



BUDGET COMMITTEE
Town of Hollis
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Minutes of July 22, 2013

Tom Gehan called the Hollis Budget Committee meeting to order at 7:50pm. Budget Committee Members present were Tom Gehan, Chairman, Susan Benz, Betsy Cox-Buteau, Chris Hyde, Mike Harris, Tom Jambard and Peter Band, Selectmen Representative. Members joined the Board of Selectmen at the head table. Others present: Troy Brown – Town Administrator, Deborah Padykula – Finance Officer

Bond Refinancing

M. Le Doux stated that six months ago he and Deborah Padykula, Finance Officer, began discussing ways to conserve capital costs. They discovered two bonds. The first bond was issued in 2004 with an outstanding balance of \$1,000,000.00 and the second bond issued in 2005 had an outstanding balance of \$4,900,000.00. The bond issued in 2005 carried a 4.25% - 4.50% interest rate. D. Padykula stated that the bond issued in 2004 was callable in 2015 and the bond issued in 2005 was callable in 2016. M. Le Doux stated that the closer the Town gets to the call date, the lower the arbitrage costs are for issuing new bonds at lower rates. M. Le Doux stated that although multiple bonds are not costing a lot of money, they are not saving a lot of money until the call feature strikes.

M. Le Doux presented a one page refunding analysis. He stated that today's rates are 3.3% and a month and a half ago the rates were 2.7%. M. Le Doux stated that if a 1% rate difference of 2.3% was possible the savings on the call date of 10/15/2015 would be \$712,576.00 in interest payments over a period of the remaining bonds. The analysis outlined the different savings based on the differential. M. Le Doux stated that there was a cost associated with refinancing bonds. If the Town refinances the bond next year because the rates drop, he recommended only refunding the \$4,900,000.00 bond. The fees associated with refinancing would be approximately \$70,000 - \$80,000. The cost represents legal fees, accounting fees, fairness opinion documents and underwriting fees. M. Le Doux would like to expend the funds associated with the refinance cost from the undesignated fund balance.

M. Le Doux recommended holding a Public Hearing to explain the refinancing process to taxpayers. He would then request that the Board of Selectmen authorize the Finance Officer along with himself to work with the financial advisor. M. Le Doux would like the Budget Committee's opinion and Board approval so that if the rates drop in the next 12 months the Town is ready to take action.

D. Padykula stated that although the rates are high and that nothing could officially take place at the moment, she had a lot of preparation that needed to be done prior to actually refinancing the bonds. D. Padykula would like the Board's approval to proceed. If she received permission, when the rates dropped, the Town would be prepared to act quickly.

M. Harris questioned the actual refinance process. M. Le Doux explained that it was his understanding that the Town would go through a new underwriting process and new bonds would be issued. The new bond proceeds are put into an escrow account and there is a period of arbitrage between the time that the new bonds exist and the old bonds become callable. During that time period, there is an expense. The expense could be as high as \$300,000 - \$400,000. Back four months ago, it would have been less than \$100,000. Once the bonds are callable, they can be redeemed. This is when the Town will realize significant savings.

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C. Hyde pointed out if the refinancing charges were rolled into the bond, there would be new debt created. M. Le Doux agreed and stated that the charges should be expended from the undesignated fund balance. T. Gehan questioned who the bond council was.

M. Le Doux stated that Devine Millimet was one of the best firms in the business. M. Le Doux also stated that the Municipal Bond Experts they have been working with have worked with Concord, Manchester, Bedford and Londonderry.

T. Gehan questioned when the \$70,000 payment would be due. D. Padykula confirmed that when the Town moved forward with refinancing the bonds, payment would be due. If the Town did not refinance the bonds, there would be no cost to the Town. D. Petry offered to provide an outline to the Budget Committee explaining the steps of the process.

The Town's lower than expected bond rating by Moody's was discussed. C. Hyde explained that high bond ratings normally correlated with the commercial valuation of the Town more than it does anything else. He gave Bedford, NH as an example. It has a large industrial commercial base combined with high end homes. M. Le Doux would like to question Moody's about how they generate the bond ratings. He would first like to provide them with the updated financial statements that reflected the amount of \$1,800,000.00 in the undesignated fund balance.

C. Hyde questioned when the \$1,000,000.00 bond matured. D. Padykula stated 2019. He also questioned when the \$4,900,000.00 bond matured. M. Le Doux stated 2035. C. Hyde recommended that the Board of Selectmen outline the conditions of the process relating to cost, expense, interest rates very clearly during the Public Hearing. C. Hyde would like the Board to contact the Department of Revenue to assure that a public hearing regarding the matter was sufficient. His concern was that the Board was not presenting a specific dollar amount. M. Le Doux agreed that the Board needed to determine exactly what was legally expected of them at the Public Hearing. The Board intended to disclose any and all information they had regarding the matter at the Public Hearing. D. Padykula stated that normally the resolution suggested is written as follows, "The Town would like a net present value savings of 3% of the outstanding principal balance". She stated that in this case that amount was approximately \$175,000.00. The Boards discussed using the undesignated fund balance as a funding source for the expense. T. Jambard questioned the process of accessing the funds in the undesignated fund balance. D. Petry agreed to inquire and get back to T. Jambard with an answer. M. Le Doux explained the redemption process that will occur on October 15, 2015 when the bond is callable.

Everyone agreed that if the interest rate did not drop to at least 2.5% it was not worth pursuing. C. Hyde requested that each bond is broken out separately including the cost associated with the process. Everyone agreed that they needed to find out more information about the requirements of holding a Public Hearing for this purpose. T. Gehan wondered if the Board could hold a generic hearing. D. Petry would like to hold a joint meeting when the Public Hearing is conducted.

Mark Le Doux recapped the discussion by stating that the following matters needed to be addressed.

- What does Moody's utilize as their criteria to determine the bond rating
- What will the cost structure be for doing a combined underwriting fee for the \$5,900,000.00 vs. only the \$4,900,000.00 bond
- A report showing the cost savings for 50 basis points and 100 basis points, identify the timing issues and explain the arbitrage costs.
- Question the RSA that governs bond refinancing and the nature of the public hearing. What is the Board of Selectmen supposed to authorize in order to proceed
- How long does the process take once the Town decides to proceed
- Is there any Department of Revenue Administration involvement.

2nd Quarter Financial Review

Deborah Padykula, Finance Officer, presented a 2nd Quarter Financial Review. The reports she passed out were through June, 2013. She reported that most accounts were 50% expended. She stated that a few accounts were

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overspent, mainly overtime accounts. She referenced DPW-Overtime, Acct #01-4311-0-119 which was 87% spent. FEMA funding in the amount of \$7,500.00 was received for the February storm to offset the overtime account. The Town received \$22,000.00 total for the February storm. M. Le Doux questioned if the Town had to apply for FEMA funding. D. Padykula stated yes.

Someone questioned why the DPW –Telephone, Acct#01-4311-0-201 was 82% spent. D. Padykula stated that the department purchased cell phones for employees and it was not budgeted for. The department discontinued using pagers. Pagers were budgeted for in the DPW-Hired Equipment, Acct#01-4312-1-402 and the line is under spent. The Police overtime budget was overspent. She referenced Police-Overtime, Acct #01-4210-0-119 which was 72% spent. The overage was due to an open full time position and two police officers are out injured on Workers Compensation. There is offsetting savings in the Union Salary account. J. Sartell, Police Chief, planned to hire a new officer to fill the vacant position in late October.

D. Padykula stated that a surplus of \$25,126.86 existed for INS-Workers Comp. Acct# 01-4196-0-300. The Town will receive a credit of \$33,000.00 from Primex for the Risk Pool Surplus. The Town only budgeted for an \$8,000.00 surplus. T. Gehan questioned the delinquency rate of property taxes. D. Padykula stated that to date the property taxes are 95% collected which is comparable to previous years. T. Brown gave an update on the progress of the assessment revaluation process. C. Hyde questioned why the budget has not yet been expended. D. Petry requested that the Town Administrator draft a schedule and outline of the assessment revaluations and present it to the Board of Selectmen at the next meeting. The Board will then update the Budget Committee. Everyone discussed the land use change tax revenue and the outdated software terminology. M. Le Doux would like the Budget Committee to support new financial software in 2014.

D. Padykula stated that the Town has \$9,000,000.00 cash. The Board of Selectmen recently voted to open a money market account with Century Bank. The interest rate is .50%. The Town was previously collecting .01% with Citizens Bank. D. Padykula stated that the audit is almost concluded and she just received the final list of items still needed. The auditing firm is hoping to have the financial statement completed by August.

Hollis Energy Committee – Police Station Heating and Cooling System

T. Brown stated that two years ago replacement of the Police Station heating system was identified in the Building and Maintenance Trust fund. The amount raised was \$25,000.00. During that year the Hollis Energy Committee conducted an energy audit. It was determined that the heating system had major problems and \$25,000 was not sufficient funding to correct the problem. The Energy Committee requested that the Police Chief hold off on the project. The Energy Committee applied for a grant to replace the entire heating and cooling system.

The Board welcomed Venu Rau, Hollis Energy Committee member. V. Rao made a presentation last year regarding a pay for performance grant. Included in the grant request was the heating and cooling project. The Energy Committee was unable to obtain the grant. He stated timing issues regarding town meeting as a reason.

V. Rao described the Hollis Police Station HVAC system. It includes seven air handling units and nine air conditioners. The HVAC system is an open loop system. Certain parts of the building are extremely hot that even in the winter the air conditioners run in that area. The system is inefficient. From January 1, 2011 through March, 2013, the cost to maintain the existing system was \$11,140.64.

AEC Group Inc. recommends, as part of their investment grade audit, a high efficiency electrical air-source heat pump system with energy recovery capability. The estimated cost for the new system is \$150,000.00 - \$175,000.00. The estimated savings is \$4,380.00 per year. The maintenance will be significantly less and savings will be greater.

The Hollis Energy Committee unanimously recommends including \$175,000.00 in the 2014-2015 Hollis Town budget to replace the boiler, air conditioning units and AHU's at the Police Station with high efficiency electrical air-source heat pump system with energy recovery capability. The Hollis Energy Committee (HEC)

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will search and apply for grants. V. Rao was comfortable stating that the HEC will obtain 20% grant funding to defray the \$175,000.00 total project cost.

M. Harris and Peter Band asked if \$175,000.00 included all cost associated with the project including design. Board members reminded V. Rao that the project would need to go out for bid. The Board inquired whether or not the Fire Station needed a new system. V. Rao was unsure.

V. Rao stated that the return on investment was calculated at 28 years. The boards agreed to take the request under advisement and thanked V. Rao for the presentation.

C. Hyde recommending flushing out all major facility concerns prior to supporting any one of them so that the Board could see the big picture. M. Le Doux mentioned that natural gas could be coming to Hollis in the future. Board members discussed the pros and cons of natural gas. V. Rao asked that M. Le Doux please inform the HEC when and if natural gas becomes a serious option. M. Le Doux agreed.

Review Draft Capital Improvement Plan

Everyone reviewed the Capital Improvement Plan, 2013-2018. T. Gehan was immediately concerned with the \$1,531,514.00 proposed for 2014. He questioned if the listing of projects represented actual priorities in 2014. The Budget Committee's objective for meeting with the Selectmen was to get an earlier sense of how much needs to be invested in 2014 and how the Town might get there. M. Le Doux stated that it was a wish list as described by the department heads. He pointed out that DPW vehicles on the wish list could be leased for 2.5% and then purchased for \$1.00. There are five vehicles that will be purchased for a dollar in 2013 because the leasing terms have expired. The vehicles will now be owned by the Town and have a life span of five to ten years for no cost.

F. Cadwell explained that the \$425,000.00 being requested in 2014 for rebuilding Rocky Pond Road and Wright Road is in addition to the operating budget. The normal planned and budgeted road rebuilding will occur at the budgeted amount. The Board discussed the amount of funds necessary each year to get back on track and ahead of road maintenance. M. Le Doux stated that \$600,000.00 - \$700,000.00 per year would need to be budgeted to get ahead of the road deterioration cycle. The DPW Director did a road analysis last year and presented it to the Board. M. Le Doux stated that Rte 130 and Rte 111 were slated to be done by the State in 2013. D. Petry agreed to deliver the report to the Budget Committee. The report includes a priority list of all of the roads in Town that need attention including cost. M. Harris preferred to gradually move up to the proper budget amount opposed to budgeting \$600,000 in 2014. Board members discussed moving a few projects from 2014 to 2015. D. Petry asked that any additional specific questions be sent to the Town Administrator.

T. Gehan wondered when the Board would have a more realistic Capital Improvement Plan. M. Le Doux agreed to the middle of September.

Union Negotiations Update / General Update

C. Hyde realized the Board would be heading into negotiations with union employees. He highlighted the recent fiasco in Detroit and losing track of future obligations. D. Petry reminded C. Hyde that the Board of Selectmen resolved the Town's largest financial obligation last year. The Board has not committed to anything new and will not commit to anything new. M. Le Doux stated that the Town has two unions. The Board is currently in negotiations with the newly formed Town Hall and DPW union discussing the terms of the first contract. The Board is intending to cap the amount of time an employee can earn and also combine earned and sick time into one Paid Time Off (PTO) bank. This is a policy change that will be negotiated with the police and fire union as well. M. Le Doux stated that the Board is funding a portion of employees Health Savings accounts so that they are more committed to their own healthcare costs. M. Le Doux valued Town employees but realized the full package of the cost to employ them must be disclosed. The Board will also be removing individual job descriptions from (future) contracts. The job description of a police officer, firefighter and communications specialist etc will be added to the Personnel Policy. The Personnel Policy and not the union contract will also establish hours of work. M. Le Doux felt that if sufficient notice was given to union employees it allowed the Board to retain management rights to establish work hours. M. Le Doux felt the changes discussed were beneficial to the town, taxpayers and employees.

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ADJOURNMENT: Budget Committee Meeting

MOVED by Tom Jambard seconded by Mike Harris that the Budget Committee adjourn. Voting in favor of the motion were Gehan, Benz, Cox-Buteau, Hyde, Harris, Jambard and Band. No one was opposed. The motion PASSED 7-0-0.

Respectfully submitted,
Kimberly Dogherty, Assistant Town Administrator