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Cc:

BOARD OF FINANCE
JANUARY 20, 2009
REGULAR MEETING

1. CALL TO ORDER

The Regular Meeting of the Board of Finance was called to order at 6:00 P.M. in the Main Meeting Room of the Simsbury Town Offices. The following members were present: Paul Henault, Peter Askham, Candace Fitzpatrick, Nicholas Mason, Anita Mielert and Kevin North. Also present were Director of Finance Kevin Kane, Board of Education Business Manager David Holden, First Selectman Mary Glassman, and other interested parties.

2. MINUTES

Mr. Askham made a motion to approve the minutes of the December 29, 2008 Special Meeting. Mr. North seconded the motion. The motion passed 5-0 (Ms. Fitzpatrick abstained).

3. TRANSFER REQUESTS FROM RESERVES

Mr. Henault referred to a memo from Kevin Kane dated 12/8/08 entitled "Transfer Request from Reserves". Mr. Kane explained that the transfer request pertains to three school capital projects which have all been approved by the State and are being closed out: the Central School roof project, which was approved in May 2004, and Phase I and Phase II of the Henry James expansion project. Mr. Kane noted that the Central School roof project was originally approved for \$200,000 and that the Board approved an additional transfer from reserves in the amount of \$125,000, for a total appropriation of \$325,000. Total expenditures were \$271,769 and, after direct pay-downs, a \$125,000 transfer from reserves and school building grants, there is a shortfall of \$54,096. The Henry James projects, the first dating back to 1998 (\$3,281,662) and the second to May 2000 (\$1,260,000), have shortfalls of \$7,105 and \$9,324, respectively. Mr. Kane

recommended that the Board approve a total transfer in the amount of \$70,525 so that these three projects may be closed out.

Ms. Mielert made a motion to authorize a transfer from reserves in the amount of \$70,525 so as to close out these three projects. Mr. North seconded the motion and it passed unanimously.

Mr. Kane referred to a letter from Town Engineer Richard Sawitzke dated 12/3/08 regarding "Recycling Award Funds". He indicated that the request is to approve a Supplemental Appropriation in the amount of \$29,290, which represents funds that will be received from the Connecticut Resources Recovery Authority to be used towards closing the landfill.

Ms. Mielert stated that she will volunteer to serve as the Board of Finance liaison to serve with the Board of Selectmen in developing an approach to be used in the future relative to the handling of solid waste upon the expiration of the CRCOG Solid Waste Agreement, which is expiring in 2012, per Ms. Glassman's request at the Board's December 16th meeting.

Mr. Mason made a motion to approve the receipt of the award in the amount of \$29,290 and expenditures of the same amount for this project. Ms. Fitzpatrick seconded the motion and it passed unanimously.

Mr. Askham made a motion to move the agenda item "Other Business" to be the next item addressed. Mr. Mason seconded the motion and it passed unanimously.

4. OTHER BUSINESS

Mr. Henault asked both Mr. Kane and Mr. Holden to give an overview of their analyses of the current year budgets that were submitted to the Board. Mr. Holden stated that the Board of Education is projecting a modest surplus in their budget of \$1,250, which is a change from the \$185,000 deficit which was previously projected at the first quarter. The change pertains to the receipt of the State Restricted Fuel Oil Grant Assistance in December (\$59,093) and a \$128,000 surplus in the Technology Equipment account, reflecting dollars that are not being spent in order to come in with a surplus in the current year's operations. He also indicated that the BOE has implemented a budget freeze for all non-essential purchases as of December 1st as well as a hiring freeze. Mr. Holden stated that revenue projections are still on target at this point.

Mr. Askham asked about full-time equivalents, as they appear to be the same

as last year and he had anticipated a decrease. Mr. Holden replied that there has been a modest decline because the number of students has remained relatively flat as compared with last year.

Mr. Mason asked what changes had been made in the technology budget. Mr. Holden replied that costs had come in lower than had been originally projected and they had delayed some purchases and upgraded existing equipment instead. He stated that the Board felt that it was more important that the budget come in with a surplus rather than the purchases being made immediately and that adjustments could be made in the third quarter, if appropriate.

On the Town side, Mr. Kane stated that there are currently three unfilled positions: a dispatcher, an engineer and a parks maintainer, all of which will not be filled. He noted that energy costs are higher and anticipates there will be a deficit in that area. Snow removal and police overtime will also most likely exceed the budgeted amounts.

Mr. Kane referred to the discussion at the Board's prior meeting relative to the importance of looking at the status of the revenue side as well as the expenditure side, noting that there will most likely be a shortfall in the \$1 million range in investment income. Although the status of the fund balance can not really be known until actual tax collections are in, he projected that, if there is a 98.5% collection rate and factoring in the \$1 million deficit in investment income, an estimated surplus on property taxes of \$550,000 and an estimated \$100,000 surplus in the operating budget, the best case scenario would be that it breaks even and the worst case scenario would be a deficit of several hundred thousand dollars.

Mr. Askham asked about conveyance tax revenue. Mr. Kane replied that it is difficult to project, but would anticipate that it will be reduced this year, but that it might increase in the future due to refinancing activity and recording fees could increase as well.

Mr. Askham asked about the status of the ECS grant. Mr. Holden stated that he is not aware of any changes at this time. However, Ms. Glassman cautioned that the next check would not be received until April, so nothing is certain until the actual funds are in hand. Ms. Glassman added that, as the State budget deficit increases, there could be rescissions. Mr. Askham asked how much funding was potentially at risk. Mr. Holden stated that there are two payments that are due in April and June. Mr. Mason noted that the timing relative to the budget cycle will once again cause a level of uncertainty relative to state funding similar to what was

experienced last year, only more severe.

Mr. Henault stated that there would be a change in the Board of Selectmen budget presentation that is currently scheduled for March 12th on the Board of Finance's 2009 Calendar. It was agreed that the Board of Selectmen presentation would be moved to 5:30 PM on Monday, March 9th to immediately precede the Board of Selectmen meeting.

Ms. Fitzpatrick made a motion to move the agenda item "Other Business" back to its original order. Mr. North seconded the motion and it passed unanimously.

5. DISCUSSION ON 2009/10 BUDGETS AND POSSIBLE ACTION

Mr. Henault referred to the three Boards' prior discussion regarding possible reductions in State aid ranging from zero to \$2.5 million and the respective Boards' needs as well as the challenges that Simsbury would face with its budget. He felt that the Board of Finance should give the Board of Selectmen and the Board of Education a guideline as to what they should do in their deliberations. In doing so, the Board will have to consider the balance of quality of service as well as education vs. what the taxpayers can afford.

Mr. Henault noted that the key issues being faced are declining State revenue, declining investment income, employment statistics and a projected reduction of .32% in the grand list. He asked for comments from the other Board members.

Ms. Mielert asked for an explanation of the drop in the grand list. Mr. Kane stated that it was the result of a decrease in personal property of approximately \$9 million due to some leasing companies leaving Town and the Hartford. Also, the motor vehicle ADA assessment has decreased by approximately \$11 million. There has been a slight increase in real estate, but that has been offset by major decreases in the other areas. Mr. Kane noted that the Town has never experienced decreases of this magnitude before.

Mr. Henault asked Ms. Glassman to discuss the deliberations that have been made to date relative to the Board of Selectmen's budget. Ms. Glassman stated that each department was asked to submit a budget with a 5% decrease on non-personnel related areas, which resulted in an aggregate increase in the overall budget of 2.17%, after factoring in the unfilled positions, in order to maintain the current level of services. Mr. Henault asked if there were any details as to what had been eliminated. Ms. Glassman indicated that that information was not available at this time. Ms. Glassman noted that there are Town bargaining unit contracts that are three years in arrears and that there is a proposed settlement that the Board of

Selectmen is currently working on.

Mr. Henault asked Mr. Holden to report on the status of the Board of Education's budget deliberations. Mr. Holden responded that the Superintendent presented her operating budget last Tuesday for 2009/10 and it represented a 3.87% increase with no change in personnel. He stated that 58 of 75 accounts showed 0% increase or a decrease and the remaining 17 accounts which had increases were personnel and collective bargaining-related. He added that the Board of Education requested that the administration come back next Tuesday (Jan. 27th) with two different budget scenarios, one representing a 2% increase and the other representing a 0% increase. Mr. Holden added that they will not have revenue projections until February, when the Governor's budget is known.

Mr. Askham asked about the projected enrollment reductions and Mr. Holden thought that it would be approximately 25 students, but noted that the moderate reduction in enrollment that had been predicted for the current year was not actually realized due to a migration from private schools to the public schools.

Mr. Henault asked about anticipated retirements and Mr. Holden stated that 6 retirements had been factored into the 3.87%. He added that they had offered a retirement incentive, but had no takers.

Mr. Henault asked Mr. Holden what he thought the impact would be of a 2% increase. Mr. Holden replied that it would result in reductions of certified and non-certified staff, the \$228,000 reduction in the technology budget would have to be further reduced, and, as most accounts were already held at 0%, then there would have to be further reductions in supplies and textbooks and potentially pulling back on the weekend use of school facilities in order to cut back on fuel and utility usage.

Mr. Henault asked Mr. Kane to display the mill rate projection worksheet, noting that the spreadsheet is just a tool that the Board of Finance uses in its deliberations as they move forward in the budget-making process. Mr. North gave an overview of the beginning assumptions that had been inserted into the worksheet: 0% increase in the Board of Selectmen and Board of Education budgets, a \$950,000 reduction in interest income, a \$730,000 reduction in ECS grants (noting that this number could potentially go as high as \$2 million), and the dollar impact of the .32% grand list reduction (\$8.2 million reduction in the grand list). Just those assumptions (prior to any discussions with the Boards relative to their expenses) resulted in a 2.36% increase in the projected mill rate, from 29.6 to 30.30.

Mr. North stated that it is important that the community recognize the

enormous fiscal challenges being presented and that it most likely is more than a one-year challenge. He noted that there will have to be a period of spirited and diligent cooperation amongst the Boards in order to produce a budget that is acceptable to the community.

Ms. Fitzpatrick asked to see the effects of inserting a 2.17% Board of Selectmen budget increase and a 3.87% Board of Education budget increase and it resulted in a 6.08% increase in the projected mill rate, or 31.40. Mr. Mason asked to see the effects if the reduction in ECS funding should go as high as \$2 million. The result was a 7.77% increase in the projected mill rate, or 31.9. Mr. Henault noted that these results are illustrative of the State just pushing its fiscal problems down to the local level.

Mr. Mason asked what would be required to get the Board of Selectmen and Board of Education budgets to a 0% tax increase and it resulted in a decrease in the budgets of approximately 2.75%. Mr. Henault asked what such a decrease would do to the current level of Town and school services. Ms. Glassman responded that core services would start being affected in that there would be a reduction in public safety and public works. She felt that there need to be significant conversations about services that the Town can continue to provide with a 0% tax increase. Mr. Holden responded that there would need to be a reduction in the Superintendent's budget of approximately \$4.2 million in order to get to a 3% reduction. Given that about 82% of the operating budget represents wages and benefits, he anticipated that it would result in a significant reduction in certified staff (roughly 10%) with a corresponding increase in class size.

Ms. Mielert asked about the status of the teacher contracts and Mr. Holden indicated that they were in the first year of a three-year agreement. Mr. Askham asked what percent of the budget represented payroll and Mr. Kane stated that it was about 75%. Mr. Askham asked about the dollar amounts associated with contracted wages and Mr. Kane stated that, for the Town, it represented about \$657,000 and Mr. Holden stated that, on the Board of Education side, it represented approximately \$1.6 million in contracted wages.

Mr. Henault noted that, even with 0% increase in budgets, which it has been indicated would be extremely painful with regards to reduction in services, the Town is facing an increase in taxes for fewer services, which once again illustrates how the State is pushing the pain down to the communities. Ms. Glassman added that the Town has nowhere to push.

The Board discussed the effects of potentially adding funds from reserves to fill the gap, ranging from \$250,000 to \$1 million. Mr. Mason asked Mr.

Kane to comment on what the effect would be on bond ratings if the Town were to use \$1 million of reserves. Mr. Kane stated that most communities will see their reserves going down and that bond ratings are based on comparison with other communities. The rating agencies recommend a reserve level of 5% or greater, but Mr. Kane stated that he was not comfortable with having the level go lower than 7% or using more than \$1 million of reserves.

Mr. North noted that, although he has not been in favor in the past of the practice of using reserves for operating budgets, the current situation is so dire that perhaps it would be appropriate. However, since he thought that there would be more than one year involved, it would be prudent to not use more than \$750,000 since it is unlikely that the Town will see any reserve build up in the next few years. But, since the ECS funding is still at risk and the worst case scenario could involve a \$2 million reduction in revenue, the only place to go to fund that gap would be reserves. Therefore, he was a reluctant proponent of the use of reserves. Due to the percentage of the budgets that related to personnel increases, he felt that there needed to be some very difficult conversations with bargaining units about the contributions that they would be willing to make towards solving the problem at hand.

Mr. Henault noted that the current discussion does not take into account any capital discussions, which would have to hold at its current level vs. a reduction in services personnel. Ms. Glassman noted, however, that economic stimulus funds that are anticipated from the federal government may have an impact as projects may have to be moved forward in order to obtain the benefit of that funding. The Town would have to match the federal grants. The Town could certainly opt out of the federal program, but she felt that it would then be a long time before the proposed projects could eventually move forward.

Mr. Askham noted that the 2010/11 budget will also most likely require a significant increase in pension funding (approximately \$800,000). He stated that he would consider the use of reserves, but there should be a limit as to how they can be used.

Ms. Mielert noted that the last time reserves were used in this context was the early 1990's. Mr. Henault noted that was also a time when the State withdrew funding and it took the Board about five years to wean itself off using reserves for the operating budgets. Ms. Mielert noted that the use of reserves is the equivalent to adjusting the tax collection rate, but that making a change in the tax collection rate is more permanent and does serve to re-build the reserves. She stated that she supported the use of \$1 million in reserves towards the operating budgets.

Mr. Askham noted that, in the last recession, the tax collection rate dropped to 97% and the Town could feasibly experience a similar drop in the near future. Tax Collector Colleen O'Connor confirmed that she has been receiving an increase in calls from non-escrow taxpayers who are worried about the payment that is due in January. She noted that the banks are paying the taxes on foreclosed properties. She added that the collection rate is currently holding at the same level as last year at this time.

Ms. Fitzpatrick stated that she is not in favor of the use of \$1 million in reserves and that a lesser amount should be used. She did not favor banking on the forecasting of money but rather budgeting on what exists.

Ms. Glassman stated that the goal is to arrive at budgets that will pass at referendum. The Board of Selectmen will show what a 0% budget looks like, but she reiterated that it will have a significant impact on core services.

Mr. Henault thought that the Boards needed guidance relative to targets for their budgets and then, once the Governor presents her budget in February, the Board of Finance would have a better handle on what they are facing relative to State funding as well as the status of the collection rate. He thought perhaps a 1.25% guideline should be set and asked the other Board members for their comments.

Ms. Mielert thought that a 1.25% level spreads a lot of pain already and that there are reserves that could be used. Mr. Askham thought that the voters will balk at a 2.7% tax increase and that the decrease in the grand list is a difficult reality to accept. He was uncomfortable asking the Boards to come in with a number and then having them re-adjust it lower later on in the budget process. Mr. Mason was concerned with the exercise of plugging in a percent increase just to get to a 0% tax increase as there could potentially be such a reduction in staff and services that a referendum could vote the budget down and the Board would not know if it was because it was too low or too high, especially in light of all the public comments that were received at the Public Hearing relative to concerns about class size. Ms. Fitzpatrick concurred that it is easier to test the higher end tolerance of a budget rather than the lower end at referendum.

Mr. Henault stated that he was not in favor of using reserves to plug holes in the operating budget as it would result in no flexibility for use on extraordinary projects that might arise later on. Mr. Askham asked what would happen if the voters turned the proposed budget down. Mr. Henault replied that the increase would then have to be dropped to 0%. Ms. Mielert stated that, first of all, the Board must consider what is heard that the

Public Hearings. Mr. Henault added that, at that point, the Board would have heard what other communities are doing.

Ms. Fitzpatrick made a motion that a 1.25% increase be set as a guideline for the Board of Selectmen and Board of Education operating budgets and that both Boards prepare budget scenarios reflecting a 0% increase and a 1.25% increase so that the public can ascertain the impact on services. Mr. North seconded the motion.

Mr. Henault asked when the Board would decide which budget to accept. Ms. Glassman suggested that preliminary presentations could be made at the Board's next meeting on February 10th. Mr. Mason noted that the Board is not looking for an explicit budget presentation, but rather "what if" scenarios so that feedback can be solicited from the public. Ms. Mielert agreed that it is necessary to understand just what specific cuts would be needed to get to 0%. Mr. Holden stated that these budget scenarios are exactly what he has been asked to present to the Board of Education at their next meeting and that he could give the same presentation at the next Board of Finance meeting as well.

Relative to personnel compensation, Mr. North stated that contractual agreements could be re-opened so that cuts are not required. He felt that sacrifices are required at all levels. He quoted President Obama's inauguration speech, in which he stated that he would rely on "the selflessness of workers who would rather cut their hours than see a friend lose their job". Mr. North stated that it can not be business as usual. He felt that talk of personnel cuts and service cuts is unreasonably threatening and challenged the Board of Education and the Board of Selectmen to show budgets that reflected the scenario should salary increases not occur. Ms. Glassman noted the presence in the audience of many Town employees and stated that there have already been discussions with the unions relative to the budget crisis at hand. She commended the employees for their presence and said that there would be continuing dialogue with them.

The motion passed unanimously.

6. OTHER BUSINESS

None.

7. ADJOURNMENT

Ms. Fitzpatrick made a motion to adjourn the meeting at 7:50 P.M. Mr. Mason seconded the motion and it passed unanimously.

Paul Henault, Chairman
Clerk

Debra L. Sweeney,