

**PURCELLVILLE TOWN COUNCIL SPECIAL MEETING
TUESDAY, DECEMBER 16, 2020 7:00 PM
VIRTUAL**

The special meeting of the Purcellville Town Council convened at 7:00 PM virtually on GoTo Meeting.

PRESENT: Mayor Kwasi Fraser
Mary Jane Williams, Vice Mayor
Ted Greenly, Council member
Stan Milan, Council member
Joel Grewe, Council member
Tip Stinnette, Council member
Chris Bertaut, Council member (late arrival)

ABSENT: None

STAFF PRESENT:

Sally Hankins, Town Attorney
Hooper McCann, Director of Administration
Elizabeth Krens, Director of Finance
Paula Hicks, Accounting Manager
Linda Jackson, Financial Analyst
Cynthia McAlister, Chief of Police
Dale Lehnig, Director of Engineering, Planning and Development
Jason Didawick, Director of Public Works
Stacie Alter, Water Compliance Officer / Hydrogeologist
Amie Ware, Division Manager, Parks and Recreation
Diana Hays, Executive Assistant/Town Clerk
Kimberly Bandy, Deputy Town Clerk

CALL TO ORDER:

Mayor Fraser called the meeting to order at 7:02 PM. The Pledge of Allegiance followed.

DISCUSSION/INFORMATIONAL ITEMS:

Mayor Fraser noted the purpose of the special meeting was to discuss the CIP budget and that this was the first meeting of the budget cycle with a requirement to have a budget in place by the end of the fiscal year.

a. Capital Improvement Projects Prioritization Presentation(Information forthcoming)

Elizabeth Krens, Director of Finance, explained that the planning extends over the next decade, but they would be focusing on the next 3 years due to the financing needs. Engineering and Capital Projects department has provided some in-depth analysis of their projects, needs and schedules, and Elizabeth Krens noted the objective was to receive direction from council for the FY22 budget preparation, development of a financing plan, and a utility rate model.

Starting with utility funds, Elizabeth Krens stated that this is where most of the new project needs will be funded with debt and will require council direction. Elizabeth Krens gave an overview of Capital Improvement Projects (CIP), explaining that budgets are a point in time fiscal planning tool, and for budget planning purposes, a Capital Improvement Project (CIP) is defined as having an initial cost of at least \$50k and initial useful life exceeding 5 years. Smaller projects are also included in the budget, but the current focus is on larger projects. Elizabeth Krens noted that staff look at opportunities for grant and intergovernmental support for capital projects, with funding by others making up 29% of the town's 5-year CIP. Interest rates are at an all-time low and therefore debt issuance should be considered to fund projects where other sources of funding aren't available. As new debt is considered, the council should commit to a sustainable funding plan, and initial use of cash may be leveraged to ensure projects are ready to take advantage of potential stimulus, and so project construction can be completed within 3 years of the issuance. Preservation of cash is important to maintain fiscal policy compliance and credit ratings, and they should also recognize that pressure will be passed on the utility funds as annual debt service costs escalate and new capital needs are addressed.

Elizabeth Krens explained that staff have prioritized projects by scheduling them in the near term, new debt is required for some near-term projects and a reimbursement resolution is recommended to preserve the town's options to reimbursement for initial project costs in future borrowing. CIP projects have been ordered with priority projects first for FY22-24, then next level projects for FY25-26, then future projects for the following 5 years.

Looking at FY22 utility CIP needs, Elizabeth Krens presented a summary of the water fund, noting that the next 5 years have capital needs of around \$11m. Priority projects make up \$5.8m, then next level projects are around \$5m, and most will be funded with debt.

Dale Lehnig, Director of Engineering, Planning and Development, presented the priority projects for the next 3 years, the first being the Hirst Reservoir improvements, which includes dredging of the front and back lakes, and the repair of the intake structure and drain valve. The project is broken up into engineering design, construction, and dredging, and dredging may not be able to be financed using a long-term loan. The initial step will be engineering design, then construction with a Bathymetric study. Dale Lehnig confirmed the other project with priority 1 ranking is the WTP to Town Water Main Replacement Phase 1, this is a single line that goes from the water treatment plant to the high school. This line was installed in the 1960s, and if it were to fail, it would take about 60% of the water supply out of commission. The estimated cost of this will be around \$2m.

Dale Lehnig then looked to the third project, the 12th Street Water Main Replacement, which replaces a 4-inch line. This has a priority ranking of 3 as it could have implications on the fire protection and flows in the hydrants. This is part of the 12th Street drainage and roadway work that will look at replacing sanitary sewer, streets, sidewalk and drainage at one time. The improvements are approved for VDOT Revenue Sharing funding, but the water main improvements are considered a betterment and can be paid through town funds, and the project is planned for FY23. Project ranking 4 is the Cooper Springs Raw Water Main, which was put in 1945, and it's recommended this is replaced as it would enhance the reliability of the town's water supply. Construction would start in 2022 with engineering design in 2021, the estimated cost of the project is \$1.2m.

Project ranking 6 is the F Street Water Main Replacement. The design is almost complete, but specifications are yet to be completed. This will help improve fire flow capacities in the area and the estimated total cost of \$317k. Also with a project ranking of 6 is the Hall Ave/O St Water Main Replacement. This was recommended in the Water Distribution System Capital Improvement Plans, which

would also improve the fire flow in the area. With design almost complete, construction could begin in July 2021, this project has total costs of \$294k, which have already been allocated.

Project ranking 7 is the Consolidated Ground Water Treatment Plants Phase 1. Dale Lehnig noted that this is less of a regulatory issue, but it would help to make up the shortfall of water supply needs. Phase 1 would build the building and would allow the water from the Jeffries Well to be chlorinated but wouldn't bring the Aberdeen Wells online at this point. Phase 2 and 3 would then bring in the additional wells. The estimated required project funding for Phase 1 is \$650k.

Then, looking to the next level projects, Dale Lehnig began with the Reservoir to WTP Raw Water Main, which is a vulnerability in the town's water supply system. This is looking to start engineering design in 2023 with construction starting in 2024, with estimated project funding being \$2.4m. Dale Lehnig then looked the Additional Water Supply project, which has a ranking of 6, which depends on what happens with the Marsh Well and would allow the town to explore other opportunities for water supply. This has a placeholder funding requirement of \$1.3m.

Dale Lehnig then noted Phase 2 of the Consolidated Ground Water Treatment Plant, which involves the construction of the well, filter building and helping to bring the Aberdeen Wells. This will require approval from the Virginia Department of Health and Loudoun County's Department of Building and Development as it requires a commission permit. The budget requirements are \$1.3m. Dale Lehnig then looked to the next project, the Holly Lane Water Main Replacement, which would improve the fire flow. Dale Lehnig noted that this project gets a lower ranking as it affects less people, and the whole project will take place in 2026.

Council member Stinnette noted the assumption of \$4m of financial instrument debt, stating he has some fundamental questions on the basics of strategy and how staff are engineering the narrative on the CIP and combining this with other budgetary requirements. Council member Stinnette stated he had issues with the presentation, but he was happy to defer those to the end. Council member Milan commented that he too was concerned about the funding and the resolution that was presented, but that he was willing to wait until the end of the presentation for further discussion. Council member Grewe suggested that they review the projects before discussing the strategy. It was agreed by other council members that they would wait until the end of the presentation before providing feedback.

Dale Lehnig then presented the wastewater fund summary, noting that many of the projects have already been adopted with money allocated, with the exceptions of 12th Street Sewer Rehabilitation, and the next level projects with the Valley Industrial Park Pump Station Upgrades, and the Sludge Storage Facility.

Dale Lehnig presented the West End Pump Station Improvements plan, noting that this is actually a sanitary sewer, and this project is 95% designed and they are working on the easements necessary. It's hoped the construction will commence in 2021 and will go out for bid once the easements are in place. The next project is the Membrane Replacement with the last amount due to be paid by the end of the year and will need to be replaced in 10 years' time. The total estimated cost is \$817k. Dale Lehnig then looked to the 12th Street Sewer Rehabilitation. A G Street sanitary sewer evaluation showed that this area was contributing to the I/I issues, and estimated costs will be \$150k.

Dale Lehnig then noted the East End Pump Station plan, explaining that it was so difficult to find parts for the broken generator, the suggestion is to replace the generator with construction would be expected in 2021 and an estimated cost of \$277k. Dale Lehnig then looked to the LEAP Aeration Upgrade, noting that this would incorporate energy efficient diffusers and would reduce electrical costs at the facility. Construction is anticipated in 2021 with estimated costs of \$160k.

Dale Lehnig next presented the next level wastewater projects, beginning with the Valley Industrial Park Pump Station Upgrades, which will depend on the amount of development and flows, and is expected in 2025 with an estimated cost of \$275k. Dale Lehnig then looked at the Sludge Storage Facility, as the original storage capacity was decreased when the Wastewater Treatment Plant was upgraded in 2009/10 in order to decrease the cost. It is now felt additional sludge storage is required and the project should be completed in 2025 with an estimated cost of \$371k.

Elizabeth Krens presented the proposed new debt summary should the presented plan not be altered in any way. Elizabeth Krens stated that they are looking for a near-term loan for the first 3-year period, and they would need around \$5.2m for the priority water projects and 1 wastewater projects. If they wanted to recoup some of the preliminary FY21 costs that are now scheduled as cash, they could look at \$5.7m in the loan. Elizabeth Krens added that there is currently no General Fund or Parks and Rec debt requirement at this time over the 3-year period unless council proposes to change the profile. Elizabeth Krens then looked at the proposed future debt summary for FY25-26, noting that they would need a further \$13.6m to cover the financing needs.

Elizabeth Krens next presented the reimbursement resolution, explaining that this was only \$4m to cover preliminary costs, it doesn't require a public hearing and doesn't authorize debt issuance or an additional appropriation. Elizabeth Krens confirmed the motion was to move the Town Council to approve Resolution 20-12-04 to reimburse expenditures not to exceed \$4m with proceeds of a borrowing.

Elizabeth Krens then presented the FY22 Governmental CIP Needs, and noted the number of 'other sources' as there are a lot of partners to provide assistance. Elizabeth Krens explained there are no debt needs in the General Fund, with the exception of the future police department, which has a placeholder of \$8m for FY25. Elizabeth Krens noted that there is almost \$15m of projects in the next 5 years, of which around half is the police station.

Dale Lehnig presented the General Fund priority projects, beginning with the 32nd and Main St Intersection Improvements. A speed study and multiple public input meetings have taken place, which have shown the main issue is the speeding on Main Street. The focus will be a speed study and then request to put up speed signs to slow traffic down for Phase 1. For Phase 2, it may be installing a traffic light or mini roundabout, there are revenue-sharing funds for FY21-22, but with COVID-19, this has been approved for funding in 2025 so there is time to spend the money. It is hoped phase 1 will have approval for FY21 and construction will begin in FY22 and will cost \$1.8m.

Dale Lehnig then looked to the 12th Street Improvements project, which is a VDOT revenue-sharing project, and money not spent on the roundabout was put into this. 60% plans are in place and it is expected construction will begin October 2023 to be completed in 2024, and estimated costs are \$3.08m, and this is VDOT and NVTa funded. Dale Lehnig next presented the Main and Maple Intersection Improvement Phase 2 project, which looks at pedestrian linkages, and signals at the intersection, as well drainage improvements. This is awaiting approval as it has federal funding, it's hoped it will begin construction in Q1 2022 and the total estimated costs are \$1.3m. The next project is the Hatcher Avenue Sidewalk Improvements, which is ongoing, plans are at 100% and 1 further easement is required to proceed. Once this is received, they will go out for construction and it's hoped this can start in FY21, it will be funded by VDOT, NVTa and Proffers, and has an estimated cost of \$1.3m. Dale Lehnig then noted the Street Lighting – N Maple Avenue project, and funding has been received from Loudon County for the project, it is projected for FY22 and \$200k has been allocated.

Dale Lehnig then presented the S 20th Street Mid-Block Crosswalk project, funding of \$55k in FY22 and \$97k in FY23 has been requested from Loudon County and a decision is pending. Dale Lehnig next looked

at the Hirst Farm Pond Conversion, the project was far in its design and Loudon County has requested certain items that have caused the cost of the project to increase, so this is now on hold. The town has been approved for an SLAF grant from the VA DEQ of \$300k, the initial estimated cost of \$600k, and Loudon County have said they would contribute 25%, but as the cost has now increased, there are additional construction costs. The total cost is now \$1.1m.

Dale Lehnig presented the next level projects, first looking at the Berlin Turnpike, Eastgate Drive PHC Circle Intervention. Funding of \$700k has been requested from Loudon County and they have put this in FY24-25, and this can only proceed if the Loudon County funding is received. Dale Lehnig then looked to the police facility, noting that there is \$8m for FY25. Dale Lehnig noted the next project is S 20th Street Sidewalk-A to SCL, which is also requesting funding of \$1.2m from Loudon County in FY26. Dale Lehnig next looked to S 32nd Street Sidewalk-J to Nursery Avenue, which is requesting funding of \$1.3m from Loudon County with design starting in FY24 and construction in FY25, and this will require a lot of easements.

Amie Ware, Division Manager, Parks and Recreation, presented the parks and rec fund summary, first looking at the Outdoor Stage – Dillon's Woods, which is an estimated \$170k, a meeting was held with the Parks and Rec Advisory Board and they are hoping to go about this with private/public partnership and funding it over 2 years. It's believed this is a high priority as the space could be used more, rented out, and there could be more performance. Elizabeth Krens added that this includes a funding source of sponsorships. Amie Ware then looked to the Bush Tabernacle Floor and Bathrooms, which is from funds received from Loudon County for improvements to the area. Work is ongoing regarding the improvements and the estimated total cost is \$300k. Amie Ware next looked at the Sue Kane Nature Park Multi-Use Trail project, which will seek a grant from Virginia Recreational Trails. This would be \$500k, which would have to be paid for upfront, but is 80% reimbursable. There are funds in the operational budget to work with a contractor to prepare the grant, and if successful, there would be 2 phases of the project, the first would be 18 months of preliminary work, followed by phase 2 with 18 months of construction. No funds would be used if the grant isn't won.

Amie Ware then looked to the next level projects, first noting the Purcellville Bike Park, which is low priority. A lot of work has been put into the proposal, but the funds haven't been available as it hasn't been a high enough priority, so this has been pushed out to FY24-25. This has a price of \$307k. This will be broken into 3 phases, (1) survey, design and entitlement, (2) construction for 12 years and under, and (3) construction for older users. Ms. Ware next presented the plan for N 21th Street Multi-Use Trail Phase 1, which has funds from Loudon County to make a path from Hirst Road to the Sue Kane Trail, then to the W&OD Trail. This project will help connect all the trails to allow people to walk from one end of town to another. Dale Lehnig noted that Loudon County had allocated \$650k in FY24-25, but additional funding has been requested.

Elizabeth Krens presented the overview of governmental funding considerations, beyond what is funded from others, it considers a special tax district for the Hirst Farm Pond of \$500k, a future loan for the police facility of \$8m, and sponsorship for the outside stage of \$50k. Elizabeth Krens then noted the appendix, including additional information regarding funding sources.

ACTION

a. Utility Capital Improvement Financing Strategy and Adoption of Reimbursement Resolution

Mayor Fraser opened up for questions. Council member Stinnette commented that what he found frustrating was the CIP (Capital Improvement Project) is a 5-year plan, to manage a CIP, you need to see

projects at the front end for project management, and noted conflating out-year CIP estimates, that he described as 'ephemeral' with annual next year budget requirements. Council member Stinnette stated this means you approve the macro CIP and therefore you have to approve the next year budget requirements, and it shouldn't work this way. Council member Stinnette noted the IID, (Initial Investment Decision) which leads to an investment analysis to a final investment decision, which isn't done due to the size of the CIP, but this means some steps are being missed. Council member Stinnette remarked that this is based on an out-year estimate for CIP, which is the narrative that isn't helpful to the community, council of staff. Council member Stinnette added that the resolution for a \$4m payback is a short-term loan that was turned down several meetings ago and has therefore been recast as a payback.

Council member Stinnette noted Mayor Fraser's comment on the water and wastewater CIP from FY13-22 being \$4.8m and referred to his previous presentation advocating the need to posture themselves for the FY23-24 budget where he stated that they spend on CIP, on average, \$1.5m annually. Looking to next year, Council member Stinnette noted CIP requirements of \$1.5m for the water CIP, but on the wastewater CIP, both are funded, and no money is required in FY22. Then looking to the general funds CIP, this requires other people's money funding and won't come in close to \$1.8m if they listen to what the community wants. Council member Stinnette stated there's no CIP in the general fund for FY22, so for the year there won't be any CIP in wastewater, the general fund, and there are \$1.5m in requirements between FY23-24 for water. Council member Stinnette described the CIP as a shopping list, commenting that you may have more than you can afford so you then prioritize what you need to have. Therefore, coming up with CIP is an estimate and may change. Council member Stinnette commented that he liked the 3-tier approach, but he found some of the items could drift to the right and they aren't spending the \$2m estimated for the cast iron work.

Council member Stinnette commented it would be important for them to understand this would be to formulate the budget for next year and they therefore need to understand what they are agreeing to for next year. When looking at what they need to agree on, Council member Stinnette felt they didn't need a resolution to pay him back \$4m, adding that there is \$6.2m, \$6.1m and \$6.3m respectively in the 3 funds in their reserves, which are \$2.9m, \$2.9m and \$2.6m above threshold. Council member Stinnette stated that when he talks about water and wastewater reserves, when they collect availability, fees as a hedge against CIP that they would incur in the outyears, so there should be an expectation to spend part of the reserves to fund CIP. Council member Stinnette remarked that he understands the thresholds and noted that Elizabeth Krens said the thresholds may go up, which he requested clarification on. Council member Stinnette explained that he was trying to understand the reason they were going through this to help the formulation for next year's plan, and when looking at some of the funds required for 2022, much of these are engineering funds for the outyears that he felt could be drifted out to the right.

Council member Stinnette stated that he felt the 2 projects that need to be leant into in the formulation for next year and the following year are the reservoir and the 1960 cast iron replacement. Council member Stinnette added that the other projects could be considered, but that they need to deal with what needs to be addressed in FY22, so passing a resolution predicated on a future bond is like an end run on the pressure point to build up new revenue sources and become more efficient.

Council member Grewe stated that he didn't disagree with Council member Stinnettes' comments, but that's what he wanted to put out for consideration was that there were projects they need to do and those they want to do. Council member Grewe commented that some projects could be removed from the list, noting that he agreed with Council member Stinnette' priorities, adding that he felt the \$160k to lower energy costs for the energy plant was particularly helpful as it brings a long-term saving. Council member Grewe suggested they first prioritize items that maintain a core service, and while he understood the

prioritization tagging presented, he didn't feel there was a sense of must-have projects or those with timeline urgency.

Council member Greenly commented that they had discussed a number of these items in the past 2 years and that Mayor Fraser had requested further information on the impact of certain pieces failing. Council member Greenly agreed with Council member Stinnette and Council member Grewe on the critical items, and that it was now the council's responsibility to reduce the list and prioritize items.

Council member Milan noted his discomfort with the fact that he felt this resolution is a repackaging of the signature loan presented several meetings ago. Council member Milan added that they had already discussed priorities regarding water and wastewater CIP but that they were yet to come up with a way to finance this to his satisfaction. Council member Milan stated he was more inclined to see this was still occurring after discussing this 2 years ago, and the priorities discussed 3 months ago of the outflow valve, the inflow pipe, and the dredging should be funded now given the impact on the town. Looking at the safety issues, Council member Milan noted the sidewalk on Hatcher is hazardous, and the roundabout being looked at is needed but this isn't a priority.

Vice Mayor Williams requested that the money be used to find out what's critical and agreed with Council member Stinnette that they need to use what money is in place to fix what they can. Council member Bertaut also agreed with Council member Stinnette's comments regarding pulling down a large loan in order to finance outyear projects, adding that some of this is predicated on the low cost of loans, but part of the reserve is to take care of capital improvement. Council member Bertaut asked to what extent they could get some engineering services bid out and how the engineering costs were calculated. Council member Bertaut commented that while they were being warned about the risks of pipes failing catastrophically, the reality is that they tend to fail slowly, and therefore more focus is needed on modes of failure to help with prioritization. Council member Bertaut noted the proposal to increase the sludge storage as a result of additional developments and asked if this was development already on the books or a look forward based on assumptions. Council member Bertaut thanked the staff for their presentation, but concluded there was no need to move forward with a payback loan as it's a recasting of the loans the council had already been presented with. They should therefore instead look to finance those in the immediate future using loans for the CIP and balance this with a drawing down of reserves.

Mayor Fraser confirmed that he was in alignment with their views and that he saw the payback loan or resolution as a distraction from going after the key elements that are needed. They may have the funds already for the dredging of the reservoir, and as this would also increase the capacity, this would mean 2 wins for just under \$800k. Mayor Fraser felt the second priority should be the water reservoir into town as he sees this as a critical item, and asked that neither item be delayed. Mayor Fraser put forward that, given the great work that has been put into the presentation, 2 items have been identified as being the top priority and asked that the budget be formulated to allow them to happen. Mayor Fraser added that it's important to publish all the information as they don't know if a contractor would be able to view the numbers and suggest either an innovation or a lower estimate. Mayor Fraser therefore requested to democratize the information and present it to the public. Looking to the Hirst Farm Pond, Mayor Fraser noted that this has been an ongoing issue for 12 years, and when he heard the county did some analysis and the price went up, he felt it should be closed as they can't ask for taxpayers' money to fix this.

Mayor Fraser confirmed that town council felt the resolution shouldn't be voted on for design work, but look at the 2 priority items and then look to reprioritize the other items. Council member Stinnette agreed with the summary, adding that if the town council need to give authority to use up to \$1.5m of the water reserve to help fund 2 items then this would give them some maneuvering space in the budget formulation. Council member Stinnette noted that they are currently \$2.9m above the limit, so giving \$1.5m authority

would still put them \$1.4m above the limit. Mayor Fraser commented that \$1.5m was very good given the line accounts for 60% of the town's water.

Mayor Fraser asked the council if they should give staff the direction on the \$1.5m for the first priority project of the main line. Council member Grewe agreed with it as a starting figure and understood that it may increase in future to be delivered in a timely manner. Council member Grewe wished to make it clear to staff that they have been given the priority, when they have the \$1.5m, the aim is to try and do it for less than this, but that he also wants staff to be honest with the council on this. Council member Grewe noted that a couple of items that are part of the CIP but are largely not funded from the loans or reserves, stating that he was loathed to kick these out as it would bring in money to the community. Council member Grewe asked that staff come back to the council if they are looking to remove any of these items. Council member Greenly noted that the message given to staff was not to go into reserves as it would hurt the rating, which is what probably lead to the resolution, but now was the time to do so. Mayor Fraser clarified that the majority of the reserve came from availabilities and they have been told that availabilities from development will pay for itself, so when they go into the reserves, they are dipping into something that was intended to be spent on the infrastructure.

Council member Milan confirmed that he was in favor of allocating the \$1.5m from the reserve fund, adding that he has advocated looking at nuisance town assets that are costing money to have and get dispose of them to bring in revenue and not go into reserves. Council member Milan commented that he felt this view had been ignored, to which Mayor Fraser stated this wasn't the case as they need to hold themselves accountable and keep pushing for these to be done.

Mayor Fraser asked the staff for their thoughts. Elizabeth Krens commented that she heard that they would like staff to reprioritize the items, so the focus is on the Hirst Reservoir improvements, which is just over \$1.5m, and the WTP to the town water main project, which is about \$2m, and to utilize the reserves. Elizabeth Krens noted the other projects may need to be pushed out further and that she felt the council may want further analysis regarding actual smaller breaks or trends to help them prioritize the projects in future. Elizabeth Krens confirmed that they would not be doing a reimbursement resolution, that staff would look at the cash and balance all of this out, they would then return on how this is resolved.

Dale Lehnig noted a question from Ryan Cool, who asked if the engineering firms that can bid are limited to a town-selected group. Ms. Lehnig confirmed that they have engineering firms that they went out for RFP, those firms are task-order firms, depending on the size of the project. Dale Lehnig explained that they technically can't request the costs as they're professional services, they need to choose the firms based on their references and what they believe they can do. In response to the question on how they came up with the engineering estimates, Dale Lehnig explained that if there's not an engineering firm on board, then an estimate is done of the construction costs and then engineering typically ranges 15-20% of the construction cost.

Dale Lehnig commented the Hall Ave/O St Water Main Replacement funding has already been appropriated and asked if they should proceed with this. Mayor Fraser confirmed that they can move forward with appropriated projects. Dale Lehnig clarified that the WTP to the Town Water Main Replacement project would therefore move up into FY22 and the others would be pushed back out.

Mayor Fraser asked that if an article was written about the 2 priority items and a company came up with a solution, if that company would disqualify themselves by presenting a solution and price. Dale Lehnig confirmed that they would like to handle this through the engineering firm, so they would look at the options and therefore it wouldn't be disqualified.

Mayor Fraser noted that about 2 years ago the USDA stated there were low-interest loans and asked if they were looking at these for the outyear projects. David Rose explained that they need the specific projects, the amount needed, and the timeframe. David Rose stated they need guidance so that if 2 projects are \$5m, and the amount could be adjusted once the bid is out, so the engineering team need to give a sense of the cost, and if they borrow too much, that money would go to pay down some of the debt, paying the debt service or will be rolled into other projects. David Rose added that there are a number of programs, noting that they are currently working on a \$9m police station in North Carolina that will receive 2.25% 40-year money, which requires interim financing before getting the money in around 2.5 years. David Rose stated that when they were asked to strip out the Stantec modelling, the result is the average annual rate increases without capital are about 4% over the next 4-5 years if they are able to do the restructuring discussed, otherwise the rate increases will be around 10%. David Rose noted Council member Milan's point about getting rid of assets, stating that they were speaking about the overall utility system and leasing it on a long-term basis, which could be considered.

Mayor Fraser asked the council for any further comments. Council member Stinnette responded to David Rose's point, stating that if they looked to the projects from FY23-26 in the water fund, this would be around \$6-7m of projects. If they could bundle some projects in the outyears and package them in such a way that if they get 40-year money of \$10m then that would be enough to buy own the next level project lists. Council member Stinnette reacted to the point made by David Rose, remarking that the 4% figure keeps coming back as a CPI. When CPI is stripped out and you look at what you owe, by restructuring the loan and going to the 4-rate structure, adopting a CPI year on year, there will be a sustainable financial outlook over the next 5 years. Council member Stinnette remarked that the issue would then be that they have the current debt and a rate structure to deal with it, and the CPI requirements. Council member Stinnette noted there are then outyear requirements, so if staff could bundle these into logical packages, then they could go into the marketplace to request multi-year money to look at funding the outyear CIPs.

Council member Stinnette explained they then need to look at paying the debt, but the issue with the legacy date was they assumed they could buy their way out of it due to availabilities. The desire for growing out of debt is no longer there, so the council needs to deal with this today, and by restructuring the legacy financial instrument and instituting the 4% number year over year, Council member Stinnette felt they are now on a sustainable path for the legacy debt. When new debt comes in, it then becomes a chance to find the best financial instrument of the assumption of the debt and work out how to pay it off for the debt's lifecycle.

Council member Milan commented on the 3% model that Davenport presented, stating that he didn't understand taking out the CIP would give the 3-4% he was looking for. This would give some income to put towards the debt, but not put a debt on the townspeople.

Council member Grewe stated that there was a general understanding on the 4% and the CIP feeder fund and felt that Council member Stinnette decoupling these was wise as the CIP needs funding. Having this conversation regularly is beneficial, but if they are looking at 4% year over year, this would be better than 8-10%, but it requires taking advantage of the current interest rates and adjusting the rates. Council member Grewe suggested they could look at a set-up where they pass this now, set a time frame, give themselves plenty of time, and it would be better than it could've been and stabilize the fund. Council member Grewe recommended they do this sooner rather than later to take advantage of the current opportunity and rates, and stabilize the fund as it is, then the future CIP can be taken a separate discussion. Council member Grewe added this would also buy them maneuvering time, but if they pursue this strategy, then they will need to consider how to proceed with the 2 priority items.

Elizabeth Krens agreed with Council member Grewe's point on adjusting rates and confirmed that they are open and looking for guidance, but they would need a public hearing before raising rates. This would also have to be timed with the utility billing periods, so there may be a 3-month set up for doing this, it could either be done with the FY22 budget process or move faster than this, which would impact the October bill. Elizabeth Krens stated that they could do this with guidance from the council and they would work with Stantec to ensure they were advertising it correctly. Elizabeth Krens added they would also need to know if they needed to switch to the new rate structure, and they may want to consider switching to the new rate structure and raise the rates with the new fiscal year to avoid a compounded effect. Looking at restructuring, Elizabeth Krens stated that Davenport is looking at these options and more analysis will be done to ensure no new money is needed for the 2 projects.

Council member Grewe responded that there is a public hearing for a rate adjustment, but also for the rate adjustment for the structure and asked if both of those could be done in a public hearing. Elizabeth Krens confirmed they could hold the public hearings separately or together. Council member Grewe suggested this be approached with an overall strategy to allow for clear messaging to the community where an implementation timeline can be built into the hearing. This allows the community to see how it would roll out and the impact can be spread out. Doing this sooner allows for stability in the fund and they can deal with the immediate CIP with the \$1.5m reserves.

Mayor Fraser commented that he was in overall agreement with the raised points, but that the current rate structure is unfair to the business community, and while he still has questions around this, he stated he would support directing Davenport for them to provide the best rates possible in the marketplace. They could then have a discussion to raise the rates to deal with the real debt coming in 2023, but Mayor Fraser stated he still has issues with the fairness argument and putting rates to 4 tiers. Council member Stinnette agreed, commenting that the 4 tiers simplify the structure, but that he understood the concerns. Council member Stinnette felt that timing is important, and they need to be at the end of COVID-19 before going ahead with this, and therefore Davenport could find the best deal, bring it back to the council and there can then be a more informed rate increase. If Stantec then wants to repatch the simplified structure to allow the council to make a decision. Council member Stinnette agreed that they need to look at restructuring the current debt and then look at when to look at the rate increase, and also look at inviting Stantec to talk about the simplification of the rate structure model.

David Rose suggested that with rates at 60-year lows, he wouldn't recommend waiting 6 months as they either need to do a restructuring and be at 4% or be at 10%. The issue with deferring issues, they won't find lenders who will be as aggressive, so while they know they will prioritize capital and pay cash for the current capital, they can also get the restructuring done, and they will have bought themselves 4-5 years. David Rose recommended that they therefore proceed with this, and that what they now need to look at are rates.

Mayor Fraser asked if they would need to go back to the credit agencies and reaffirm the ratings before doing this. David Rose explained that they could do a dual-track strategy and see what various lenders are willing to do and then present these to the council, but they first need council to provide Davenport with a direction. The council approved Davenport to proceed with looking at rates.

David Rose requested council to recommend any specific bankers via Elizabeth Krens. David Rose added that they don't want to defer this as Virginia Resources Authority require them to submit no later than 5th February, and this is the second option. David Rose noted the 3rd option would be a public set out and survey the various funding sources.

Elizabeth Krens asked if they needed the approval in the form of a motion to move forward. David Rose confirmed that they didn't require this as they weren't committing that they will be do a restructure. The committal is a serious review.

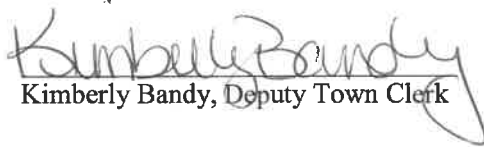
Council member Grewe asked what the timeline was for the next steps. David Rose suggested that they would speak to people over the next 6-7 weeks. Council member Grewe commented that he would like people to be familiar with the strategy by the time they get to public hearings. David Rose added that they are likely to have some ideas in mid-February, then they will look to implement this by the end of Q1. This would give some certainty as they enter into serious budget deliberations for FY22.


Mayor Fraser commented that Elizabeth Krens and the team would be working with Davenport so they would be ready for a public hearing. Elizabeth Krens confirmed they would work on this and clarified if the council would be amenable for staff to include a proposed rate increase in the budget. Mayor Fraser confirmed this was correct and stated that in 2023 rates will increase by \$1.3m and they have all made a commitment to address this.

ADJOURNMENT

Council member Grewe made a motion to adjourn. Council member Milan second the motion and carried 7-0. The motion was approved, and the meeting was therefore adjourned.

Submitted by: TakeNote


Kimberly Bandy, Deputy Town Clerk


Kwasi Fraser, Mayor

