

To: Representative Town Meeting

From: RTM Finance Committee

Re: Upon the request of the First Selectman, pursuant to the Governor's Executive Order 7-S, to make a recommendation to the full RTM regarding the proposed Tax Deferment Plan for Westport.

RTM Finance Committee Members Present: Jeff Wieser (Chair), Seth Braunstein, Cathy Talmadge, Richard Jaffe, Christine Meiers Schatz, Greg Kraut, Stephen Shackelford, Lauren Soloff, Jessica Bram

Others Present:

Jim Marpe, First Selectman
Gary Conrad, Finance Director
Ira Bloom, Town Attorney
Eileen Flug, Assistant Town Attorney
Patty Strauss, Town Clerk
Paul Friia, Tax Assessor
Sarah Harris, Operations Director
Velma Heller, RTM Moderator and RTM Member from District 9
Sal Liccione, RTM Member from District 9

Date: April 16th, 2020

First Selectman Jim Marpe explained the process that has unfolded at the state level to provide local communities with the ability to offer tax relief to Connecticut residents. The two options available to the town to choose from were detailed and the First Selectman and other town representatives provided insight with respect to the financial implications arising out of each option and the rationale behind the decision to adopt the deferral plan as opposed to the low interest rate plan. The tax revenues being impacted and the relief being granted apply to property taxes, motor vehicle taxes, sewer taxes, personal property taxes and commercial property tax. It was made clear that this is deferral, not abatement. The plans allow residents and businesses and property owners to push back their April 1 and July 1 tax payments subject to an approval process that requires eligibility to be documented.

The Town is strictly limited by the statutory parameters set forth by the Governor. We may only choose among 3 courses of action; we can choose either of the two plans or we could choose both. We are obligated to report back to the state which option we have chosen by April 25th. The plan choice must be approved by the Town's Legislative body, the RTM - hence this evening's special meeting. The BOF approved the first Selectman's plan choice on April 15th.

The plan chosen was the one that allows for deferral with no penalty and no interest rate = an additional 60 days to pay the taxes (in addition to typical 30 day grace period). This makes the April 1 payment due by July 2nd. Residents can qualify for the deferral if they have experienced a 20% reduction in income, Businesses through a 30% reduction in revenue and Landlords can also apply for a deferral with a rigorous proof case dependent on having offered forbearance to tenants or that tenants have not been paying rent. It was noted that this choice requires applicants to provide details around their individual cases and is essentially an opt in plan as opposed to the other option which would apply to all in Westport automatically. An 18% interest rate is applied if deferred payments are not made by July 2nd with the interest accruing from the date the taxes were originally due.

Applicants that seek deferment for the April 1 payment will also need to come back to the town to apply for deferment of the July 1 payment.

The town favors the plan that will require an opt-in approach, where each person seeking the deferment will be explicitly aware of the high interest rate that will be applied should the payment not be made at the extended deadline. This is also the plan that would generate the greatest savings for participants (no interest or penalties).

Operations Director Sara Harris provided an overview of the work the Town had done to try to dimension the impacts from the two plan options; depicting the impact to cash flows and interest income arising from each option. This also included a discussion of the assumptions embedded in the estimates which included input from Finance Director Gary Conrad and Tax Assessor Paul Friia.

Admittedly, these estimates and efforts to model participation rates and cash flow impacts are based on some informed guesses given that there are no historically comparable periods that we can draw from or compare to.

Some key context was provided with respect to Westport's tax base:

- Commercial properties make up ~12.5% of the grand list.
- Commercial personal property (business equipment) is ~3%,
- Vehicles are 3%
- Personal Property is ~82%.

Initial conversations seem to indicate significant commercial interest based on the number of businesses currently unable to pay rents.

Expecting April participation will be relatively low given that many will have already made their 4/1 payments - so modeled only 10% participation. For the July payment they assumed a higher participation of 15%.

The Finance Committee asked for some additional clarification on the projected lost Interest Revenue depicted in the model that was provided. The large disparity in lost revenue in the first period shown vs. what was expected to be lost in the second period

was attributed to the seasonally much larger collection of tax revenue that occurs each year in the town's fourth quarter when previously delinquent revenues are typically collected at year end. Essentially, while the payment of the taxes is expected in four equal installments, the reality is that for some tax payers there is a catch up at year end. It was also explained that the deferral provided by this executive order did not apply to the already delinquent taxes, it would only apply to the taxes that are currently due to be paid at the April 1 and July 1 dates.

Another point that was clarified in our discussion was that taxes paid out of mortgage escrow accounts are not eligible for deferment. This accounts for ~30% of tax payments for the town. The point was made that those who may be most in need (those who escrow their tax payments) are the one group of Westport homeowners who do not get the benefit of these plans. Unfortunately, we don't have the ability to alter the plans as set forth by the Governor.

A number of questions were focused on the progress that had been made to this point in collecting the taxes that were due on April 1. The Town is still in the process of accounting for payments currently being received and noted that they should have a better ability to provide an update on collected tax revenues by the time of the full RTM meeting on April 22nd (tonight).

Much of the discussion during the Finance Committee meeting focused on the obvious cash flow impacts for our town,. Gary Conrad reassured the Committee that we are well reserved but also warned that current issues have potential to eat into those reserves. The Town leadership favors taking a conservative approach to protect our finances but want to provide help to those people that need help during these difficult times. Reserves are forecast at \$30 - \$32M. If the negative impact to cash flows were to persist for more than a temporary period, we could issue tax anticipation notes (TAN) to bridge the cash flow gap for a 6 month period at 1 - 2% interest rates which would require RTM approval. As an additional cash flow impact mitigant, in a worst case scenario, we could conceivably defer certain town payment obligations.

As a final reassurance, Gary Conrad mentioned that the town's credit rating review from Moody's was expected on April 29th - we expect to maintain our AAA rating. He also reminded us that our next bond issuance will go out on May 15th and it is looking like we will benefit from ~2% financing for 20 years = historically low interest rates.

Rick Jaffe moved to approve, seconded by Seth Braunstein. The Finance Committee passed this request by a unanimous vote of 9 - 0.