GLASTONBURY BOARD OF FINANCE
SPECIAL MEETING MINUTES
WEDNESDAY, JUNE 23, 2021

The Glastonbury Board of Finance, along with Finance Director, Julie Twilley, and Town Manager, Richard J. Johnson, held a special meeting at 9:00 a.m. in the Council Chambers of Town Hall at 2155 Main Street, with an option for attendance through Zoom video conferencing. The video was broadcast in real time and via a live video stream.

Roll Call

Members
Mr. Constantine "Gus" Constantine, Chairman
Ms. Jennifer Sanford, Vice Chairman
Mr. James McIntosh {excused}
Mr. Walter Cusson
Mr. Robert Lynn
Mr. James Zeller

1. Communication: Presentation on options for funding Capital Improvement Program

Mr. Johnson explained that he and Ms. Twilley will present four different bonding scenarios for the Board to consider. He noted that they had to consider the following questions: What is the overarching goal or anticipated benefit of borrowing for the ongoing capital program? And if annual savings are achieved, how will they be allocated?

He reviewed three general categories for the potential projects that could be funded by Debt Service: the care and maintenance of existing infrastructure, ongoing projects funded in prior years, and/or new projects. He noted that debt issued for a capital project should outlast the bond amortization. In terms of long-term strategy and considerations, he mentioned that the pay-as-you-go system has consistently been successful for Glastonbury. Debt service, regardless of the amount, requires the approval of voters at referendum.

Mr. Johnson explained the different debt options, which are the following: issuing a one-time bond of $8 million to supplement the capital transfer; issuing a one-time $15 million bond for existing capital infrastructure; issuing $15 million on a four-year cycle, and issuing a $9 million bond where the transfer would be used to fund to the pension. He reviewed the model assumptions that were made and explained that bonds have to be expended within three years of issuance. Ms. Sanford asked for clarity on that. Mr. Johnson explained that this is related to an IRS regulation. The money needs to be committed and generally expended within three years. He explained that there will be significant debt decreases starting in FY 2025, so they want to be smart about when new debt is issued.

Mr. Zeller brought up the issue of depreciation, stating that the capital program is not $7 million a year but $6 million because $1 million of that is capital outlay, which is part of the operating budget. Mr. Johnson stated that is generally correct. They used the $7 million number to be on the safe side. Mr. Zeller responded that capital outlay is subject to inflation, so it should be accounted for in operating budgets. Mr. Johnson explained that this is a broad strokes concept. They have captured all the items which are depreciated.

Mr. Johnson explained the summary of all the scenarios, noting that the capital transfer cash is simply the cumulative total of what would be funded through the capital transfer for projects. Ms. Twilley explained that they looked out over the years to see what the aggregate capital transfer, aggregate bond issue, and the total investment are. Each one of the options has a cumulative investment, so there is not much of a difference between them. All the options look through FY 2045 except for the $15 million bond every four years, which is all the way through until the final debt service is paid off. Mr. Johnson explained that, if through time, they can reduce the total debt and transfer, they are counting that as savings.

In this fiscal year, the capital transfer was reduced by $500,000, and to fund the capital program, $700,000 was used from the Capital Reserve Unassigned Fund Balance. The Capital Reserve Fund Balance exceeds the $1 million threshold. The existing debt will decline, and the savings accrue largely after the annual reduction in year-over-year debt.

Ms. Sanford asked about the interest rate. Ms. Twilley stated that it is 2% for a 20-year bond. She reminded the Board that these are assumptions, and the model could be run in many different ways. Ms. Sanford countered that the existing debt schedule is driving the savings. Those savings in the debt service stand alone. She would not attribute that to a cash program. Mr. Zeller stated that some savings are lower because it is wrapped into the bond. He asked if they calculated the actual cost to issue bonds. Mr. Johnson stated that it is not a significant number.

Ms. Twilley reviewed the option which bonds once, not on a cyclical basis. It entails borrowing $15 million in two lifts of $7.5 million in FY 2023 and $7.5 million in FY 2024. They have reduced the capital transfer for project funding and allocated the $15 million over 4 years (instead of 3 years, because they have taken it over 2 lifts). In this scenario, they get the cumulative excess (savings) upfront in FYs 2023-2025. In FY 2027, the capital transfer goes from $3.3 million to $5.7 million. They will still have around $7 million in projects to fund. The way they structured this model is to use the debt service savings to fund the capital transfer. Where there were no savings, they have built up the capital reserve fund so that they have a cushion to fund the projects that they do not have the ability to fund on a cash basis. After which, they are funding it again on a pay-as-you-go basis.

Ms. Sanford stated that this is a great option. Mr. Lynn asked about the cumulative excess. Ms. Twilley explained that they want to compare to the baseline every year. Therefore, every year, they compare it to $11.6 million, which is how they get a cumulative excess of $56.2 million rather than $50.7 million. When they looked at this model, they looked at it in totality. There is an interplay between what is the total funding needed for projects, what availability they have over the future years, and how it is going to be structured.

Mr. Zeller stated that it seems like the big-ticket items are out for the next five years at least, so he is wondering what is driving the assumption to be so high. Mr. Johnson explained that these projects cycle back, so there could be another boiler or roof project that comes up. Ms. Sanford asked if there is a windfall, will there be flexibility? Mr. Johnson stated yes. In the next scenario, they generated a pension model to try to achieve maximum savings over a 3-year period, which was $7 million. He explained that the $9 million bond number was chosen just for illustrative purposes. In this scenario, they would not reduce the capital transfer, but would allocate the $7 million in savings over three years into the pension.

Mr. Lynn stated that this would reduce the pension obligation payments, so it does not reflect the total impact of the town budget. There is a lot more savings here in the operating budget. Mr. Cusson asked if this scenario impacts the ADC amortization. Mr. Johnson stated yes, but they need to remember that there is a cost to borrowing that $9 million in the form of interest. Every $2.7 million reduction on the unfunded liability increases the funded ratio by 1%. Mr. Lynn asked why isn't all $9 million going into the pension? Ms. Twilley explained that they had to pay for the oncoming debt service. That is why it is just $7.3 million. They must look at each of the components and their interplay.

Mr. Johnson then went through the pro forma for ongoing and new projects. Around $30 million of projects are identified on the pro forma, which looks out to FYs 2023-25, so it is not exact. He considered the infrastructure care and maintenance with a 20-year useful life and at least a $200,000 minimum project cost. He noted that the list is just a reference point. He also noted that the 15-year escalation used was probably an overshoot, but they wanted to be on the safe side.

Ms. Twilley walked through the scenario of the $15 million bond every four years, noting that this is very similar to the $15 million with just the one-time borrowing of two lifts of 7.5 million each in FY 2023 and FY 2024. This model allows them to spread the use of the cash in a four-year period. The biggest difference here is that they wanted to include the cost of the debt that they brought online in FY 2043 and FY 2044. While there are no new projects, they still have to pay that debt service, which runs out in FY 2064. As they bring on more and more debt, then they no longer have the reduction in current debt service to pay for that new debt, so they have to tax for it.

Mr. Johnson noted that they have included a page which goes through the assumptions and objectives they used for each scenario. Ms. Sanford remarked that the intention of bonding was not to replace pay-as-you-go but to supplement it with other options. Mr. Johnson stated that he and Ms. Twilley will look at a couple different options on the $9 million scenario and will consider the reduction to the pension ADC. Mr. Zeller noted that they have a history of going out for land acquisition every so often. He feels that they need to put something in for that because it is not going to go away.

Mr. Constantine asked what the plan is with the Council. Mr. Johnson explained that there will likely be a capital planning workshop in September, where the Council will consider the question of borrowing for the capital program at that time. Mr. Zeller asked if they should go into that meeting with a Board recommendation or not. Mr. Johnson stated that it might be best to hear that planning workshop discussion and then forward their recommendation. Ms. Sanford asked that the Board have a deeper discussion amongst themselves to gauge how members feel during their July meeting.

2. Adjournment

Motion by: Mr. Cusson ***Seconded by:*** Mr. Zeller

BE IT RESOLVED, that the Glastonbury Board of Finance moves to adjourn their meeting of June 23, 2021, at 10:35 a.m.

Result: Motion passes unanimously {5-0-0}.

Respectfully submitted,

Lilly Torosyan
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Recording Clerk

For anyone seeking more information about this meeting, a video on demand is available at www.glastonbury-ct.gov/video; click on Public Broadcast Video On Demand, and an audio recording is available in the Finance and Administrative Services Office.