

City of Harrington
MINUTES
City Council Workshop
July 29, 2013

A workshop with the Harrington City Council was held at Harrington City Hall, 106 Dorman Street, on July 29, 2013 and was attended by the following: Mayor Anthony R. Moyer; Vice Mayor Cheryl Lahman; Council Member Duane E. Bivans; Council Member Fonda Coleman; Council Member Amy Minner; Council Member Charles W. Porter; Council Member Kenneth Stubbs; Teresa Tieman, City Manager; Faye Smith, Financial Director; and Kelly Blanchies, Clerk of Council.

Also present: Tara Walker, Accounting Consultant; and Denise MacLeish, USDA.

Mayor Moyer called the meeting to order at 6:29 p.m.

The Pledge of Allegiance was given.

Bond and refinance options

Mayor Moyer stated that he spoke with George Luff and the soft costs of bonds would be about eighty thousand dollars (\$80,000), and it is more cost effective to use State and Federal funding.

The City Manager stated that the City usually uses the USDA or the State Revolving Loan for financing. It is more difficult to refinance through the State Revolving Loan fund.

Denise MacLeish stated that the USDA does not refinance as the primary purpose of the loan but can be the secondary purpose. Rates are slowly going up. Refinancing the higher interest loans would free up funds that can be used as part of a grant and loan package to repair inflow and infiltration (I & I). There is a two hundred ten thousand dollar (\$210,000) water loan outstanding at four and a half percent that can be refinanced as part of a loan for a water main. The City's bond counsel would have to advise the City as to the terms. That loan costs the City eleven thousand three hundred fifty-two dollars (\$11,352) annually. At a rate of two point seven five percent, the annual cost would be six thousand six hundred ninety-nine dollars (\$6,699), which is almost five thousand dollars in savings. There is another water loan at three and a quarter percent; it may not be worth refinancing that. On the wastewater loans, there is a two million dollar (\$2,000,000) loan from 1996 at four and a half percent. The debt service on that loan could be reduced from one hundred eight thousand eighty dollars (\$108,080) to sixty-four thousand sixty-five dollars (\$64,065). The loan that was

just closed was at one point eight seven five percent. The City Manager stated that there is also a loan from Farmington that is at four and a half percent. Tara Walker stated that it could save about twenty thousand dollars in interest by refinancing that loan.

Ms. MacLeish stated that the USDA is basically buying the bond from the City. The City has to pay the bond counsel. The City Manager stated that the legal costs were about eight thousand dollars (\$8,000) last time.

Ms. MacLeish stated that the preliminary engineer report and environmental report outline what the issues are with the City's system and what the proposed improvements are. Phasing is encouraged so that more grant money may be available.

Council Member Porter asked if Georgetown was given debt forgiveness. The City Manager stated that was the State that gave debt forgiveness. Ms. MacLeish stated the USDA does not have debt forgiveness but does offer grants. Council Member Porter stated that the referendum failed but thankfully the Charter changes to the borrowing section went through. Both the State House and Senate voted to approve the Charter changes unanimously. The City Manager stated that the City increased its short term borrowing and expanded the debt limit.

Mayor Moyer stated that the City has to borrow the same amount that is being refinanced. Ms. MacLeish stated that refinancing is a secondary part of the deal. Mayor Moyer stated that the City is increasing its debt. Vice Mayor Lahman stated that the City is trying to get more work done with the same amount of money.

Ms. MacLeish stated that the loan rates are anticipated to be about two point seven five percent next year when the money is set aside. If the City has to do improvements to the water or wastewater systems, then the possibility exists to refinance some of the existing debt. The debt service may be increased somewhat, but the refinance allows the projects to be completed without having a greater financial impact.

Mayor Moyer asked if the rates are guaranteed for the length of the term. Ms. MacLeish stated that once the USDA commits the funds, that rate is the highest that it will be and could go lower.

Mayor Moyer asked if the City could stop loan negotiations if the rates increase. Ms. MacLeish stated that if the City determines it is no longer beneficial to move forward then it can back out at any time without a penalty.

Mayor Moyer asked what the soft costs are. Ms. MacLeish stated that the soft costs are the engineering and legal costs. Mayor Moyer stated that the City is

already paying for the engineer costs anyway. The City Manager stated that the engineering documents for the loan application would be environmental studies and preliminary engineering studies. Ms. MacLeish stated that the State of Delaware through the Clean Water Advisory Council has a grant program with a fifty percent match that could be used to do preliminary studies, and the USDA offers a grant that could be used for the matching funds up to twenty-five thousand dollars (\$25,000).

Ms. MacLeish stated that refinancing allows more money to be available for projects without raising user rates. A package of grant and loan options can be presented after the engineering reports are complete. Vice Mayor Lahman stated that the City was denied grant money before, because the user rates were too low.

Council Member Porter asked how much the City needs to borrow. The City Manager replied about two million dollars (\$2,000,000) to fix I & I in the whole system and two million five hundred thousand dollars (\$2,500,000) for water. The sewer study that was just completed identified about one million dollars (\$1,000,000) of additional sewer issues. A total of four million five hundred thousand dollars (\$4,500,000) is needed.

Ms. MacLeish stated that if engineering studies have already been completed, then the City Engineer can just update them for the loan application.

The City Manager stated that the City needs to start making progress, because interest rates are going up.

Council Member Minner stated that proposals discussed do not include any credits from the County for correcting I & I or grant funding. There is a possibility that rates will not go up at all. Ms. MacLeish stated that the City is also paying the County to treat I & I right now. Council Member Minner stated that the City can look internally to trim costs in order to not increase user rates.

Mayor Moyer asked what the USDA rate is based on. Ms. MacLeish stated that it is based on the twenty year bond market. It changes on the first of October, January, April, and July.

Council Member Minner asked at what point the rate would be guaranteed not to go up. Ms. MacLeish stated that the USDA will issue a letter of conditions after the environmental studies have been reviewed and an offer of assistance is made. Once that is accepted and entered into the system then the rate is locked.

Council Member Bivans asked how long the studies are good for. Ms. MacLeish stated that the market has been fairly stable for construction costs; the City Engineer may just have to look at the costs. It is best to have good numbers.

Council Member Bivans stated that the City Council has previously discussed billing monthly rather than quarterly. The City Manager stated that an informal survey was conducted at the counter at City Hall, and customers preferred quarterly bills. It is more costly to produce bills monthly, but it is easier for people to budget monthly.

There being no further business, the Council Workshop adjourned at 7:15 p.m.

Respectfully Submitted,

Kelly Blanchies
Clerk of Council