

COUNCIL OF TRAPPE
SPECIAL FINANCIAL MEETING
TRAPPE UNITED METHODIST CHURCH
January 19, 2017

Council of Trappe Special Financial Meeting: President Fegel called the special financial meeting to order at 7:00 pm. Council members Don English, Rose Potter and RD Diefenderfer were present, Tonya Pritchett was absent due to illness. Attendees for the Town were Attorney Booth, Clerk Braband, Planner Shull, Superintendent Callahan, Chief Ball, Scott Getchell from GMB and Roy Geiser from TGM Group. Other resident attendees were Daniel Diefenderfer, Nancy Dunn, Shayma Meresh, Abe Sisco, John Foster, Shawn Middleton, Nathaniel Pierce, Drake and Elizabeth Ferguson, Robert Crowell, David Stanley, Jim Thompson, Shawn Smith, Kirby Sabin, Walter Chase, Bobby and Shirley Quidas, Susie Hayward, Scott and Penny Metje, Roger Eareckson, Cheryl Lewis, Nick Newnam, Sarah Schmick-Baney, Ben Diefenderfer, Edgar Harrison, Rosemary Morris and Chris Polk from Star Democrat. The attendance log is filed with the minutes.

President Fegel welcomed everyone to this special financial meeting. The purpose of this meeting is to discuss the financial state of the Town so that all Town residents understand the financial decisions that the Council has to make. President Fegel stated that for 10 plus years the Town's Enterprise fund has not received enough income to cover the operating expenses. The deficit each year for the last 4 years has been approximately \$200,000 a year. President Fegel stated that the Town was able to use the Town's General fund reserves to supplement the Enterprise fund but can no longer afford to do so and should have never been supplementing in the first place. President Fegel stated that the Town was planning on using connection fees from Lakeside Development to help pay down some of the debt the Town incurred when the wastewater treatment plant was upgraded due to a State mandated consent order. President Fegel stated that the Town Council has had many discussions regarding this issue and at the January 4, 2017 Council meeting an Ordinance was introduced that would raise the base monthly water fee to \$15.00 and raise the base monthly sewer fee to \$50.00. This increase will cover the Town's operating expenses and is projected to eliminate the deficit. President Fegel stated that presentations will be given that will explain the Town's financial position and then time will be given for public comments and questions.

Audit Communications and Financial Report -

Roy Geiser, TGM Group (Town's financial Auditor) – Mr. Geiser stated that he would be explaining some of the pages of the handout. Mr. Geiser stated that page 2, titled Financial Health, government wide shows the Town as a whole even though the Town has 2 funds – General Fund and Enterprise Fund (water/sewer). As shown on the report the net position of the Town has decreased about 25% or \$500,000.00 since 2013. Net position is what is looked at to gauge financial health of the Town so if the net position is decreasing that is a sign that your Town's financial health is decreasing. Page 3, Net Assets, Enterprise Fund shows the position of the Enterprise Fund at the beginning of each fiscal year and the end of the fiscal year. The chart shows that almost half of the Town's net assets for the Enterprise fund have deteriorated since 2012. Page 4, Net Assets, General Fund shows the position of the General Fund at the beginning and at the end of each fiscal year. The chart shows an increase in

fiscal year 14 and then decreasing again; this increase is due to income taxes. The Town was collecting about \$300,000 in 2014 and that has decreased to \$61,000 in 2016. Page 4, Financial Health, Fund Balance Level shows that the Town's fund balance in 2013 was \$737,000 and at the end of 2016 it was \$192,000.00 GFOA (Government Finance Officers Association) recommends that Towns have no less than 2 months' worth of reserves and Trappe is down to only 4 months at the end of 2016 for the General fund; this balance has been declining every year. Page 5, Financial Health, Working Capital Level shows that the GFOA recommends at a minimum 45 days of reserves for the Enterprise Fund and Trappe is at 0 days of reserves and has been since at least 2013.

President Fegel stated that Page 6, Enterprise Fund, shows that the Town expenditures far outweigh the revenues and have been doing so in the amount of roughly \$200,000 a year. The \$200,000 mostly consists of the Town's debt service which is 37% of our expenses. Page 7, Enterprise Fund, FY16 Expenses shows the breakdown of the FY16 expenses. Mr. Geiser stated that his firm does a lot of governmental audits and Trappe's debt service is on the higher end of the spectrum.

President Fegel stated that Page 8, Income Taxes Received shows the increase of income taxes that the Town received in fiscal year 13 and fiscal year 14 and then the drop off of roughly \$240,000.00. Clerk Braband stated that in November she received a phone call from the Comptroller's Office informing her that there was a misdirection of funds by the Comptroller's Office in the amount of \$24.1 million dollars from 2010 – 2014 which affected the entire State of Maryland. The Town of Trappe received \$283,941.00 that they should not have and the State is seeking repayment. The Comptroller's Office is giving all the jurisdictions that owe money a grace period and the repayment doesn't have to start until 2024 and all jurisdictions will have 10 years to repay the funds in total. The Town is in the process of obtaining more information from the Comptroller's office regarding this mistake and is hopeful that a resolution will be found. The Town realistically should be receiving roughly \$60,000 a year in income taxes.

President Fegel stated that the Enterprise Fund is not putting money into reserves due to the yearly deficit and the 2 lines of credit that the Town has have been maxed out. The Town has nothing to fall back on should a large expense arise. President Fegel stated for example, the water leak on Main Street that the Town had back in October costs the Town over \$40,000 alone. The treatment plant is starting to age and equipment is beginning to break down and needs major repairs or even replacement.

Future Projects and Upgrades –

President Fegel stated that the Town is looking at some future projects that are very much needed and has enlisted GMB to help obtain funds for these projects. Scott Getchell, GMB (Town engineer) stated that one of the projects the Town is looking at is repairs and/or replacements of the Town's pumping stations which total more than 1 million dollars. GMB has prepared a PER that was submitted to USDA in hopes of obtaining a grant to fund the pumping station upgrades. USDA has grant money available but there is a loan portion that would have to be obtained by the Town. USDA reviews the Town's finances when considering approving a grant application to determine the grant versus loan portion.

Mr. Getchell reported that the Town is also in need of a new well due to the age of the 2 existing wells and the amount of repairs that they require. GMB is in the process of completing a PER to submit to
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USDA for a grant to fund the new well. Mr. Getchell stated that in addition to the new well, repairs will be done to the existing wells and the water tower to improve the water system as a whole. The cost for this project is roughly 1 million dollars.

Mr. Getchell stated that another project that the Town needs to have done is to replace the water main line on Main Street from White Marsh School to Maple Avenue. A funding application was just completed to be submitted to the State in hopes of receiving a grant to fund this project.

Mr. Getchell stated that while the wastewater treatment plant is run very well and is producing numbers that are compliant with today's permit, the requirements will soon be changing throughout the State and will require Trappe to upgrade to an ENR plant. The State was funding the major plant upgrades over the last 10-15 years and since those have been completed, the State is starting to look at the minor plants and it is only a matter of time before a mandate is given for Trappe to comply with the State's nutrient standards. Mr. Getchell is in the process of looking for grant opportunities to have the plant fully funded by the State.

These are the major infrastructure projects that Trappe is currently facing.

President Fegel stated that in order to get the grant funds for these projects the Town's financials will be reviewed by the funders and if the financials are showing a deficit the grant will be denied.

Attorney Comments –

Attorney Brynja Booth stated that she has represented the Town for the last 19 years and also represents a total of 6 towns and is able to compare the different towns and help the towns get grant funding for infrastructure projects. Attorney Booth stated that she recently discovered that the Town of Trappe is the only Town of all the towns that she represents that isn't getting significant grant funding for infrastructure projects. Attorney Booth stated that Trappe does a great job running the whole town on a shoe string budget and there isn't any fat to be cut from the budget. Around 2000 – 2001 when the Town was under the consent order to upgrade the treatment plant grant funds were not available. While Trappe's plant was the most technologically advanced plant in Talbot County when it was completed, it will now be the most obsolete treatment plant in Talbot County after Oxford's upgrade is completed. The State now has grant money available to fund 100% of an upgrade to an Enhanced Nutrient Removal (ENR) plant if a plant is capable to upgrade to an ENR plant. In order to get to the ENR upgrade the Town would first have to go to a BNR plant which the Town has the ability to go to but didn't when the plant was first upgraded because the Town didn't have the money. The State will now cover up to 75% of the costs to upgrade to BNR. It is only a matter of time before the State mandates that Trappe upgrade. Attorney Booth stated that she and Scott Getchell met with MDE and discussed the funding opportunities for Trappe and MDE confirmed that there are funding opportunities for Trappe. However until Trappe gets the water and sewer rates to cover the basic operating expenses the Town will not qualify for the grant funding. Attorney Booth stated that the chart titled Enterprise Fund which shows the expenses versus income is the most important piece of information in the packet. This chart shows that consistently the Town's Enterprise Fund runs at a deficit of \$200,000.00 which means the General Fund has had to loan the Enterprise Fund \$800,000 in the last 4 years; these funds could have instead been used for road improvements and other general projects. While none of the Town's

like to increase water and sewer rates the Town's that are being proactive are increasing their rates 7% annually. Before January 2016, there has not been a rate increase in Trappe in 7 years. The Town was basically operating by using reserves that are now depleted and the 2 lines of credit which are now maxed out. The Town's lines of credit are renewed annually and at any time the banks can decide to not renew them due to the Town's financial state. Attorney Booth stated that the good news is that this situation can be fixed. Mr. Getchell and Clerk Braband have completed an informal water audit and tried to analyze what increases are necessary to cover the debt service and operation. The rate increase that is proposed should allow the Town to have a break even budget and begin to work on rebuilding the reserves. This will open the doors to grant opportunities for the much needed infrastructure projects.

Attorney Booth stated that for years the Town thought that once the Lakeside development started the developer would pay for an upgrade to the treatment plant. The Town hobbled along for so long but can no longer afford to do that. The Town needs to do what it needs to do to be eligible for grant money to take care of some of the aging infrastructure before the grant money goes away.

Public comments –

President Fegel opened for public comments and reminded the residents that they must raise their hand, be acknowledged, state their name and they were limited to 5 minutes.

Cheryl Lewis – Ms. Lewis stated that she has asked the Council to raise rates in the past and feels that it is irresponsible for the Town to be where it is now. Ms. Lewis stated that the budgets are not showing the negative which doesn't allow the residents to really know what is going on. Ms. Lewis stated that the Town doesn't need to worry about the money that they owe the Comptroller's office as this is the Comptroller's problem. Ms. Lewis also stated that the Enterprise budget needs to pay for itself and the Town needs to look into the ENR upgrade for the treatment plant before the grant funds go away. Ms. Lewis stated that the Lakeside development was never supposed to pay for the upgrade to the treatment plant. Attorney Booth stated that in regards to the Comptroller issue, the Town is not saying they are paying the money back but explaining that they can no longer assume the Town will get \$300,000 a year in income taxes because those years were an anomaly. Attorney Booth stated that she has met with MDE to get grant funds to upgrade the plant and an agreement is in hand to have engineering done to assess what needs to be done to the plant to get it to ENR. The Town is ready to take that step but there will also be a loan component and that is the concerning part to the Town. Ms. Lewis stated that she doesn't want to see an increase in water rates any more than anyone else but knows that the Town has to pay the bills, however it would have been easier if the increases were all along – 7% a year and not all at once. It is not responsible to not collect enough money to not pay the bills and the Council needs to do what is needed to make sure the Town does not get into this situation again.

Drake Ferguson – Mr. Ferguson stated that he thought the Council should consider making a task force to go over the budgets with a fine tooth comb. Mr. Ferguson stated that he feels that each Council person should recommend 1 person each to form this committee. The task force would review the budget and make recommendations to the Council as to where the budget can be cut and where money can be better spent. President Fegel asked if Mr. Ferguson would chair the committee and he stated

that he would. President Fegel stated that the Council would take it into consideration and discuss it.

Elizabeth Ferguson – Mrs. Ferguson asked if the water bills are so high because the Town hasn't taken advantage of grants. Attorney Booth stated that isn't correct, the Town has aging infrastructure and there are upgrades that could and should be made and the Town is not doing those improvements because the Town doesn't have the money to pay for it but there are grants funds available now to fund these projects. In order to receive these grants the funders need to see that the Town can fund its operating expenses and pay its debt service. Attorney Booth stated that the Town couldn't reduce its water bills but they could be making improvements so the water lines don't break or so the well doesn't go out, etc. The Town should be paying their bills and adding to their capital reserves, not just breaking even.

Kirby Sabin – Mr. Sabin asked if the decrease in income taxes is due to the loss of residents that are not on fixed income. Mr. Sabin asked if the fixed income residents can afford the rate increase. Ms. Lewis stated that the Comptroller office made a mistake collecting taxes and when they went from filling out tax forms on paper to doing it online there was a box that was not being checked correctly and some Towns received money that belonged to other jurisdictions. The errors were noticed in 2014 and the Comptroller's office wants the money back. These are not funds that Trappe should have ever received; it has nothing to do with the residents of the Town. Hopefully there will be some kind of forgiveness done and the Towns won't have to pay the money back. Mr. Sabin asked if the population has increased, decreased or stayed about the same. Clerk Braband stated that the population has remained about the same. Mr. Sabin asked how many of the population has gone to a fixed income and due to that will end up leaving the Town because of this increase. President Fegel stated that the Town does not have that information. Commissioner Potter stated that has been the problem in the first place as the Council has always been sympathetic to the fixed income people and that is a mistake because decisions need to be made based on the whole of the Town and not just individuals. These increases affect the whole Town. This problem has been going on for many years and the Council has to fix it now. Mr. Sabin asked if Lakeside is a pipe dream and the Council fell for it and counted on funds that were never there. President Fegel stated that the development was going to pay large connection fees at one time and that was going to be used to pay down the Town's debt. The development would have gone forward if it wasn't for the recession.

Walter Chase – Mr. Chase stated that this is at least the 3rd time that the Town has increased the water rates and it has been done before and we are back to where we were before. Mr. Chase asked if the Town has done an impact study to see how this will affect the residents. It is not the citizen's fault that the Town doesn't have enough people to support the plant. Mr. Chase said the debt service is at 37% and that is a high level according to the auditor and why is that? Mr. Chase stated that the income taxes peaked in 2014 and then dropped drastically in 2016 and that is the problem, the Town has to change the way it is doing business. President Fegel stated that the Enterprise fund has nothing to do with the income taxes. Clerk Braband explained that the income tax money that was received was money that the Town should have never gotten. Ms. Lewis stated that the income tax graph is not something that is just a Trappe problem; it looks like that in other towns as well due to the Comptroller's error.

Shawn Middleton – Mr. Middleton asked how many people were disconnected in January when the Council implemented its new disconnection policy. Clerk Braband stated that 8 residences were

disconnected. Mr. Middleton asked how often does the Town shut water off. Clerk Braband stated that water is shut off every month. Mr. Middleton asked if there is government funding available for residents to access if they have problems paying their water bills. Clerk Braband stated that there are programs available such as Neighborhood Service Center, Social Services, various local churches, etc and residents do take advantage of that. Mr. Middleton stated that he is for the increase as he understands that the Town has to pay their bills and is happy to hear that there is help for those that struggle. Mr. Middleton asked if there is a tax that each business pays to the Town. Clerk Braband stated that yes they pay corporation or personal property taxes to the Town. Mr. Middleton asked if anyone is getting a discounted water bill for any reason. Clerk Braband stated no, everyone is billed the same. Mr. Middleton asked how the Council considers which projects are affordable and which are not. President Fegel stated that the Town goes with what is most critical. Mr. Middleton asked why the Town hasn't been looking ahead and seeing what needs to be done and working towards getting there. President Fegel stated that the Council looks at state requirements and aging infrastructure and there are some things that you can't plan for. Superintendent Callahan and Clerk Braband are working together now to plan for next fiscal year and the projects that are needed. Mr. Middleton asked if the Town is just getting by on projects or actually going above and beyond so this doesn't happen again. President Fegel stated that the Council is just trying to break even right now and once they can do that they will work on increasing the reserves and future infrastructure. Attorney Booth stated that grant funding has been received to study the Town's 8 pumping stations and what needs to happen to those and prioritize those. The Town is trying to maximize grant funding and not spend Town money on studies. Attorney Booth stated that another project that is getting ready to start is obtaining grant funds to study the upgrade to the treatment plant to figure out what the costs would be. A well project is also being worked on. Attorney Booth stated that Clerk Braband, Superintendent Callahan and Scott Getchell are working on a water audit to see if there is a property that isn't connected correctly or where a meter might be missing or where a meter might need to be replaced due to not reading correctly. These are projects that the Town is actively working on and perhaps the Town can come up with a list to explain these projects and give updates. President Fegel stated that Superintendent Callahan is actively replacing water meters that have high usage so the Town can be sure all accounts are being billed properly.

Bobby Croswell – Mr. Croswell stated that he is happy to hear that water meters are being replaced and that the new water meters are meters that do not deteriorate as quickly and do give a more accurate reading. Mr. Croswell stated that the Town is subsidizing some people's water rates and penalizing others because not everyone is not being billed equally if the proposed rate increase is approved. Mr. Croswell stated that this Ordinance bills on a flat rate and not billing by the gallon which means someone who uses 5,000 gallons is paying the same as someone who uses 1,000. Mr. Croswell stated that he figured that if you take a high usage water bill and divide it by the per gallon charge then they are getting water a lot cheaper. Mr. Croswell feels that the Council should increase the rates but stated that the Council needs to raise the usage rates and not the base rates. Mr. Croswell stated that it is easier to charge more money on the base rate and while the Town can do so it is not right and not fair to those that conserve water. Mr. Croswell stated that in defense of the Council the Town's comprehensive plan and financial plan was geared towards the Lakeside development happening. In recent years the developer agreed to purchase hook-ups for 300-500 homes and upgrade the treatment

plant and that hasn't happened yet and that is why the Council is where they are. Lakeside was also going to happen next year and next year never came. Mr. Croswell asked if the Town has given any incentives to the developer to get this project off the ground and get this project going. Mr. Croswell suggested asking the developer to do some advance payment; if they are serious about the development then they will pay for the 300-500 connections at a pro-rated discount. If Lakeside isn't going to happen the Council needs to rethink the Town's Comprehensive and Financial plan. Mr. Croswell doesn't think that the comment about Council being irresponsible is justified because the Council acted in good faith after conversations with the developer. Mr. Croswell stated that he agreed that all the projects the Town are looking at doing are great and the Town should get all the grant money it can however the Town only has 1 pumping station that serves only 6 houses that could collapse any day; the rest of the pumping stations are fine and adequate for the Town's size. Mr. Croswell stated that the Town can just fix whatever as needed but doesn't need to replace the entire pumping station. Scott Getchell stated that what he and Clerk Braband have been working on is restructuring the water and sewer rates and not creating a flat rate. The rate structure now already has a base rate and a variable rate and after analyzing the Town's expenses and seeing what falls into what category an adjustment is needed in the base rates. Mr. Croswell stated that it can be done any way that the Council wants but it doesn't have to be done this way which burdens the residents who conserve water. Mr. Getchell stated with respect to the repair of the pump stations and just carrying things on as the Town has been doing, there are many safety and environmental concerns with most if not all of the pumping stations. Mr. Getchell stated that at the top of the list is the safety of the employees that are exposed to these conditions every day and ensure that all employees get to go home every night.

Nathaniel Pierce – Mr. Pierce stated that his bill will increase \$28 a month and asked what the total revenue would be for the year. Clerk Braband stated that there are 548 water connections and the increase of revenue would be \$73,059.00 for the water portion and \$100,260.00 for the sewer portion would be an increase of \$173,319.00. The increase will cover the base costs. Mr. Pierce stated that if you are paying \$60 a month and your bill goes up \$28 a month than that is a 50% increase but if you are paying \$125 a month then your bill only increases about 20%. Mr. Pierce stated that he thinks the base fees should be raised as well as the usage rates and that would more evenly distribute the burden.

Scott Metje – Mr. Metje asked if a progress report would be made to show the increase in income. Mr. Metje also asked about the second part of the Ordinance and the maintenance of sewer lines that run through private properties. President Fegel stated that tonight is about the Enterprise budget and suggested Mr. Metje attend the February 1st public hearing to ask questions about that portion of the proposed Ordinance. Clerk Braband stated that if the Ordinance is approved then it would go into effect and be seen in the March bill. The Town's fiscal year ends June 30th so the Town will not see much of a difference in the audit for this fiscal year but it would be seen in the following fiscal year. President Fegel stated that it is structured to cover the debt and fixed expenses.

Susie Hayward – Mrs. Hayward asked what the Town hoped to achieve with the increase and would the rates be increased again? Attorney Booth stated that the Council is trying to break even at this point but the rates can go up again in the future. Mrs. Hayward asked if the Council is considering an annual increase so this problem doesn't happen again. Attorney Booth stated that last year the Council built in

a 2% annual increase but the auditors are asking if that 2% is enough. The Town is making progress but still in a deficit. Attorney Booth stated that the idea behind an annual 7% increase is that the bills will all be paid and the Town can start setting aside money to build a capital reserve fund for future projects. Mr. Croswell stated that the debt service is a 30 year obligation and was taken out 20 years ago. Mr. Croswell stated that eventually the debt will be paid off and rates can be lowered. Clerk Braband stated that the debt service is a 40 year obligation and won't be paid off until 2043.

Kirby Sabin – Mr. Sabin asked how Trappe's water and sewer rates compare nationally. Attorney Booth stated that nationally is hard because each state has different requirements but that Trappe's rates are lower than some jurisdictions and higher than others on the Eastern Shore. Trappe has very few users therefore less people to spread the debt between. Ms. Lewis stated that Oxford started annual increases of 7% back in 2012 because they knew they would be facing a wastewater upgrade in the future. Ms. Lewis stated that as of right now Oxford's water and sewer rates are higher than Trappe's and Oxford has not upgraded their plant yet. Ms. Lewis stated that it is not possible to not have an increase every year. Ms. Lewis stated that USDA considers \$100.00 average per household per month as the paying threshold and this is their acceptable rate. Ms. Lewis stated that depreciation should be budgeted into the annual budget; Oxford's annual depreciation is \$120,000 so Oxford's budget shows a surplus of \$120,000 that is not being spent on operating expenses. Trappe has never funded depreciation and that is how the Town got into this problem. Ms. Lewis suggested that the Council increase the per gallon rate now and not wait.

Shayma Meresh – Mrs. Meresh stated that she thinks Trappe should join with another Town and split the expenses. Mrs. Meresh stated that if there are more customers then everyone will pay less. Ms. Lewis stated that she has worked with other towns that were considering combining and the cost per mile is almost the same costs as building the plant. Ms. Lewis stated that this is the cost of living in rural America, having a small community and the cost of living so close to the Bay. This is the expense of having the luxury to live in a small little town and if you moved to the big city then you would have a smaller water bill but then you have all the things that people don't like about the city. Attorney Booth stated that Greensboro is in the process of extending its services to Goldsboro which is only 3 miles away and the cost is \$18 million.

Commissioner Potter invited everyone to start attending the monthly Council meetings. At the Council meetings the public would be able to hear the status of the Town, what the Council is dealing with and have time to ask questions.

With no further comments the meeting was adjourned at 8:37 pm.

Erin Braband

Norm Fegel, Council President