



## STAFF REPORT

AGENDA ITEM #: 18-137 & 18-138  
COUNCIL MTG OF: November 20, 2018  
FROM: Dave Caron, Town Administrator  
OFFERED BY: Dave Caron, Town Administrator  
PREPARED BY: Susan Hickey, Chief Financial Officer  
SUBJECT: FY 19 Supplemental Appropriation & Bond

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**PURPOSE:** To seek approval on the proposed Supplemental Appropriation for various capital projects and on the FY19 Bond which is recommended to be used as the financial vehicle for these projects.

**TOWN ADMINISTRATOR COMMENTS:** Please see comments within this report.

**BACKGROUND:** The Town Council has expressed a preference for bonding Derry's remaining portion of its \$5.0M obligation for Exit 4A and is considering other initiatives to include in the bond. This memo will present information on the projects proposed to be included in the bond offering, set forth the anticipated fiscal impact of the debt service, and its potential impact upon the Town's voter approved tax cap.

**DISCUSSION:** There are three categories of projects proposed under **Resolution #2018-067:**

**Exit 4-A:** The Town of Derry previously committed to a \$5.0M obligation for the construction of Exit 4-A; this amount has been matched by the Town of Londonderry. To date, the Town has either appropriated from taxation or from the Unassigned Fund Balance approximately \$3.03M to pay for expenses incurred during the development of an Environmental Impact Statement, which is necessary to secure federal approval for the project. The Council has expressed a preference to share the burden of paying for the balance of this commitment (\$1.973M) with future taxpayers, who would also benefit from this infrastructure improvement; the financial vehicle to accomplish this would require the issuance of long-term bonds.

**Hood Park Dam:** During the adoption of the FY18 budget, the Council appropriated \$400K for Hood Dam repairs to be funded with a long-term bond. Due to value engineering and negotiations between the NH Department of Environmental Services and the Derry Department of Public Works, the budget is now anticipated at \$250K.

**Recreation Facilities:** Two workshops were conducted with Town Council in spring 2018 to review future park and facility needs for the Parks & Recreation divisions. The focus of the discussion surrounded the changing demographic profile of the community and seeking vision into the future needs of the community. At that time, staff was given a directive to propose projects to the Council which are aligned with that focus:

Three capital projects were advanced for further consideration in conjunction with a bond offering. The projects are:

### **Alexander-Carr Lodge Replacement - \$1,500,000**

The Alexander-Carr lodge project is an opportunity to refurbish an aging structure and repurpose for use by community organizations and a multitude of age groups. A new building

constructed to modern standards within the existing footprint is favored over a renovation project.

A two level - 5000 square foot building was determined to fit within the existing footprint. Using the \$300 per sf as a conservative unit price, an estimate of \$1,500,000 has been calculated.

Since January 2017, the Lodge facility was open to the public for winter program {sledding, indoor activities, etc.} approximately 400 hours. When conditions and staffing levels permitted, the building was open Friday afternoons and weekends.

There was a total of 38 rentals ranging from birthday parties, meetings, and assorted community events and classes. Projected attendance during this time period was approximately 2,100 people. The following non-profit organizations rented the Lodge for various functions: Derry Pathfinders, Derry Little League, Community Crossroads, Red Star Twirlers, NH Down Syndrome Association, meetings with Derry Demons and Wolverines.

Also, the facility hosted 4 senior citizen luncheons, which averaged 75-80 people per function, in addition to 2 Special Olympics parties which averaged an approximate attendance of 40 people per event. Finally, the facility hosted a trial youth art/enrichment program last fall which had a total of 26 participants.

It is important to note that the Town also hosted 2 Frost Festivals at A/C, where the Lodge was open in conjunction with sledding, the bonfire, etc. for indoor crafts and special events. 2017 projected attendance was well over 600 individuals. Due to inclement weather, attendance was significantly down in 2018, and would estimate 100 individuals participated in the event.

It is important to note that in previous years, Demons and Wolverines hosted team banquets, cookouts and bonfires; however, they have since outgrown the building due to existing limitations. There has been several individuals and organizations decline rentals as they were looking for a larger kitchen, storage, and seating capacity.

Given the large cost impact of this project, it is recommended that an architect/engineer is engaged shortly after funds have been appropriated to start the preliminary design phase. The goal would be to deliver a facility that has community buy-in and built to suit the current and future needs of the community.

#### **Miscellaneous Park Structure Upgrades - \$100,000**

During the two workshops, concepts for active fitness stations and upgrades to the Alexander Carr playground were noted as opportunities. The Alexander-Carr playground would be completely rebuilt, replacing equipment installed in 1997.

Several outdoor fitness stations could be purchased and installed at appropriate locations at Hood Park, Alexander-Carr and/or Don Ball Park.

**New Field Lights – Don Ball 60’ baseball diamond - \$200,000**

The 60’ baseball diamond at Don Ball Park would have new field lights installed to include conduit, trenching, poles/foundations and new LED lights. Concerns over depth to bedrock would need to be overcome in determining the more economical route for the underground conduit, as well as pole installation.

The Department of Public Works would expect design for the A/C Lodge replacement to occur during calendar year 2019 for anticipated construction in calendar year 2020. Action on the other two projects would be contingent upon the final cost of construction for the A/C Lodge, provided ample funds are available at that time.

**Resolution #2018-068:**

In total, it is estimated that the bond issuance would be \$4.02M.

**FISCAL IMPACT:**

As has been discussed previously, a goal of the administration is to maintain some level of capital investment from the General Fund. This investment would include capital acquisitions and payment of debt service; as the Town’s payment on existing bonds began to decline in FY19, we have used the FY18 General Obligation payments as the Town’s target to maintain debt service payments at that level. The Town’s debt obligations dropped by approximately \$40,000 in FY19, which was used to purchase capital items in the operating budget, thus preserving some future capacity for additional bonding.

Additionally, this strategy lessens the impact of new debt on the tax cap. Section 9.4 (B) of the Charter does provide an exemption from the tax cap for debt service, however, that provision must be voted on annually and could result in an uneven application and occasional negative impacts to both the municipal budget and tax cap.

The Council should be aware of the relevant financial information regarding debt service payments (for debt issued in FY19, either interest only or principal and interest payments would be incurred in FY20 – full debt service in FY21). This information reveals the growing debt repayment capacity between FY20 and FY27:

<b>FY</b>	<b>FY18 Debt Service</b>	<b>FY Debt Service</b>	<b>Capacity Available</b>
FY20	\$ 760,000.00	\$ 673,360.00	\$ 86,640.00
FY21	\$ 760,000.00	\$ 562,700.00	\$ 197,300.00
FY22	\$ 760,000.00	\$ 396,925.00	\$ 363,075.00
FY23	\$ 760,000.00	\$ 386,380.00	\$ 373,620.00
FY24	\$ 760,000.00	\$ 378,385.00	\$ 381,615.00
FY25	\$ 760,000.00	\$ 292,891.00	\$ 467,109.00
FY26	\$ 760,000.00	\$ 285,445.00	\$ 474,555.00
FY27	\$ 760,000.00	\$ 235,550.00	\$ 524,450.00

Due to the Town’s anticipated AAA bond rating from Standard and Poor’s (formal rating is made at the time of the bond sale), the Town’s bond adviser estimates that the Town may issue bonds for approximately 3.7% (although rates have been rising). When issuing a bond, the Town also needs to consider the type of improvements to be bonded, and the appropriate length in which the bonds will be repaid.

Given the size and characteristics of each project, it may be appropriate to issue bonds of varying lengths for each project. Given its relatively small size, we anticipate bonding the Hood Dam for 5-10 years; recognizing the types of improvements, we may suggest Recreation facilities at 10-15 years, and Exit 4-A over a 15-20-year period. The Town’s financial advisor is reviewing options for consideration by the Council. For example, the bond could be structured as an interest only for FY20 only, with accelerated principal payments from FY21 through FY35. This structure would result in slightly higher interest cost but would result in the Town’s new debt service exceeding the retiring debt service in FY20 & 21 only. The Town would have surplus debt repayment capacity beginning in FY22.

**FISCAL SUMMARY:**

The recommended bond issue would fund the following Supplemental Appropriations:

1) Resolution #2018-44	(Exit 4A) Amendment #8 to F&O Contract	\$ 432,868	
2) Resolution #2018-045	(Exit 4A) Amendment #8 to NHDOT Contract	\$ 240,000	
3) Resolution #2018-067			
a.	Balance of Town’s Exit 4A obligation	\$1,296,736	
b.	Hood Pond Dam	\$ 250,000	
c.	Recreation Facilities	<u>\$1,800,000</u>	
			<u>\$3,346,736</u>
<b>TOTAL:</b>			<b>\$4,019,604</b>

**RECOMMENDED ACTION BY TOWN COUNCIL:** The Council is requested to act upon the Resolutions at the January 8, 2019 meeting.

**RECOMMENDED MOTION:** See Resolutions #2018-067 and #2018-068.