

From: SimsburyCT Postings                      October 21, 2010 11:11:18 AM  
Subject: Board of Finance Minutes 09/23/2010-SPECIAL MEETING  
To: SimsburyCT\_FinanceMin  
Cc:

BOARD OF FINANCE  
SEPTEMBER 23, 2010  
SPECIAL MEETING

1.            CALL TO ORDER

The Special Meeting of the Board of Finance was called to order at 6:05 P.M. in the Board of Education Conference Room in the Simsbury Town Offices. The following members were present: Paul Henault, Nicholas Mason, Anita Mielert, Kevin North and Barbara Petitjean. Due to the change in meeting schedule, Peter Askham was unable to attend as he had a business commitment. Also present were Director of Finance Kevin Kane, Board of Education Business Manager David Holden, and other interested parties.

2.            MINUTES

Mr. North made a motion to approve the minutes of the July 20, 2010 Regular Meeting. Mr. Mason seconded the motion.

Mr. Henault asked that the minutes be amended to reflect that Ms. Petitjean was not able to attend the meeting due to a family emergency. He also asked that additional details be added to the 4th and 5th paragraphs under "2009/10 Budget Transfers" for clarification. Mr. North noted a correction on page 4.

The motion to approve the minutes as amended passed 4-0 (Ms. Petitjean abstained).

3.            EDUCATION JOB FUNDS PROGRAM

Mr. Holden stated that \$110 million has been allocated to Connecticut under the Education Job Funds Program and that Simsbury's portion of that will be \$313,843. The funds, which are a one-time award to be used over a two-year period, will be treated as a restricted federal grant and can only be used

for the compensation and benefits of employees that work directly in one of their buildings and may not be used for central office personnel. He added that the Board of Education has had discussions about the potential use of these funds over the course of two meetings and, while no decision has been made at this point, the current sentiment is to not commit to making use of these funds until January 1, 2011.

The concern is that the normal ECS funding (which the State maintained this year by supplementing them with State ARRA funds) plus the IDEA-ARRA funds (totaling \$1.2 million) which were allocated specifically for special education, will run out at the end of the current fiscal year. Mr. Henault noted that there is a disconnect between how the State is telling the districts to not supplement their funding by telling them the funds had to be used for new programs, when that is, in fact, what the State itself had done by using the ARRA funds to supplement the ECS grants.

Mr. Holden stated that, if the Education Job Funds money were to be spent in this fiscal year for positions for which there would be no source of funding in the following year, then those positions would ultimately be laid off next year and that would make no sense. Ms. Mielert wondered if the number of positions laid off would not be the same due to declining enrollment. Mr. Holden replied, that in terms of State grant support, the positions do not drop off that quickly. Mr. Henault noted that the current budget called for a decrease of 4 staff due to enrollment decline, whereas there were actually 12 staff reductions. Mr. North noted, by delaying the manner in which these funds are used, the Board of Education would retain the option of offsetting any reduction in ECS associated with the loss of ARRA funds. Ms. Petitjean felt that the message should be conveyed to the Board of Education that the Board of Finance is very pleased with the conservative approach being taken relative to these funds and the responsible way in which they are considering using them.

Mr. Holden noted that the Board of Education has used the IDEA-ARRA funds over a two-year period for one-time purchases of equipment or major studies regarding performing their special education responsibilities in a more cost-effective manner. He also noted that negotiations are currently going on with the certified collective bargaining units and the results of those negotiations will have a significant impact on their overall Board of Education operating budget.

#### 4. UNAUDITED JUNE 30, 2010 FINANCIALS

Mr. Kane provided the Board with unaudited June 30, 2010 financials and projected that there will be a 10% fund balance. Mr. Henault noted that there was \$300,000 budgeted for investment income, whereas the actual investment income was \$71,000 and that the undesignated fund balance

(reserve) is now \$8,679,563. Investment income for the current year was budgeted at \$150,000. Mr. Mason asked about the collection rate and Mr. Kane thought it would be in the 99.2% range.

Mr. North stated that he, once again, wanted to call attention to the inordinately large undesignated fund balance in the Sewer Use Fund and felt that it would be incumbent upon them to identify what they are reserving this capital for or to otherwise re-visit the appropriateness of carrying a balance this large. Mr. Kane stated that the original plan was to use it for debt service and some sewer extensions, but he was not aware of any long-term plan. He also noted that the WPC is an appointed board that reports to the Board of Selectmen.

Mr. North made a motion that the committee responsible for overseeing the operation of the Sewer Use Fund should present a five-year strategic plan for deploying the undesignated fund balance to the Board of Finance prior to the end of the calendar year. Mr. Mason seconded the motion.

Ms. Mielert stated that she would also like to see a schedule for the debt repayment. Mr. Kane stated that the debt service, while there was an initial payment of accrued interest, is the same dollar amount every year and that there are 18 years remaining on the debt. Ms. Petitjean stated that she would like to see how long they have been carrying such a large balance and is concerned that perhaps they are overcharging fees.

The motion passed 5-0.

Mr. Henault noted that the undesignated fund balance for the Simsbury Farms Fund increased slightly and is a positive number and that there was a slight reduction in costs between budget and actual. Mr. Holden stated that the Board of Education financials are on target with prior projections that were presented to the Board of Finance. Ms. Petitjean asked if the undesignated fund balance was in line with that of comparable towns and how much it impacts the Town's bond rating. Mr. Kane stated that Moody's has indicated that most AAA communities have fund balances in excess of 10%, so that Simsbury's 10% would be in the minimum range and that 12% might be too high. He also noted that, in issuing Simsbury's current rating, Moody's did also comment that the fund balance had dropped significantly when it approached 7.8%. Mr. North noted that, in more normal economic times, a AAA vs. a AA rating can have a material impact on the ability to fund future projects and that the Board needs to take a long-term view.

## 5. 2010/2011 BUDGET TIMELINE

Mr. Henault noted that last year the Board scheduled a Special Meeting in November that included an analysis of the current financials, the budget-making process, and the challenges being faced in the upcoming year as well as a public audience. He felt that it would be good to do that again this year and asked the members for their thoughts. Mr. North supported a meeting in which the public could express their sentiments, perhaps in early December. Ms. Petitjean felt that the Board should have public audience at every meeting. Mr. Henault replied that most issues that come to the Board of Finance have first been vetted through the Board of Selectmen and the Board of Education, both of which have public audience at their regular meetings, and adding public audience could push the length of meetings out to 2-3 hours. Mr. Mason felt it would be better to hold the meeting in mid-November so as to avoid the holiday crunch. Ms. Mielert suggested that the Board consider adding a Special Meeting in addition to their regular meeting November 16th. Mr. Henault stated that he would check into possible dates and room availability.

Mr. North made a motion that the agenda order be amended such that Item 6, Pension Discussion, be taken up next. Ms. Petitjean seconded the motion and it passed 5-0.

## 6. PENSION DISCUSSION

Mr. Henault noted there will be a meeting next Monday at 6:00 PM with the Board of Selectmen with a presentation from Milliman, the Town's actuaries, regarding the pros and cons of a defined benefit plan vs. a defined contribution plan. He also noted that the Board has had past discussion regarding the Pension Committee and getting professional investment advice. He referred to a drafted letter in the members' packets and asked that the members come to a decision on these issues.

Mr. North noted that Kevin Schultz recently resigned as chairman of the Pension Subcommittee and that he had contacted him relative to his thoughts. Mr. Schultz had indicated to him that he felt that it was time for the Town of Simsbury to step up and make the approach to these fiduciary asset pools more rigorous and sophisticated. Secondly, he distributed a copy of a recent Wall Street Journal article (Addendum I) that discussed the assumed investment returns which are a baseline consideration in the management of both private and public pension funds and two issues: 1) that there is a political issue in assuming higher rates of return to avoid making larger contributions to the funds, which masks the true liabilities, and 2) the general concern that the past

assumed rates of return are no longer achievable in the future.

Mr. Mason stated that he had also had a conversation with Mr. Schultz and noted that the Pension Committee has been working on updating its investment policy and has been reviewing investment results. He stated that Russell Investments is continually in the process of choosing fund managers. Mr. Mason added that the changes proposed by the draft letter suggesting that an independent investment advisor "aid in making manager changes" would, in essence, involve dropping Russell Investments and would entail a fundamental change in how the Committee is currently operating. The Board of Finance would need to take a more hands-on approach.

Mr. Mason said that he had also considered asking the Committee members to offer their resignations to the Board of Selectmen so that they have a clean slate to work with. He was not sure that any of the remaining members wanted to step up to be president and felt that they need more direction from the Board of Selectmen. He agreed with the sentiments of the letter, but noted that there would be certain problems as to how the process would work.

Mr. North felt that the Commission overseeing the fiduciary assets should know the costs of investment, which they do not, and, therefore, the assets are not being carefully managed. Mr. Henault asked how other towns are handling management of their funds. Mr. Kane stated that Milliman has said that more than 50% have investment consultants or are looking into it. Mr. Kane said he has concerns over the liability risks involved. Ms. Petitjean asked about the cost of an investment consultant. Mr. Kane stated that they are usually compensated by basis points based on the amount of assets being managed and the level of service being provided. The OPEB fund is being charged 20 basis points for passive management. Ms. Mielert thought that it might make sense for the OPEB and pension funds to be included in the same RFP so that both are managed by one financial consultant.

Mr. Henault asked if there would be a need for a Pension Committee if an investment consultant were used. Ms. Mielert noted that the Pension Sub-Committee is not a true sub-committee as it reports to the Board of Selectmen and no selectmen are members. Mr. Holden noted that the Pension Sub-Committee was originally a sub-committee of the Insurance Committee, which also does not have any selectmen as members. Originally there were Board of Education and Board of Selectmen liaisons to both committees, but they have now become Mr. Holden and Mr. Kane, respectively.

Mr. North noted that there are Charter considerations, but felt that the Board of Finance needs a direct line of accountability with whoever manages

these assets. Further, if there is not a reasonable rate of return being assumed, then they do not have an adequate handle on the actual cost of compensation. Ms. Petitjean felt that the Board of Selectmen must be sent a communication regarding the Board of Finance's concerns and solicit their thoughts as to what role they want the Board of Finance to play. Ms. Mielert felt that it was important to avoid any political interchange between the two boards and to focus on the fact that it is time to reconsider past practices.

Mr. North made the following motion:

RESOLVED, that Simsbury's Board of Finance endorses the engagement of an independent investment consultant to advise the Town on its fiduciary assets and urges the Board of Selectmen to take action. Said consultant will aid the Town in developing an Investment Policy consistent with the Town's pension obligations to its employees. Further, said consultant will aid in the development of investment return assumptions and asset allocation recommendations. Ongoing responsibilities will include the provision of analytics to monitor investment manager performance and costs and compare them to appropriate benchmarks and other managers as well as the ability to regularly report on the results achieved by the plan's managers. Said consultant shall have no conflicts which would prevent the provision of such advice in an unbiased and objective manner. The ongoing responsibilities of such a consultant shall also include working with the Town's actuaries on investment assumptions for accurate measurement of the total magnitude of its pension obligations and the calculation of appropriate regular contributions to adequately fund the pools in question.

Ms. Petitjean seconded the motion and it passed 4-0 (Mr. Mason recused himself).

Mr. North made a second motion:

RESOLVED, that Simsbury's Board of Finance request that the Board of Selectmen establish policies that require regular reporting on the funding and performance of such fiduciary assets to Simsbury's Board of Finance, Simsbury's budget-making authority, as well as the Treasurer of Simsbury, so that the Board of Finance can make regular assessments about the level and adequacy of Simsbury's funding obligations as well as the true cost of the provision of such pension benefits which constitute a considerable part of employee compensation costs.

Ms. Petitjean seconded the motion and it passed 4-0 (Mr. Mason recused himself).

Mr. Henault noted that the motion only asks that a policy be established on regular reporting and does not suggest a re-organization of the current structure. Mr. Mason noted that the Pension Committee already has that reporting responsibility to the Board of Selectmen, but that they have not been requesting quarterly or annual reports and he is not sure that the Board of Finance wants to take on another obligation of that magnitude.

## 7. CCM/CRCOG

Mr. Henault stated that he was disturbed about a recent article in the August issue of the Town & City publication distributed by CCM regarding municipal revenue diversification and the real estate conveyance tax. CCM ("the voice of local government") was proposing allowing local option taxes (sales, entertainment, hotel occupancy); allowing municipalities to assess alternative taxes on a regional basis; making new local taxes applicable state-wide; and sharing State revenues with municipalities or regions. He felt that, at a time when communities are struggling to keep taxes under control and trying to find ways to reduce taxes, CCM should not be trying to find four different ways to raise taxes. He questioned why Simsbury is a member of CCM and asked for input from the other members.

Ms. Mielert stated that CCM should not be lumped with CRCOG and felt that there are many benefits to having discussions with other towns relative to funding and policy decisions.

Mr. North was concerned to see CCM lobbying in an article in the Hartford Courant for no cuts to ECS funding, which, in effect, would equate to new taxes since the State is projecting a \$3-\$3.5 billion deficit in each of the next 2-year cycles. He felt that it is too easy to climb on the CCM bandwagon without considering the impact to the Town of Simsbury. He noted that, while the Town of Simsbury currently generates \$14.1 million in sales tax revenue for the State and, if the sales tax were to be raised from 6% to 7%, would generate an additional \$2.7 million in sales tax costs to Simsbury residents, it only receives \$5.7 million in aid, which is a bad bargain. Further, Simsbury residents also generate \$53.8 million of income tax revenue for the State, so, in total, Simsbury generates \$64-\$65 million in revenue in return for \$5.8-\$6 million of aid.

He thought that the Town should be very careful about endorsing CCM's initiatives when, in fact, the economic bargain could be quite bad for the Town.

Ms. Mielert felt that the property tax is a steady tax with greater predictability from year to year than a sales taxes. She felt that some of

the proposals were not to endorse levying the taxes, but rather to pass legislation so as to enable discussions amongst the communities relative to regional cost efficiencies that might result, such as the establishment of public safety regions. Mr. Henault countered that it is a logical extension that, if allowed, it will happen. Ms. Petitjean stated that the proposals are not suggesting the creation of regional cooperation (which already exists), but rather is suggesting the creation of taxing authorities. Mr. Mason felt that there was an attempt to begin discussion regarding cost cutting as well as additional sources of revenue.

Mr. North stated that small town interests like Simsbury get subsumed by the larger municipalities at CCM. Mr. Henault felt that the message needs to get back to them that they do not speak for all municipalities. He felt that the Board should convey to the First Selectman that there is not total agreement with CCM's proposals. Ms. Mielert stated that there is no consensus within the Board of Finance and would not endorse such a letter from the Board and stated that she had not had an opportunity to study CCM's proposals. Ms. Petitjean felt that there needs to be a balance of expense cutting with revenue generation and that the Board should express the concerns of all its members regarding increased taxation of its residents. Mr. North stated that, regardless of party affiliation, the First Selectman is the designated representative of the Town at CCM and, as such, should convey the Board's discussion and concerns that CCM should be focusing as much of its energy, if not more, on expense control and/or reduction rather than revenue enhancement. As Ms. Mielert was requesting additional time to review the issues, Mr. Henault felt that it should be taken up at the Board's October meeting, at which time they should consider making a suggestion to the First Selectman.

8. ADJOURNMENT

Mr. North made a motion to adjourn the meeting at 7:55 P.M. Mr. Mason seconded the motion and it passed 5-0.

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Paul Henault, Chairman

Debra L. Sweeney, Clerk



