

**BOROUGH OF SPRING LAKE
MAYOR AND BOROUGH COUNCIL
SPECIAL MEETING
JULY 27, 2015**

Mayor Naughton called the Meeting of the Mayor and Council of the Borough of Spring Lake to order at 6:00 P.M. with a moment of silent prayer. She then proceeded with the Pledge of Allegiance to the Flag. The Mayor announced that the meeting is being held in accordance with the Open Public Meetings.

PRESENT: Mr. Erbe, Mr. Judge, Mr. Frost, Mr. Sagui, Mrs. Venables, Mayor Naughton

ABSENT: Mr. Fay

ALSO PRESENT: Dina Zahorsky, Deputy Borough Clerk
W. Bryan Dempsey, Borough Administrator
Robbin Kirk, CFO
Robert Hulsart, Borough Auditor
Al Hilla, Leon S. Avakian Consulting
Patrick K. Cole, P.E., H2M Engineers

Workshop Discussion – Water and Sewer Infrastructure Financing and Water Rate Discussion

The Mayor reminded the public audience that this meeting is a follow up to the workshop meeting of last week where they discussed some very pressing issues in connection with the Borough's water and sewer infrastructure and how this relates to the anticipated road paving project. The Mayor stated that Mr. Pat Cole from H2M Engineering, who specializes in reviewing water systems, was hired to conduct a detailed review of the Borough's water mains, hydrants, water pressure and overall water system that is nearing one hundred years old. The Mayor added that the Borough's system has passed its useful life and as such the Borough has experienced more and more water main breaks and these breaks are becoming increasingly more difficult to address. The Mayor continued stating that there are two reasons why this discussion is imminent and very important. The first being that the county is planning a repaving of Ocean Avenue in the spring which will result in a moratorium on working on the road for at least five years, stated the Mayor. Secondly, the Mayor stated, the Borough has been funding for the last two years a road paving fund with plans of continuing to build this fund for the next three years to pay for a significant road paving project. The Mayor continued stating that the council has unanimously agreed that they will not do road reconstruction, curbing, and paving without understanding the infrastructure beneath the roads and repairing this infrastructure prior to spending money to pave the roads.

At last week's meeting, the Mayor continued, Mr. Pat Cole presented his findings while Ms. Robbin Kirk, CFO, spoke to the financing options her and Mr. Hulsart, the Borough Auditor, had prepared. A lot was presented for consideration, stated the Mayor, and it made sense to allow the council to digest the information and come back tonight to hear before the public, any additional comments or questions on the topic and to allow the public to pose questions as well. The Mayor reported that the finance committee has met since the last meeting and Mr. Al Hilla, from Leon S. Avakian Consulting, has also been instrumental in helping the Borough with this effort.

The Mayor asked if Ms. Kirk would begin and detail their findings and recommendations. Ms. Kirk reiterated that they are looking at an overall project of approximately \$10 million noting that the first two phases would take the Borough from now into the spring of 2017 and would total about \$6 million. Since the last meeting, the discussions have been focused on a potential ordinance to bond \$6 million to get the project started, stated Ms. Kirk. That in mind, discussions led to potential strategies for

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paying for the debt, added Ms. Kirk. Ms. Kirk shared that the first analysis includes the phasing out of a flat rate fee on \$4.1 million which would result in a flat fee of \$154.85 per user. The next portion, fall of 2016 into spring of 2017, would be an additional \$1.5 million and would add \$56.65 per user. The final phase, an additional \$3.9 million, would start in 2017 and would add an additional \$147.29 to the flat rate fee. Ms. Kirk stated that the recommendations that have been discussed thus far include moving forward with a bond ordinance of \$6 million that would give the Borough \$5.7 million worth of water/sewer type projects and \$300,000 down payment coming from the road improvement program. The next part is how the Borough pays for this, what fees to institute and when to institute them, stated Ms. Kirk. Options include phasing in the fees starting as early as the end of this year, stated Ms. Kirk.

Mr. Frost asked about the total expenses. Ms. Kirk stated that for purposes of this discussion, the total expenses from now through spring of 2017 would be \$5.675 million of planned water related projects.

Mayor Naughton asked Mr. Cole to give a brief, high level overview of each of the four phases that have been introduced. Mr. Cole stated that the four projects being recommended are: 1) Two miles of new water mains on Ocean Avenue; 2) complete the loop of new piping to the public works yard which would be about 3,000 linear feet of piping on Atlantic Avenue; 3) replace approximately the most critical 10% of line valves and hydrant assemblies in the system; and 4) new water mains on Tuttle, Lorraine and Fourth Avenues.

The Mayor asked Mr. Cole to characterize this effort (the four projects) with respect to the "bite out of the apple" of the Borough's overall needs. Mr. Cole stated that this reflects the initial effort needed to take the Borough's system from its aging status to a system that is code compliant and able to predictably supply domestic and firefighting demands to all the properties in town, and begins the process of replacing the greater system that is characterized by undersized pipes. Mr. Cole added that it is approximately the first third of what would be the perfect scenario recommendation.

Ms. Lisa Deberadine, 10 Brown Avenue, noting that the plan reflects replacing the worst of the valves and pipes, approximately 10%, asked if the Borough knows if this is enough and if it's not when would the Borough go back and replace the rest. Mr. Cole responded stating that during their assessment they attempted to identify the failure rate of the components of the system and feel comfortable characterizing the worst case scenario at 10% which is what is necessary to bring the system as it is now under greater control. Further, Mr. Cole stated that the line valves and hydrants that serve them will also be replaced. Mr. Hilla added that this is in addition to the line valves and hydrants that will be replaced along the three or four miles that are part of the initial job which results in about 15-20% when the entire project is complete.

Mayor Naughton stated that Mr. Dempsey is awaiting a response from New Jersey American Water regarding Mr. Marlowe's suggestion about First Avenue and Mr. Cole also did some research on the issue as well.

Mr. Lyle Marlowe, 110 Pennsylvania Avenue, asked if the size of the line and stubs are the same on all streets. Mr. Cole stated that he is recommending a standard twelve inch pipe on Ocean Avenue which fits the velocity and flow constraint that was modeled as optimum for the Borough's system for this part of the system. Regarding the stubs, Mr. Cole continued, the recommendation will vary from six to eight inches depending on the street.

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Mr. Marlowe asked if when Ocean Avenue is complete will the system be pressurized and flowing and feeding all the streets from this location. Mr. Cole confirmed.

Mr. Marlowe asked if the line on Lorraine Avenue is the same size. Mr. Cole stated that it was not; adding that the loop is composed of several different sizes of pipes and the size of the pipe on Lorraine is still under discussion but will likely be an eight inch diameter pipe.

Mr. Marlowe asked if the homes, hydrants, and beach facilities will all be connected on Ocean Avenue. Mr. Cole stated that this is the intent but it will be at the discretion of the Superintendent of Public Works. Mr. Hilla added that he believes that this will be the water main on Ocean Avenue and not maintained as a dual system. Mr. Cole agreed that there are several solution options and as part of the project they will resolve any questions of missing connectivity.

Mr. Marlowe asked if there was any further clarification of old tanks on Ocean Avenue. Mr. Hilla stated that these are likely the primary treatment tanks from the pump station and stated that he is not worried about their ability to deal with them adding that they did not encounter any tanks when they did the camera work around Pennsylvania Avenue.

Mr. Erbe asked if there was any input from the fire departments regarding how many hydrants are out of order. Mr. Cole stated that he would certainly follow-up with them.

Mr. Judge stated that Don Brahn, Jr. has details regarding the hydrants that are out of order.

The Mayor added that it was her belief that there were twelve that needed replacing and four that were out of service and suggested Mr. Cole double check with both the DPW and the fire departments.

Mr. Erbe expressed concern that these items (hydrants) and any other potential cost overruns are identified in advance.

Mr. Cole stated that there is a 20% contingency in place which is a fairly strong allowance and added that the construction being contemplated is linear and repetitive and as a result should minimize the discovery of issues that were not included in the project upfront.

Mr. Frost asked if the \$6 million in bonding includes the 20% contingency. Ms. Kirk stated that it does.

Mr. Judge asked if the bonding also included some buffer for sewer work if needed. Ms. Kirk stated that the numbers do not include a great deal of sewer work.

Mr. Marlowe asked if underground utilities, as detailed in the Borough's master plan, are being considered. Mayor Naughton stated that although this is an ideal scenario, they would have to delve into the potential cost noting that they are grappling with a number of issues already and would have to work with the utility companies to see what is possible.

Mr. Frost asked Ms. Kirk what options would be available if they discover the need for a great deal of sewer work that has not been budgeted for.

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Ms. Kirk stated that the first part of the project will cost roughly \$4.1 million and would pay for the Ocean Avenue and Atlantic Avenue projects as well as the critical valve replacements. If sewer issues are found and we dip into dollars that were earmarked for Lorraine and Tuttle Avenues, for example, at that point the ordinance could be amended to add additional funds to make up this difference. Ms. Kirk added that any unforeseen sewer issues will be identified before we get to Lorraine and Tuttle Avenues. If, on the other hand, stated Ms. Kirk, sewer issues were identified during the Lorraine and Tuttle portion of the project there may be a need to amend the ordinance immediately.

Mayor Naughton asked Mr. Hulsart to characterize this project as it relates to the Borough's budget and municipal debt. Mr. Hulsart stated that it is very responsible and well thought out. Mr. Hulsart also agreed that if additional issues are identified along the way that were not bonded for, amending the ordinance is a possibility but that it is important to understand that if this is done the payment process would be stepped up.

Mr. Frost asked for clarification on the scenario presented by Ms. Kirk that would result in dipping into funds set for Lorraine and Tuttle Avenues. Ms. Kirk stated that if the Borough is into the fall of 2016 and has finished the first three projects it would make sense for the Borough to regroup and assess any overruns and the need to bond additional funds via an amendment to the ordinance.

Mr. Dempsey asked Ms. Kirk to explain how the money is borrowed. Mr. Kirk stated that she has already contacted Monmouth County Improvement Authority (MCIA) informing them that the Borough may be coming in with something this December. The Borough has until November 5, 2015 to make the final call on funding noting that the MCIA does not usually price the money until late November and the Borough would have until that point to decide whether they would go permanent or borrow a note for one year, stated Ms. Kirk. Therefore, the actual dollar amount to borrow, and whether it is permanent or temporary, will be decided in the next couple of months with an eye toward that late November date to have as accurate of estimates as possible. Ms. Kirk added that she understands there is a concern that interest rates might go up next year, however, temporary financing is still around 1%. Ms. Kirk stated that as things are moving forward and contracts are being put into place they can discuss and determine the best course of action.

The Mayor reiterated that the ordinance gives the Borough the authority to borrow \$6 million but the Borough would borrow amounts as needed based on the project, the schedule, cash on hand, etc.

Ms. Kirk added that a bond ordinance is basically money on paper and is not money in the bank or money spent and simply gives the Borough authorization to go out and look for contractors for projects. There would be several more times that the decision to borrow would come back to the Mayor and Council for a vote. Also, the Borough will not spend money on a contract until the council adopts a resolution to award the contract, stated Ms. Kirk.

Mr. Sagui asked for clarification on the amount stating that he understood the Borough would be bonding \$10 million but were only looking to call \$6 million. Ms. Kirk stated that the idea was to bond \$6 and then amend the bond ordinance a year or year and a half from now.

Mr. Erbe asked how this approach might affect how the rate payers pay for it. Ms. Kirk stated that the rate payers do not pay until they borrow it.

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Mr. Judge stated that he understood from the finance committee meeting that the Auditor and CFO recommend we only bond \$6 million. Ms. Kirk stated that it is a matter of putting a large number on the books now that could be spent by future councils.

Mr. Judge asked if this would affect the Borough's ability to borrow in the future. Ms. Kirk stated that it did not.

Mr. Hulsart stated that the Borough has plenty of borrowing power and that he recommends the \$6 million because it is quite simple to adopt another bond ordinance in the future. Further, if asked, Mr. Hulsart stated that the Borough knows specifically what \$6 million is being spent on but cannot answer specifically what the additional \$4 million is being spent on.

Mr. Marlowe asked if this is specific to borrowing from the county or does it apply to borrowing directly from a bank. Ms. Kirk stated that adopting an ordinance to bond funds, whether through MCIA or a bank, would be the same.

Mr. Marlowe suggested the Borough go to a bank now and lock in the interest rate.

Ms. Kirk stated that interest payments would begin immediately on the \$6 million even though it will be used over several years.

Mr. Hulsart added that it cannot be invested at a rate that would offer a reasonable return.

Mr. Judge, reflecting on Mr. Cole's presentation, stated that he has little doubt that the Borough will be spending between \$6 and \$10 million.

Ms. Kirk shared that she has reviewed ordinance examples from other towns and noted that the Spring Lake Borough's ordinance states that fees are set by resolution and that they are usage fees. Ms. Kirk added that she would recommend that it is documented in the ordinance that this type of flat rate is put in place for capital and debt projects specifically so that future councils will be compelled to comply with the original intent and ensure any funds not used for this project will land in a capital reserve account.

Mr. Hulsart offered that in his experience it is best to use a flat rate fee as opposed to a rate based on usage in that it guarantees money collection where as if it is based on usage, people will likely use less.

Mr. Judge asked what obligation the Borough has to have a guarantee such as this in order to obtain the financing. Ms. Kirk stated that there is no obligation although rate investors will look at the utility and if the utility cannot pay or falls short the obligation will go to the tax payers.

Mr. Judge asked if there was a way to borrow the \$6 million and tie it to usage rather than a flat fee. Ms. Kirk responded that from a finance perspective she prefers a flat rate, a guarantee, noting that there is very little in the water utility that fluctuates with the possible exception of the salary and wages of the full-time staff. Ms. Kirk added, to Mr. Hulsart's point that as soon as rates have been increased in the past, usage went down. Further, if there was a downturn in collections, the Borough

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would have to dip into the current fund or significantly increase rates the following year to make up for the loss.

Mr. Marlowe stated that there are a lot of newer homes that have put in a well which may have also impacted collections.

Mr. Hulsart stated that by law any deficit in any utility fund must be made up by the current fund. Further, arbitrage is another consideration, if the Borough borrowed at today is low interest rate and later makes money on investment of that money the Borough would be subject to IRS penalties. Further, excess funds put into a capital improvement fund cannot be used for anything other than capital improvements.

Mr. Erbe stated that it seems everyone is okay with the \$6.5 million even without a directed purpose for the remainder of the \$10 million but that it seems clear that the total will indeed be used for water/sewer purposes. Mr. Erbe recommends the ordinance be written to ensure that the monies are strictly available for the water/sewer utility.

Mayor Naughton expressed agreement with Mr. Erbe stating that it is important that the money borrowed is specifically dedicated to the capital project that it was intended for and not to pay the bills. As for the flat fee, the Mayor added that she wanted to again voice her personal opinion stating that it is being used for infrastructure to get water to the residents' homes and is not about usage adding that whether a resident uses a lot of water or a little, one still needs infrastructure to get the water to one's home. This, the Mayor continued, is a critical responsibility of a governing body to ensure that there is a system in place that gets water to people's homes, does not discolor their cloths, and does not result in water being turned off for a quarter of the town when a main breaks.

Mr. Sagui expressed agreement with the Mayor's comments and added that he believes people typically do not like paying their water rates. Further, Mr. Sagui stated that fees to SMRSA is another critical issue and addressing some of the critical areas in town such as Second Avenue and around the lakes will help get the water issues under control.

Mr. Frost voiced agreement with the flat rate as well. Mr. Frost asked Mr. Hilla if there was a possibility that there may be a need to do more roads if sewer problems are discovered during this process and if so how will this affect the ability of the Borough to pay for it. Mr. Hilla stated that this may be possible noting that it is important to identify the areas where the Borough can get the most bang for the buck and a way to get the best return on the investment stating that not every leak rises to the level of needing significant repairs.

Mr. Erbe asked if there were other bond ordinances in water/sewer that could be drawn upon if needed. Ms. Kirk stated that municipalities typically have bond ordinances in every utility that may have small balances available to draw upon. Again, stated Ms. Kirk, these are not funded but the authority to borrow is there. Ms. Kirk cited the example of when Superstorm Sandy hit, before the bond ordinance to make repairs was approved, the Borough was able to draw upon a small balance remaining from a bond ordinance that was approved to make repairs caused by Hurricane Irene.

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Mr. Erbe stated that although he does not love the idea of borrowing \$10 million the timeline is relatively short, stating that the work will likely be done in three and one-half years, which minimizes the risk of the money being used by a future council in a way that was not intended.

Ms. Kirk reiterated that to use the money for anything other than the water utility would require an amendment to the ordinance and would need to be done publically.

Mr. Frost stated that this reinforces his thoughts that perhaps they should adopt an ordinance for the full \$10 million to be used exclusively for this project.

Mr. Judge stated that this is a possibility but if they start with the \$6 million they can easily get the additional \$4 million.

Ms. Kirk added that if for some reason there was not cash in the bank, a temporary note could be sold for a period of 30, 60, 90 days or up to one year.

Mr. Erbe expressed support for the project overall and provided the Borough can get the additional money quickly; he is supportive of the ordinance for \$6 million.

Ms. Kirk reviewed the process stating that the first step is the authorization to borrow the money while the next step is the financing part which is basically getting the money from the bank at which time the Borough would be subject to the interest. There are several ways to do this, Ms. Kirk continued, including temporary financing of 30, 60, 90 days up to one year or permanent financing going out 20 years. The Borough, Ms. Kirk added, can decide on the method of financing as the contracts for the work are awarded.

Mr. Erbe asked if anyone had an idea of what will be done with the \$3.5 million. Mr. Judge stated that ideally the Borough would go to the next phase of the project.

Mr. Frost stated that his only concern was that they will likely run into the need for extra sewer work but given Ms. Kirk's explanation of the ease in which the Borough can get the additional money he feels more comfortable only bonding the \$6 million at this time.

Ms. Kirk reiterated that to put the funding on paper only takes two meetings and twenty days and then to get the money from the bank would be an additional week to ten days.

The Mayor added that given that it is a phased project, if sewer issues were discovered along the way there is money available to work with so as to avoid stopping the project dead at any given point. The Mayor added that she supports the plan of bonding for the \$6 million now and monitor the projects knowing that there is plenty of time to adjust the financing if needed.

Mr. Judge sought clarification that it is water and sewer utility and therefore funds can be used for either water or sewer issues. Ms. Kirk confirmed.

Mr. Sagui voiced agreement that \$6 million is likely the right number but voiced support for raising the fees for \$10 million in order to build up reserves which will insure the Borough against unforeseen sewer problems as well as the possibility of rates going up.

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Mr. Judge voiced agreement noting that he sees this as a \$10 million project that the Borough is putting in place a funding source for the first \$6 million.

Mr. Hulsart added that using the Monmouth County Improvement Authority will provide much better rates and better fees.

Mr. Sagui asked what the fees on short term financing options would be. Mr. Hulsart stated that they are fairly reasonable.

Mr. Erbe asked if the Borough is able to borrow the \$6 million and put in place a flat water/sewer fee that is over the \$6 million. Ms. Kirk confirmed.

Mayor Naughton asked Ms. Kirk to walk the council through the next steps.

Ms. Kirk stated that the first thing is to introduce the bond ordinance at the August 11, 2015 meeting. Also, Ms. Kirk stated that there would also need to be an ordinance adopted to implement the flat fee.

Mayor Naughton asked about the timing post introduction.

Ms. Kirk stated that after introduction on the 11th, it would be heard and adopted on the 25th and advertised on the 27th allowing for a contract to be awarded on September 26th.

Mr. Erbe stated that he understood that the flat fee would need to kick in earlier than this date.

Ms. Kirk stated that payments will not need to be made until the funds are borrowed. Ms. Kirk stated that both ordinances, bond ordinance and water/sewer flat rate ordinance, could be introduced all at once.

Mr. Lyle Marlowe, 110 Pennsylvania Avenue, stated that he is in full agreement of the direction the council is going but asked if the flat fee could be based on assessed values of property stating that he is concerned about owners at the E&S or owners of smaller homes. Ms. Kirk confirmed that the fee will be attached to each individual service and for those that have multiple lines they will pay per line.

Ms. Kirk offered to review options for commercial water/sewer users versus residential.

Mr. Cole offered that there are some municipalities that step their capital assessments based upon the size of the service line noting that the vast majority of Spring Lake customers would be fairly flat noting that most residential lines are 3/4".

In summary, Ms. Kirk stated that she will be preparing a \$6 million ordinance and a rate change ordinance based on the \$663,000 per year payment noting that the rate per customer may vary based on the size of the service lines.

The Mayor thanked everyone for their continued hard work and for the public audience's participation in the meeting.

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Adjournment

Mr. Judge offered a motion to adjourn the meeting, seconded by Mrs. Venables.

ROLL CALL:

AYES: Mr. Erbe, Mr. Fay, Mr. Judge, Mr. Frost, Mr. Sagui, Mrs. Venables

NAYS: NONE

ABSENT: Mr. Fay

ABSTAIN: NONE

Time of Adjournment: 7:28 PM

Respectfully submitted,



DINA ZAHORSKY
Deputy Borough Clerk

Approved at a meeting held on: September 8, 2015