs for one more year, and then when the Recreation Center is done, converting all of the funding to Bonds when we know the final numbers for borrowing. He stated that the BANs are around 2%, with the Bond interest rates falling around 3.25%. He stated that we would initially see a savings on the borrowing.

Alderman Crawford questioned what happens if we put off the borrowing for a year, and interest rates rise. Mr. Smith responded that interestingly enough, with the treasury market, the municipal bond rates are going down despite interest rates going up. He stated that with the \$35,000 estimated issuance fees for a Bond, it would be easier to do one Bond issuance versus two. He stated that with the BAN renewals, another principal payment is made, so the amount being bonded will be less.

Alderman Crawford stated that when he looked back to a report produced in 2015, he saw that the same discussion was had with the Council, but that the BAN rates were around .85% while the Bond rates were around 2%. At that time we waited because costs were low, but it appears that they have increased since then. Mr. Smith replied that the rates were lower at that time because the terms were shorter, and with all other types of funding, a shorter term equals a lower interest rate.

Alderman Gonzalez asked for a confirmation that the payback time on a Bond is based upon the usable life of a project, and Mr. Smith confirmed that it is. He stated that if the Council looks through the information provided, they will see that each project has its own amortization schedule based on its usable life.

Alderman Andreano commented that she feels that, by renewing the BANs, that we are simply taking out more credit cards to pay back the old ones because interest is low. Mr. Smith stated that this is not the case, as a principal payment is made even with a BAN renewal so we are paying down the amount that needs to be financed for the Bond. He stated that, if we would like, we can use the savings on the interest if we renew the BANs to make additional principal payments on the Bond.

Alderman Andreano questioned what is done with the money that is leftover or not used on a project, and Ms. Chappell stated that the money that is not used is paid back on the principal and will reduce the amount that is bonded when projects are complete. Mr. Smith stated that the IRS is very closely watching the budgets on projects that are borrowed for, in order to prevent arbitrage. He stated that this is a part of what got the City into trouble when deficit financing took place, as money that was to be used for Capital Projects was actually transferred to the operating budget. This is not allowed.

Alderman Andreano questioned the differences in cost between the BAN and Bond issuances. Mr. Smith stated that Bonds are more expensive to issue, as it requires more work with both Municipal Solutions and the bond counsel. There are also additional built in costs such as Moody's rating fee.

Alderman Crawford recommended, perhaps, Bonding for everything at this point with the exception of the Recreation Center, and then continue to BAN for the Recreation Center for up to five years with the possibility of combining the funding into a Bond with other items that are borrowed for in the future. Alderman Andreano agreed that we should stop BAN renewals and Bond now for everything with the exception of the Recreation Center.

Alderman Smith questioned what the representatives from Municipal Solutions recommended, and Ms. Chappell responded that she feels that we should renew the BANs now, and convert to a Bond when the Recreation Center is done. She stated that the Council does not need to make a decision tonight, and Mr. Smith stated that they could provide a summary for the Council to aid in making a decision.

EFC Financing – Sewage Treatment Plant

Ms. Chappell stated that the Sewer Treatment Plant project is almost finished, and after a discussion with the Environmental Facilities Corporation (EFC), it has been found that we do not

intend to spend all of the money that has been loaned to us. She stated that the grant portion of funding will be used first, followed by the \$20 million in interest free EFC financing, with the remainder of the financing to be used last. She stated that as of the last update, we have used \$18,233.21.

Alderman Crawford questioned when the estimated completion of the project is, and Mayor Aiello stated that it should be completed this summer. Ms. Chappell stated that, for EFC purposes, the estimated completion is October. At the present moment, the project is going smoothly and there are no issues.

She continued in stating that once the loan closes, estimated on 11/02/2017, there will be annual principal payments on 2/1 and interest payments (if any) on 2/1 and 8/1. She stated that we may run into an issue as EFC will stop payments in September until after the loan closing, so we will either need to halt construction, if it is still ongoing, during those weeks. Otherwise, we can inform the contractor of the issue and see if we can delay payment, or front the money out of other City funds and replenish the monies when EFC reimburses us after the closing.

She continued in stating that the EFC allows us to pay back the funding in a term of up to 29 years, which is what we have elected. They have requested all of the City's Intermunicipal Agreements in terms of sewer usage, and upon review, the EFC is concerned with some of the end dates on the agreements. Because of the end dates of some of the agreements, EFC wants to limit the end date of payments to 2033, which is a significantly shorter amount of time than the original projected 2047. She stated that Mr. DiCerbo is currently working on getting these agreements extended in order to satisfy the EFC's request. Mayor Aiello added that Mr. DiCerbo is attempting to contact the attorney from each municipality to make arrangements. For some time, we have been interested in combining all of the agreements into one and creating one district, but we haven't been successful thus far.

Alderman Gonzalez stated that he assumes that the extension of the agreements is a negotiation process, and questioned if the EFC request puts us in a weak situation. Mr. Smith replied that our attempts are only to extend the current agreements, and then possibly renegotiate terms down the road. EFC would be happy with a simple extension of the expiration date of the agreements. Ms. Chappell stated that we are stuck between a rock and a hard place. The EFC had reviewed the agreements some time ago and expressed the same concern, but it fell through the cracks. They were under the assumption that we were working on this.

Alderman Crawford questioned when we need to have these extensions done by, and Ms. Chappell stated that we can try to work with EFC, but right now they are telling us by September 1st.

Deficit Financing

Mr. Smith stated that we anticipate paying off our deficit financing on August 1, 2018. He reviewed the Comptroller's office concerns from their most recent audit. He stated that they recommend that our Contingency line be at 5% of the budget. He stated that we could use a more realistic amount, and if we need additional funds we can take them from the Fund Balance, if that is at a healthy amount. He stated that while we rebuild post-deficit financing, a contingency of 2.5-3% makes sense.

He continued in stating that we should be carrying at least 20% of the prior year's operating balance in our Fund Balance. Our goal is to work towards this amount, as it is not something that can be done overnight. We want to ensure that our revenues are greater than our expenditures.

He stated that over the next couple of years, he recommends working on a five year budgeting plan, or at least a three year plan to get started. We could also project ripples through the next four years prior to adopting a budget, or adopt a formal Fund Balance policy that works to show how we will obtain a greater Fund Balance through the next three to four years. He stated that the best run schools and towns have a five year plan.

For a municipality to survive, he continued, they need to increase revenue in some way, shape, or form, with logic behind the increase. For example, rate studies for the meters used for intermunicipal agreements ensure that meters are reading properly and we can use the information to determine what rates should be and justify why. We also need to find out where our facilities are on decay curves to determine what needs to be replaced, and when.

He stated that he feels that municipalities are borrowing for things that they should be paying cash for, because of the tax cap. He stated that there will come a time when we may need to have the discussion to break the tax cap, and if we have a five year budget plan, we can justify breaking the cap and have enough room to carry us for several years before we need to break it again.

In closing, Ms. Chappell stated that prior to the next year's budget discussions, she would like to get together with the Council to discuss their options moving forward.