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Cc:

BOARD OF FINANCE
JUNE 15, 2010
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, Nicholas Mason, Anita Mielert, Kevin North and Barbara Petitjean. Also present were Director of Finance Kevin Kane, Board of Education Business Manager David Holden, Director of Public Works Thomas Roy and other interested parties.

2. MINUTES

Mr. Askham made a motion to approve the minutes of the May 18, 2010 Regular Meeting. Mr. Mason seconded the motion.

Ms. Petitjean asked that the spelling of her name be corrected.

The motion to approve the minutes as amended passed 5-0 (Ms. Petitjean abstained).

3. SUSPENSE LIST

The Board had various questions regarding specific details listed that they decided to pose to the Tax Collector and the Finance Director after the meeting.

Mr. North made a motion to approve the Suspense List as submitted by the Tax Collector in the amount of \$69,081.92. Mr. Askham seconded the motion and it passed unanimously.

4. TRANSFER FROM RESERVES

Mr. Henault referred to a request from the Director of Social Services, Mickey Lecours-Beck to transfer reserves in the amount of \$40,000 and to approve a budget transfer in the amount of \$12,025 in connection with the purchase of a Dial-A-Ride bus. A federal grant will provide reimbursement for 80% of the purchase up to \$40,000. The cost of the vehicle would be \$52,025. Mr. Kane explained that the Town must first pay 100% of the cost, which will require an initial appropriation from reserves of \$40,000 (the amount of the grant) as well as an internal transfer to make up the difference.

Ms. Mielert made a motion to approve a supplemental transfer of reserves to cover the federal grant in the amount of \$40,000 pursuant to Section 909 (a). Mr. North seconded the motion and it passed unanimously. Mr. Mason made a motion to approve the requested budget transfer of \$12,025. Ms. Mielert seconded the motion and it passed unanimously.

5. BUDGET TRANSFERS

Mr. Henault referred to a request received from the Director of Public Works, Tom Roy for a budget transfer. Mr. Roy explained that an appropriation was made in fiscal year 2007/08 for the removal of two large underground gasoline and diesel underground tanks at the highway garage. The tanks were beyond the warranty period and were scheduled to be removed. Through the course of the project, it was determined that the fuel management system needed an upgrade as well as the pumps, which put the project over budget.

Additionally, the original appropriation never accounted for the cost of removing the underground tanks, as they were allowed to stay vacant for up to a year. Apparently, the original plan was to stagger the appropriation over several years. There are also four additional buried tanks at the highway garage used for lubricating oil and it would be cost effective to take all the tanks out of the ground at the same time and replace them with above-ground tanks. Mr. Roy noted that the highway facility is located in an aquifer area and, therefore, having any underground tank is a huge liability.

Mr. Roy stated that the Highway Dept. had a very favorable experience in its overtime operations due to a mild winter and also has had several unfilled positions throughout the year, resulting in a savings offset that would cover the projected \$80,000 cost of replacing the tanks.

Mr. North noted that the process being described by Mr. Roy is precisely the process that the Fire District encountered when constructing its new facility. He added that you move at your peril in keeping these tanks

beyond their useful lives as it is highly regulated area subject to regular testing. Therefore, he was strongly in favor of moving ahead with this project. Ms. Mielert agreed and pointed out that the Town could be in violation of its own ordinance relative to these tanks and having them in an aquifer area is a great liability and costs of the project are being covered.

Mr. North made a motion to approve the completion of the project and the budget transfer of \$80,000 in total from three operating accounts (\$30,000 from Buildings & Maintenance Administration; \$7,500 from Buildings & Maintenance OT; and \$42,500 from Highway Labor & Equipment) as outlined in the June 7, 2010 memo. Ms. Mielert seconded the motion and it passed unanimously.

6. FINANCIAL REPORTS

Mr. Henault stated that he had asked Mr. Holden and Mr. Kane to provide snapshot reports as to the status of the current budget through 11 months. Mr. Holden stated that the Board of Education budget is basically on target with a few variations. ECS grant funds received are approximately \$27,000 more than projected, the Adult Education grant funds received are \$1,400 higher than projected and the Public School Transportation grant is \$43,500 less than projected. He explained that, on May 7th, the State legislature voted to decrease the Transportation grant in order to increase the ECS grant revenue. He noted that this decision had little dollar amount impact on Simsbury, but could have huge implications in other communities. The district has three more tuition-paying students than were originally projected. The net revenue impact is a surplus of \$22,751. All State revenue has been received at this point.

On the expenditure side, Mr. Holden stated that they are projecting a \$19,625 surplus. Major variances were:

- A \$20,000 deficit in snow removal
- The Assistant Supervisor of Buildings & Grounds position was eliminated, which resulted in a \$40,000 surplus in Salaries-Building Services. However, it was then necessary to contract out some of the snow removal and the changeover to the Town's application of chemicals in lieu of sand resulted in an increased cost of the product.
- A \$30,000 surplus in electricity
- A \$50,000 deficit in unemployment insurance due to eliminated staff.

Mr. Henault asked about the impact of seatbelts in school buses and whether they would be required only in new buses or if the older buses would have to be retrofitted. Mr. Holden stated that they would most likely be phased into new buses and that it could occur 1-2 years from now, adding that it would be more cost effective to have them in new buses vs. retrofitting should the State eventually issue a mandate.

He anticipated extensive future discussions relative to the costs of outfitting the buses with belts as well as potential liabilities incurred should students not use them or the potential need to increase the fleet to accommodate students as well, not to mention the actual safety merits of installing belts in the first place. For instance, a school bus in an accident that ends up upside down results in all occupants hanging upside down from the seat belts, posing a major impediment should the vehicle be on fire, etc. He noted that most accidents occur outside the school bus as students enter and exit, which is why past investment in safety efforts have focused on signage on the buses and stop warnings.

Ms. Mielert asked about other states' experience in which the belts are currently being used. Mr. Holden stated that the results are questionable, with reports of having to add personnel on the buses in addition to the drivers to assure that the children are actually wearing the belts and not using them as weapons against each other.

On the Town side, Mr. Kane estimated property tax collection to be about 1% greater than the budget (99% vs. 98%), resulting in a projected surplus of \$200,000-\$300,000. Investment income will most likely show a \$225,000 deficit and Licenses and Permits revenue will most likely show a \$33,500 deficit. He added that the Town will go through a revaluation in October 2012, the cost of which would be approximately \$500,000, and will need to be put aside. Mr. North noted that the revaluation could result in a big jump in the mill rate. Mr. Kane agreed. Mr. Kane expected that the fund balance will be in the 9.5%-10% range.

Mr. North asked if the Water Pollution Control Authority has undertaken any systematic analysis of their reserve balance, noting that it is 167% of their operating budget. Mr. Kane indicated that they have not.

Mr. Kane stated that the Simsbury Farms revenue is slightly higher than it was last year in the first 10 months and felt that the fund may remain the same or increase slightly.

7. PENSION PLAN UPDATE

Mr. Henault stated that he had asked Mr. Kane to provide a report on the current status of the pension plan. Mr. Kane's summary included market values as of 6/30/08, 6/30/09 and 6/11/2010. He stated that the asset values declined approximately 21% last year. The negative 18% return, coupled with the inability to earn the assumed 7.75% rate of return, resulted in an overall 26% loss, which will be phased in at 40% in the next year projections. He is anticipating a nice gain this year, which will also be phased in at 20% by the actuaries. Therefore, he anticipated a material increase in the following year's budget.

Mr. North reiterated his long-standing concerns relative to the Pension Subcommittee. He recently had an opportunity to attend an all-day pension symposium at which there were discussions regarding plan sponsors increasingly moving to consultant-advised investment management of their assets, which does not currently exist in Simsbury. He has repeatedly stated that one of the largest liabilities and largest asset bases of the Town ought to be much more closely supervised and independently measured than is currently being done by a group of political appointees, many of whom are not necessarily investment professionals.

He noted that the Pension Subcommittee is under the supervision of the Board of Selectmen and felt that the Board of Finance should counsel them to offload this oversight to the Board of Finance, who could investigate the advisability of engaging an independent investment advisor with no product to sell to manage the plans. Currently, there are political appointees directly overseeing a Fund Manager and he felt that such a model is very dated and inappropriate. He thought that the Board should perhaps collectively recommend a change to the Board of Selectmen.

Mr. Mason, who is the liaison to the Pension Subcommittee, stated that the committee is well aware that the investment policy is outdated and needs to be updated and are currently in the process of developing a revision, which they hope to have completed in September. He also noted that the pension fund is following a 60% equities/35% fixed income/5% alternative (real estate) allocation model, which is fairly typical for such plans. The real estate piece has proven to be problematic in that the Pension Subcommittee has identified real estate assets in the fund which are very illiquid and, therefore, there is a substantial queue with Russell Investments waiting to move away from this set of investments. He added that the plan is using a 7.5% actuarial rate, which the actuary feels is in the median range for most pension accounts in the region, yet he recognized that there is some sentiment that a lower rate should be used.

He stated that he did not have any strong feelings as to whether or not the Pension Subcommittee should exist and/or which Board it should report to. He noted that the Board of Selectmen has historically not given much oversight to the Committee and has not requested fairly regular reports, nor do they have the expertise to analyze them. He agreed that, while in the past, the committee has had the benefit of having members with a fair amount of investment expertise, many have since left the Committee and, while current members are all legal, investment or actuarial professionals, not every member is an investment advisor. He thought that Mr. North's suggestions should be taken.

Mr. Henault suggested that Mr. North and Mr. Mason devise an action plan to be presented at the Board's next meeting. Other Board members concurred.

8. SUMMER SCHEDULE

Mr. Henault stated that he would like to defer until the Board's July meeting the decision as to whether or not to cancel the Board's regular meeting in August. Mr. Mason noted that the Board did meet last August to begin long-range planning for the subsequent budget year and that it might be appropriate to do the same this year.

9. OTHER BUSINESS

Mr. Holden noted that the Board of Education's negotiations with the teachers and administrators will begin in the fall and one of the requirements in the Teacher Negotiations Act is that the Board of Education must first meet in Executive Session with the budget-making authority (the Board of Finance) prior to starting negotiations. It did not require full board attendance. He proposed that this meeting occur after the Board of Finance's regular meeting on July 20th. Mr. Henault thought that Mr. North had met with them last year as the Board's representative and, while he would recuse himself from the meeting, he welcomed any of the other Board members to sit in on that meeting.

Mr. Henault officially welcomed Barbara Petitjean to the Board of Finance, noting that Ms. Petitjean is an attorney, who has served as a past director of OPM as well as a past chairman of the Public Building Committee and is currently a Vice President at The Hartford in Corporate Finance.

10. ADJOURNMENT

Mr. North made a motion to adjourn the meeting at 6:55 P.M. Mr. Askham

seconded the motion and it passed unanimously.

Paul Henault, Chairman

Debra L. Sweeney, Clerk