Special Council Meeting
February 7, 2020
1:00 p.m.

A Special Council Meeting of the Elkton Town Council was held in the Council Chambers of the Elkton Area Community Center on February 7, 2020 at 1:00 p.m. with Mayor Joshua J. Gooden presiding. The purpose of the meeting was as follows:

1. Davenport & Company presentation

2. Closed session pursuant to Virginia Code § 2.2-3711.A.1 under personnel, reviewing/interviewing prospective candidates for employment

3. Hire town manager

Present: Mayor Joshua J. Gooden, Vice-Mayor Randell Snow, Council Member Margaretta Isom, Council Member Heidi Zander, and Council Member Louis Heidel.

Absent: Council Member Jay Dean, and Council Member Steve America.

Also Present: Treasurer Clairen Sipe, and Clerk of Council Denise Monger.

Mr. David P. Rose and Kyle Laux of Davenport & Company gave a report to Council of the financial overview of the Town. The following topics were discussed:

1. **Peer Comparatives**

   Peer comparatives were conducted and it was determined the Town had no issuer rating from Moody's, Standard and Poor's, or Fitch. Those companies provide an evaluation of a credit risk of a prospective debtor, predicting their ability to pay back the debt, and forecast the likelihood of the debtor defaulting.

2. **Demographic & Economic Information**

   The Town's population was compared to other Virginia cities and towns with populations blow 6,000. The Town's population had grown over the past five years. It was noted the Town's real estate tax rate was on the lower end but in line with other peer groups. The Town's assessed value had grown, on average, approximately 2% per year during the past 10 years.

3. **General Fund Financial Overview**

   General Fund grew over 10% during the past five fiscal years. A large one-time fund increase in FY2016 lead to a substantial increase in the General Fund Balance; however, those funds were gradually spent down in FY2017 to FY2019. Davenport recommended the Town consider adopting a formalized policy to hold Unassigned Fund Balance of at least 50% of the General Fund Revenues or $1.25 million – whichever was greater. In addition, institute a Utility Enterprise Reserve Policy to hold at least 180 days Cash on Hand in order to provide a reserve safeguard for both the General Fund and Utility Enterprise Fund.

4. **Existing Debt Profile**

   The Town's total existing tax-supported debt profile, and principal outstanding as of 6/30/2019 was $1,318,341.

   Unassigned Fund Balance Current Outlook: The Town's Unassigned General Fund Balance for fiscal Year 2018 was roughly 58% of General Fund Revenues.

Debt Service to Expenditures Current Outlook: The Town's General Fund Debt Service for Fiscal Year 2019 was roughly 8.9% of General Fund Expenditures.

Debt to Assessed Value Current Outlook: The Town's Tax-Supported Debt for Fiscal Year 2018 was roughly 0.5% of the Town's Total Assessed Value.

5. **Capital Funding Plan**

The Town had identified the need for approximately $1.2 million in order to fund renovations to the former Town Hall. Based upon the expected useful life of the project, the Town might consider funding the renovations with debt to be repaid over 20 years. The analysis provided by Davenport assumed the Town would borrow the funds in the Spring of 2020 with a planning interest rate of 3.5%. Three scenarios had been analyzed for the purpose of affordability of the project based on the current budgeted debt service levels:

Debt Affordability Analysis / Scenario 1 - Analysis assumed the Town borrowed for the renovation of the former Town Hall in May 2020 with a 20 year term, level debt service structure, and interest rate of 3.50%. Total tax effect estimated at 4.77¢.

Debt Affordability Analysis / Scenario 2 - Analysis assumed the Town borrowed for the renovation of the former Town Hall in May 2020 with a 20 year term, 3 years of interest only payments, a level debt service structure thereafter, and an interest rate of 3.50%. Total Tax effect estimated at 2.50¢.

Debt Affordability Analysis / Scenario 3 – Analysis assumed the Town borrowed for the renovation of the former Town offices in May 2020 with a 20 year term, 2 years of capitalized interest, 1 year of interest only payments, a level debt service structure thereafter, and an interest rate of 3.50%. Total tax effect estimated at 0.56¢.

6. **Next Steps**

- Adopt Financial Policy Guidelines during the FY2021 Budget Adoption process especially those related to Fund Balance / Reserve levels.
- Refine the capital funding strategy for General Fund projects.
- Consider implementing a General Fund borrowing / refinancing during the current historically low interest rate environment.

With no additional business the meeting was adjourned.

Mayor: Joshua J. Gooden

Recorder: Denise R. Monger, Clerk