

**SHERMAN BOARD OF SELECTMEN
SPECIAL MEETING MINUTES
July 12, 2012**

Present: Clay Cope - First Selectman Chris Jellen - Selectman Andrea O'Connor - Selectman

I. Call to Order: First Selectman Cope calls the meeting to order at 7:00 PM.

II. Pledge of Allegiance

III. New Business

a. To discuss bonding procedure for the Sherman Library expansion

First Selectman Cope invites Town Treasurer, Eric Holub, and Christine Lent from the library to sit with the Selectmen. Eric handed out a spreadsheet for the Selectmen. Eric asked for the Library's balance sheet, and the Selectmen share a copy.

Christine notes there is a large contingency, and the library has to plan for that, so they will continue to raise money for 6 months or longer. Eric points out that the Board would like to understand where the project is in the fund raising, how much funds are already committed, to help the Board decide when they should go to bonding for the \$1 million. Christine says the library feels the funding is in place. On the balance sheet, the Webster checking account shows roughly \$110,000.00. This is for the billing. There is an operating account above this. There are also unrestricted funds of \$723,000 at Vanguard. The other assets are the land that was purchased. Right now, there is \$200,000 to come out of Vanguard, leaving a balance of \$523,000. Christine notes that the library can account for all the money spent on the building expansion, including the architect, engineer, and legal fees. Christine notes that regarding profit & loss, she reconciled that \$56,000 spent this current year, but this will be capitalized. Mostly this year, the library spent money on legal fees and architect fees to redraw things, because they changed the plans.

Christine points out that pledges committed but not yet received is not everything, as some of the larger gifts are in there. The library had a Memorial Day BBQ and kicked off the campaign countdown, and they are seeing pledges coming in. The \$275,000 is the aspirational gifts, and the \$238,659 pertains to committed pledges. Christine says the bid packets will be going out soon, the GMP is Sept. 5th or 6th, according to Mason Lord (from the library). Opening of bids will happen in mid-August. First Selectman Cope notes the library still needs to raise \$463,982.

Eric Holub offers to explain his understanding of the cash flow situation. Eric notes \$35,000 of moving expenses, architect fees to October of \$44,000. Eric points out that the firehouse is still incurring architect fees. Christine notes that library architect Bruce

Tuttle has already been paid almost \$150,000. Tuttle is doing some work now for the bid packages, so that is the \$44,000. On construction costs, Christine notes if they break ground in October, they will pay a big bill once a month. First Selectman Cope inquires if the total cash flow needed is in sync with the Town agreement. Christine notes that the Town does not start “kicking in” until November, 50% of the \$320,000. Then that drops down to 25% in January for the Town.

Christine notes that the line item pledges through June 30th pertains to funds already received. The assumption is that 75% of those pledges will be received by January. There are only a few five-year pledges. Eric wonders what will happen if the pledges don't all come in, if people don't follow through on the pledges, or if the project runs out of money. Christine responds that continuous fund raising will keep putting money back.

Eric asks if the move to the school is in the soft costs. Millie Loeb (library) and Mason Lord (Building Committee Chair) note that the total cost of the move is \$35,000 - \$17,000 to move in, and \$17,000 to move out.

Eric notes that the Town has substantial funds for the first 6 or 7 months of the fiscal year. The Town could afford to borrow from the General Fund, then (depending on the market) bond it once things have progressed. Interest rates seem to be pretty stable. He says the Town's funding is probably firmer right now than the Library's funding.

Eric inquires about the State grant. Millie says they are in their first extension, and she believes that extension is good until January 2013. They have to break ground before the first of the year, and then there are potentially two more extensions available. Each extension Millie thinks is at least a year, maybe a year and a half. The total number of extensions they can get is 3.

Barry Bernabe, Town Financial Advisor from Webster Bank, clarifies that funding comes from bonding grant from the Town, a State grant, and contributions. Barry presents an Interest Rate Outlook, Debt Analysis & Credit Overview pamphlet to the Selectmen. He notes that the Town would issue bonds. The lowest interest rate is a very favorable rate for the Town. Barry notes that Sherman has a high bond rating, which would allow the Town to borrow at a very favorable rate. The Town is in the Aa2 category. There are Four Major Rating Assessment Categories, and the Town is very strong in all of these 4 areas (page 5 of pamphlet). There are various options available to the Town for the borrowing of the \$1 million for the library (page 6 of pamphlet). This could be Short Term Bond Anticipations notes, or Long Term Bonds. The shorter you borrow for, the less interest you pay. On page 7, there is a sample amortization schedule for a 20-year loan. The payment would be \$50,000 per year, plus the interest – as the principal is repaid, the interest drops off. Page 8 shows the Town's existing debt situation – Column E is the delta – the Town's debt drops off each year. If the Town borrows more money, it helps mitigate the debt.

If the Town were to do this, basically, next year debt service would go up \$52,000 roughly, even though the new debt is higher than that. Each year after that, the debt would drop. Page 9 is a graph of that spreadsheet – the blue bars represent existing debt, green areas are open space, and on top of that the new debt. Page 10 depicts a \$1 million dollar loan for 15 years instead of 20. This would be roughly \$70,000 per year in principal – higher, because the time period is compressed. This also details the existing and proposed debt for the 15-year bond amortization. Page 12 is a graph of the 15-year scenario. Page 13 is the 10-year amortization scenario. Principal payments here would be \$100,000. Page 14 details the 10-year scenario, and the impact in the first year would be \$94,425, and then would drop each year after.

Barry says that once the Town decides to start the process, within 4 weeks or so the money can be borrowed. Typically, a Bond Anticipation would be done first. The cost for this would be about \$10,000. Barry says a short-term note is preferable, as the Town would not want to bond issue right out of the gate – that could cost \$50,000 to \$60,000. The Town needs to be sure that the project is really going forward and not dragging out for a long period of time. Permanent bonding could happen down the road. Barry says the Town does not want to pay multiple issuing costs, if there is something on the horizon the Town should try to combine capital projects.

Eric says as the debt comes down the Town could lower taxes or fund that difference into our own capital non-recurring, which would help to keep taxes stabilized. Christine thinks there was some part of the agreement tied to the length of the bond, a 20-year schedule. Selectman O'Connor says there was forgiveness if the library became insolvent, a payback provision if the life was assumed to be about 20 years. There was no reason for this to be correlated. Selectman O'Connor thinks that the library's decision to borrow from their own Vanguard fund puts money on the table, and there is a healthy contingency beyond the guaranteed minimum. Christine points out that Vanguard does not earn money. This is unrestricted money, available for the library. First Selectman Cope is not sure how the Guaranteed Maximum Price is going to come down, and not sure that there will be a broader number of bids. He is concerned about how to obtain multiple bids. Christine says the library is actually reaching out to people.

Eric is a little worried about the cash flow coming in from the library pledges. He wonders if the library can formalize this more. Millie says the library is doing this, and most of the pledges are committed in writing. Eric is concerned about the timing of when the cash will be received. He notes there is nothing worse than a project that runs out of money. Millie says they know when most of the pledges are coming in. Selectman O'Connor notes they don't know yet that the anticipated private/community grants are going to come in at \$275,000 and don't know when the \$238,000 committed is coming in. There is a large gap that the library is attempting to cover with the Vanguard. Christine says they can do a better analysis of the \$238,000. She says if they didn't get another pledge today, they can cover that \$463,000 with the Vanguard. Both Christine and Millie says the library can still cover their operating expenses, even if they receive no more pledges. Millie says they continue to aggressively fund raise. The pledges that go out after the completion date will replenish the Vanguard fund.

Eric notes the Town can get the \$1million quickly. The Board will decide if they are comfortable with what is in place, and then can figure out the financing. Borrowing for the Town is not an issue. Selectman O'Connor notes it takes about 1 month to issue the debt, and the town still has enough money to borrow from itself in the interim.

b. To discuss and possibly act on transfers and/or overruns with respect to the municipal 2011-2012 budget and c. To discuss and possibly act on a special appropriation in anticipation of Board of Education budget overruns

Eric had Business Associate Liz LaVia print a Preliminary Summary of the Town of Sherman Financial Status for 2011/2012 Fiscal Year. Eric says the Town is not bankrupt, and has had a pretty good year, in fact better than balanced – notwithstanding the misleading headlines in the Citizens News last week. He notes that the Town transferred \$650,000 to capital non-recurring from surplus for the school roof and for the firehouse. On Town spending, the General Fund is very close to budget. He notes that these are not final figures, as the Town will still receive more bills, and he put in money for this, for recycling, and the visiting nurse. Regarding the B.O.E., Eric notes the estimate is they will be over budget by about \$20,000 – really related to B.O.E. grants, part of last year's budget discussion. On the spending side, the B.O.E. was very close to authorized spending. Eric says the Town knew spending was tight this year. When the auditor comes in, there will be some tweaks, but it should be fairly close to this. Page 3 is the proposed additional appropriations to revenue. Eric notes that there are expenditure accounts really associated with revenue accounts. Eric thinks it is appropriate to go to a Town Meeting to ask to increase the expenditure appropriation, recognizing the revenue and increasing the spending.

Eric points out that with the Building Expenditures over Budget, we do have roughly \$8,000 more than we had in the budget. The Building Inspector Expenditures went \$17,052 over budget. Eric notes that this may be firehouse activity that the Town knew they would have to absorb. He would recommend going to the Town asking for the \$8,000 to cover this. Regarding Emergency Revenues for FEMA, Eric points out that the Town received \$29,000 of FEMA grants, with \$40,020 spending against it, and FEMA does not cover 100%. He recommends increasing appropriations to help offset that \$40,000. Eric says the Town doesn't budget for disasters. Selectman O'Connor notes there is probably extra FEMA money coming in down the line, just not in this fiscal year. Eric points out that SPARK had a good year, better than balanced, and their revenue is higher than budget by \$4,554. He thinks they should move the \$617 of SPARK Salaries Expenditures over Budget out of their revenue. Regarding P&R Other Programs, Eric notes that they didn't have a budget for that. Eric thinks they should ask to increase the expenditures by \$1,460. Eric thinks there are around \$39,570 total additional appropriations due to revenue.

Eric looks at the Interdepartmental Transfers – the transfer to/transfer from notations on his handout. Selectman O'Connor said the previous auditors recommended they understand where overruns came from for any items that are over \$1,000. Eric thinks

the Board can do these transfers without going to a Town Meeting. The Transfer To and Transfer From boxes would still reflect as being over-budget, but would not turn an overrun into an under run. This also would not transfer the whole from the under budget. He would recommend a \$107,700 From/To Transfer. First Selectman Cope notes what happened with the Legal line and Building maintenance line, and why that line went over. He has a breakdown on the counsel, Spring Lake, and the Wren situation. First Selectman Cope opines that Eric's plan for overruns is a good one. Selectman O'Connor inquires about the origins of the Assistant to the Selectman overrun of \$4,600, and First Selectman Cope will check on whether Ruth Byrnes' extra time with FEMA was allocated to FEMA. He notes that Ruth also had unfactored holidays. Regarding the Business Administrator overrun of \$5,400, First Selectman Cope says this was a result of a voted increase in her salary, as well as making sure that all the accounting was done really well, and her involvement in the budget was part of it. With respect to Counsel, First Selectman Cope points out this was primarily the library at \$10,000, Park & Rec at \$9,100, Spring Lake at \$7,400, Emergency Services Facility was over \$10,000, and the Playhouse cost \$11,000. The ZBA case got blown up as well. With respect to technology, the \$3,848 is a combo of upgraded computers and added equipment. Regarding heating, First Selectman Cope says the Business Administrator caught something in the bill that brought that up.

Regarding the B.O.E., Eric says he spoke with the Superintendent, and decided to put everything associated with education on one page. The state gives the Town money for things like Education Cost Sharing, Adult Education, and child transportation for buses. The B.O.E. also charges tuition for preschool, and we record this as revenue. The General Fund education revenue is better by \$1,462, and the expenditures are worse by \$20,820. The Net General Fund is worse by \$19,358. The grant line pretty much balances. The whole page really totals to \$19,407 off, comparing revenues and expenditures. Eric says this comes back to the grants. The B.O.E. recommended \$225,000 and the B.O.S. settled on \$292,711. The grants came in higher than B.O.E. recommended, but lower than what the B.O.S. decided on. The bottom line is the B.O.S. said they would hold B.O.E. harmless if grants didn't come in. Eric thinks it would be appropriate to request an increase appropriation of the \$19,000 shortfall. Eric thinks an under run from the Town side can be moved to the B.O.E. Selectman O'Connor is not sure these two budgets can be mixed. She would rather see a request to recognize the revenue against that budget and keep the two budgets separate, because the Town has no control over the B.O.E. budget. She thinks it is a cleaner process this way.

Eric says the Town has additional tax revenue, around \$20,000. Selectman O'Connor says that would have to go to a Town Meeting, because that is increasing the revenue side. This is a cleaner way to recognize additional revenue and keep the separation. Selectman O'Connor addresses how the budget is presented to the people - it is cleaner to bring the revenue in, rather than take from one budget to another. Eric says there has to be a link between revenue and the expenditures. He says this is increasing the budget appropriation bottom line. The other stuff transfers to/from within the same total. He thinks it is fair for the B.O.S. to honor the spirit of last year's budget discussion.

Selectman O'Connor refers to the transfers in/out box on page 4. There Eric proposed some under runs going to the school. Eric says if cross off the \$19,100 B.O.E. and life and medical of \$22,281 is an easy one to modify by the same amount. Selectman O'Connor says that would recognize \$3,100 of that. Eric says things don't have to line up one for one.

Selectman O'Connor moves to make an adjustment transfer of \$88,600, Selectman Jellen seconds, all in favor.

The Selectman are still waiting on an exact figure from the B.O.E. This will be tabled until the July 26th meeting, where the B.O.S. will determine what should go to the Town Meeting.

d. To discuss the status of the Capital and Non-Recurring Expense Fund

Eric notes that once a project is closed and goes away, it is useful to look at recent projects to keep a check on spending. With respect to the open project Fox Run, there is still \$4,266 from the initial authorization plus \$50,000 STEAP not yet received. The Old Greenwoods Bridge project is done, but still waiting for the State to finish its audit. Eric doesn't want to spend money that may have to be paid back. Regarding Spring Lake Road, everything we committed against the project, including the STEAP, has been spent, and additional out of the general fund. We have not yet received \$150,000. Eric suspects the state was trying to preserve its cash position at the end of its fiscal year. Regarding the school roof – we did get \$74,978 from Department of Ed. Construction grant. We authorized \$390,000 of our own funds, \$350,000 of that from surplus, so there was \$464,000 available, we spent \$397,000. The remaining funding here can go either to capital non-recurring or to surplus, says Eric. In either case, it would require a Town Meeting for spending. First Selectman Cope says this will also go on the July 26th agenda. Eric says should check prior meetings, to see if there was prior wording or intent as to where this money should go to if there was surplus. First Selectman Cope says he will look this up. Regarding the playhouse window STEAP, the funds have not yet been received. First Selectman Cope notes the plan is to do the windows at the same time as the bathrooms, if the Town gets the bathroom STEAP. Regarding the \$20,000 for Comm. Consultant Emergency Services, Eric has not seen any bills on that yet. The bottom box is \$313,000 sitting in the bank as of June 30th, expecting \$150,000 for STEAP, have \$192,000 committed against stuff authorized, but not yet spent, \$4,000 grant from Iroquois gas grant for Munch Meadow, but we can't spend it. We encumbered \$1,623 Historic Commission, agreed to earmark it for a future project. Boat slips figure of \$5,561 is supposed to be used for rebuilding docks in the future. Running traffic workgroup collects money and spends money, balance of \$466. Money from Happy Acres cell tower is up to \$27,576. Eric says at some point in the future, would want to see if state statutes let the Town invest capital non-recurring more aggressively than the general fund. In sum, \$326,281 unallocated, and then with this years budget added \$200,000, we have a total of \$526,381.

e. To discuss the status of Emergency Services Facility funding

p. 7 is the Emergency Services Facility page. Eric says there is \$278,850 in the bank account today. The funding that was available was \$4,835,878. \$4,500,000 of that is from bonding, \$300,000 from Surplus transfer, \$3,925 in bidder fees, and accumulated interest from the bonding of \$31,953. The Town has spent \$57,127 of the Surplus transfer. Change orders approved to date are \$356,540. Pending Co's are \$85,000 according to an email from Glenn Kiefer – there is still more examination to go there. The total amount to be paid to Merit is \$4,057,669, and they were already paid \$3,845,622. Eric has not yet seen what the bonding company is paying Merit. Silver Petrocelli has already been paid \$580,159.01. \$13,420.25 in bills from Silver have been received, but not yet paid. Owners Rep is \$34,014.24 and Other Vendors already paid is \$97,330.89. The new CO tanks are not to exceed \$40,000. Eric says this consumes all but \$13,284.52 of the \$278,850 balance. Eric's view is that the project is basically out of money, but hopefully very close to this amount if everything works out with the bonding company. Eric says at some point when the project is closer to ending, then it can be determined if the \$13,284.52 covers it. If not, he suggests looking at capital non-recurring and going to Town Meeting.

Selectman O'Connor has problems with the other vendors already paid item. She asked Liz to run a detail of what was spent on the firehouse. She wonders where this money went, because she did not sign that many checks. She is also curious as to what accounting is being done to recover some of the costs that Merit said they would pick up, like the temporary heat. Selectman O'Connor is also concerned about the Town paying for utilities at the firehouse when it is not occupied. She is concerned that the Town is perhaps not preparing a good case for a claim on the bond for our damages. She notes the Town incurred significant damages due to Merit's default, and they should be accounted for. Eric says checks haven't been signed, because that \$278,850 is actually still sitting in the account. Regarding other vendors already paid, he mentions this includes many things that happened prior to January, like paving. None of those other vendors charges have changed for more than 6 or 9 months. Eric gives Selectman O'Connor a chronological list of payments – noting that nothing was really paid since Silver Petrocelli in January. Eric says the Town wasn't completely out of money when we got the surplus. He says if all this is right, we will be very close to the \$300,000 surplus, and this will be the right number. The other expenses for the delay have been absorbed in the general fund. Selectman O'Connor says that Attorney Jeff Sienkiewicz wanted to leave the question of consequential damages open until the end of the project. She wonders if there is a way in place to track these changes, she doesn't want to miss anything. She notes the project is costing more than we advertised it for, and we owe it to our taxpayers to recover as much of our outlay and to make a case for the additional costs the firemen incurred. There are significant architect fees in here that are attributed to these weekly meetings for the past 3 or 4 years. Selectman O'Connor notes that this should be built into some of the damages. Selectman O'Connor thinks this will be recoverable from the bonding. First Selectman Cope notes that daily logs are made, and they go down every day so we can make a case of who is where and what is happening. The Selectman decide they should hold an Executive Session for this legal strategy regarding formulating an approach for making a claim on

the bond. First Selectman Cope will check to see if Jeff Sienkiewicz is available for this on the 26th.

IV Public Comment

Veronica Scheer says that at the last meeting, the B.O.E. submitted a written explanation of what they felt they would be over on their budget. The number mentioned at the meeting was \$23,000. Eric says since then, there were electricity and elevator rebates, so that takes the \$23,000 down to close to \$20,000. Bob Gamper says the \$23,000 was what they thought would be a maximum. The amount now is at approximately \$20,100 for the reasons Eric stated. Eric says the fiscal year ended June 30th, so we are only 10 days past the end of the fiscal year and bills are still coming in. It is still premature to declare victory/failure on the fiscal year. Eric says that things come up for the B.O.E., such as new special Ed students, and they look at their budget to see what they can do to make it come in on budget. This discrepancy is close to on the number, with such a large budget. Eric says on the Town side, we are better than budget. We are \$48,000 estimated above budget. Eric says he would categorize it as "the town is balanced". This is a status quo year.

Joe Keneally inquires about the \$313,000 capital non-recurring. Eric says the surplus won't be done until everything is done. It is roughly 1 million, about 7% of next year's revenue, which is minimal threshold the Board established. It's not as big as it was before, because we moved \$650,000 out to due to these projects.

Mason Lord speaks regarding the library move to the school. He says at a P&Z meeting, it was determined that the Town, as owner of the school, needs to file an 824 form. P&Z says the library needs a special permit, naming the library as agent for the B.O.S. as the owner of the property, to apply for the permit. The library becomes the agent because they need to do all the work to prepare the special permit. First Selectman Cope says this can't be added to tonight's agenda, because it is a new item. He says they could possibly hold a special meeting, with this as the sole item on the agenda. Selectman Jellen notes that he was at the P&Z meeting, and the library can't apply for the special permit unless the B.O.S. designate them as the special agent. The next P&Z meeting is on the 19th. Selectman Jellen and Selectman O'Connor will be available on the 19th at 6:30 for a special B.O.S. meeting on this. First Selectman Cope says he will have all the paperwork ready for the meeting. In the meantime, Mason can approve the documents he needs.

V. Adjournment: Selectman Jellen moves to adjourn the July 12, 2012 Special Board of Selectmen's Meeting at 9:00 p.m., Selectman O'Connor seconds, and the motion is carried unanimously.

Respectfully Submitted,
Laura J. Pettinato, BOS Clerk

Clay Cope

Chris Jellen

Andrea O'Connor

Minutes are not considered official until they have been approved and signed by a minimum of two Selectmen.