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Cc:

BOARD OF FINANCE
NOVEMBER 19, 2009
SPECIAL MEETING

1. CALL TO ORDER

A Special Meeting of the Board of Finance was called to order at 7:00 P.M. in the Main Meeting Room of the Simsbury Town Offices. The following members were present: Paul Henault, Peter Askham, Nicholas Mason, Kevin North and Anita Mielert. Also present were Director of Finance Kevin Kane, Board of Education Business Manager David Holden, and other interested parties.

2. COMMENTS AND OVERVIEW OF THE UPCOMING BUDGET PROCESS

Mr. Henault gave an overview presentation on how the Board of Finance puts together the budgets. He stated that the Board of Finance is an elected oversight board as well as the budget-making authority for the Town, according to Simsbury Town Charter and the Connecticut General Statutes. He reviewed the budget schedule, which is outlined by Town Charter. There are operating and capital budgets which are moved on to the Board of Finance by the Board of Selectmen on January 15th. The process then runs through an automatic referendum in May. Town Charter also requires that the Board hold two public hearings, which are typically held in April. The operating and capital budgets get approved by the Board and then get submitted to the Town Meeting and then on to the referendum. The Board of Finance subsequently sets the mill rate, which is reflected in the tax bills.

Mr. Henault reviewed the Town's current financial status. The reserves currently are at \$8 million, which is a healthy level, but not as high as it has been in the past. Because of the favorable reserve level, Moody's has given the Town an "Aa1" rating, which results in a good rate when the Town goes out to bond. The Town's current debt obligations total \$52.7 million, comprised of \$33 million of General Obligation Bonds, \$19.3

million in a 2% Clean Water Fund loan (in connection with the sewer treatment plant expansion), and \$120,000 in a 1% housing loan.

Mr. Henault then reviewed the current \$85.2 million budget and its various components (71% Board of Education; 21% Board of Selectmen; 7% debt service; and 1% non-public schools). The Board of Selectman budget decreased 3% from the prior year, the debt retirement budget decreased 2.31% from the prior year and the Board of Education and Non-Public Schools budgets both increased 1.25% from the prior year. He reviewed the revenue sources for the 2009/10 fiscal year. 91% came from property taxes generated by commercial and residential property, the bulk of it being residential. Other sources of income consisted of 7% from State aid, 0% from investment income and 2% from other sources, such as licenses and permit fees. Of particular concern relative to next year's budget are that investment income and State aid will continue to decline and an ever increasing dependence on property taxes. It is anticipated that revenue from motor vehicle taxes will decline in the upcoming year.

Mr. Henault showed a summary of the various capital projects that were recently authorized by the voters at referendum or Town Meeting and contribute to bonding requirements: Simsbury High School renovations (\$43 million), sewer plant renovations (\$26.8 million), the Ethel Walker land purchase (\$8 million), Tariffville School renovations (\$6.2 million), library expansion (\$6.1 million), the Triangle (Griffin Land) land purchase (\$2.75 million), police station renovations (\$2.3 million) and Simsbury High School track and stadium (\$1.905 million).

Mr. Henault gave an explanation as to how the mill rate is calculated, noting that one "mill" produces \$1 for each \$1,000 of property value. He also showed a ten-year history of the changes in the mill rate, noting that last year's increase was only 1.69%. The current mill rate is 31.15(30.1 Town/1.05 Fire District).

He discussed the factors that are considered by the Board when giving the other boards guidelines for their budgets: the current economy, revenue estimates, community needs, education needs, pension obligations, salary/benefit requests, the Social Security cost of living adjustment (0% for 2010), grand list growth, current debt obligations (and the bond issue next year), and future obligations. Taking all of these factors into account, the Board must balance the capacity of the community to afford expenditures relative to projected revenues.

Finally, Mr. Henault reviewed the various tax relief programs that are currently available: the elderly and disabled tax credit, the veterans'

exemption program and volunteer firemen and EMT program. He noted that the Assessor's office should be contacted for 2010 filing deadlines for these programs. He thanked members in the audience for attending and told them to watch for future hearing and referendum dates and encouraged community involvement in the budget process. Board of Finance members may be contacted via the Town website and residents are encouraged to attend Board of Selectmen and Board of Education meetings as they tackle the budget process.

3. PUBLIC AUDIENCE COMMENTS ON UPCOMING BUDGET

Joan Coe, 26 Whitcomb Drive, felt that attention should be given to maintenance of buildings and fields, noting areas of disrepair at Henry James School tennis courts and Simsbury Farms. She felt that there should be a maintenance schedule for all Town assets and that all projects should be thoroughly reviewed as to need rather than increasing the budget year after year. She thought that the number of administrators in the school system should be reduced due to the decline in student population and that Town staff should be reviewed and reorganized so as to make it more efficient along with reduced staff with frozen wages and that there should be a 0% increase in all budgets. She felt that Simsbury Farms and recreation budget should be moved to a self-sufficient fund similar to the Water Pollution Control Authority and that there should be a single vote for each capital project at referendum, no matter what the cost.

Julie Meyer, 3 Eastview Drive, questioned how reserves are used and when they are realized and asked how adjusting the tax collection rate when setting the budget factors into growing the reserves. She wondered if there will be excess reserves at the end of this year that could be used and not left to accumulate. She asked if reserves were used in last year's budget and how the Town's bond rating compared with other towns. She also asked if the Board would consider another public audience prior to the two required Public Hearings after the two boards have been given guidelines and presented their preliminary budgets.

[Mr. Henault replied that the Town uses a fiscal year that runs from July 1st to June 30th and that approximately \$300,000 of reserves were realized at June 30, 2009. He added that currently the tax collection rate is very strong (approximately 99.7%) and is higher than the budgeted collection rate, which does build reserves. The bond rating agencies look at reserves when determining the Town's bond rating. Last year some reserves were

used, but in past years, reserves have been used as a way of funding projects or a shortfall in some of the budgets (such as pension funding). If the reserves are not there when a shortfall happens, then the only way to meet obligations is to tax. Mr. Henault added that there are also Charter restrictions as to how much of the reserves can be used.

Mr. Henault stated that most issues that come before the Board of Finance have first been vetted by the Board of Selectmen and the Board of Education, both of which have public audience at their meetings. Board of Finance then has two Public Hearings by Charter and still has an opportunity to adjust the budgets after those hearings and, therefore, an additional public audience was not needed.]

Dave Balboni, 13 Fox Den Road, felt that the Board of Finance should pressure the unions, Town administration and the school board to negotiate and at least freeze the defined benefit pension plans. He stated that he sees a recent decline in the quality of education that has been provided in the past, noting that Simsbury's statewide ranking has dropped from being first in the State to 5th place in its ERG group in spite of all the increased education spending that has happened in the past years.

[Mr. Henault told Mr. Balboni that he should share his comments with the Board of Selectmen and the Board of Education when they have their meetings. He commented that very few towns or the State have been able to address the defined benefit plans due to union issues. He felt that the issue has to be addressed from the expenditure side. He added that the rate of increase in Town spending has decreased in recent years and has been less than inflation.]

Mike Rinaldi, 32 Pinnacle Mountain Road, felt that the Board of Finance should take a stand on union contracts, pensions and health care benefits and issues. He noted that neighboring towns have lower taxes. He felt that Board of Education contracts should be for one year only in order to be fair to both the employees and the Town. He also felt that defined benefit pensions should be discontinued. He noted that the Town employees, who had a valid contract, gave concessions to Mary Glassman, whereas other unions did not. He felt that it was unfair that the employee who plows his street got no raise, yet the school bus driver did.

[Mr. Henault stated that a recent Town of Simsbury survey indicated that the main thing residents wanted was quality education. The teachers can not strike by law in exchange for binding arbitration. He added that the First Selectman negotiates Town contracts and a Board of Education subcommittee negotiates the Board of Education contracts. The Board of Selectmen approves the contracts and then they move on to the Board of Finance. He was not sure that the Board of Finance even had the authority

to negotiate with the unions. Rather, their role is to make macro decisions and to tell the two boards that they have a cap or guideline and ultimately the voters have the ability to decide. The Board of Finance's duty is to present a budget that is well thought out and balances the needs of the community. Mr. Henault acknowledged that these are extraordinary times. Last year it was decided not to use reserves unless the voters indicated that the proposed tax rate was unacceptable.]

Douglas Holbrook, 9 Avery Way, asked about financing rates and historical reserve levels over the last 5-10 years, if any of the big ticket capital items that have been approved are being reconsidered and if there is any thought towards increasing the amount of line item detail in the budget being added to the Town website. He felt that towns suffer from inertia in that they are very slow to change and do things in small increments. He thought that there should be consideration given to work process, work flow redesigns and how the Town does business.

[Mr. Henault stated that the interest rate is determined every time the Town goes out to bond and that the \$33 million has been bonded over a period of time and the blended interest rate is approximately 3%. Mr. Kane added that the bond length is usually based on the useful life of the facility. Whereas most bond issues use a 20-year period, the bonding schedule used by the Town in the past has, in essence, resulted in a series of 10-year bonds and a blended interest rate ranging from 3%-3.5%, which is very conservative. Mr. Henault noted that an exception was made for the high school project when a 15-year bond was used.

Mr. Henault stated that the historical reserves have been:

\$8,042,000 as of 6/30/09
\$7.6 million as of 6/30/08
\$7.6 million as of 6/30/07
\$8.8 million as of 6/30/06
\$8.0 million as of 6/30/05
\$6.3 million as of 6/30/04

He added that the Board tries to keep the reserve level as a percentage of the budget, as bonding agencies use this ratio in determining a rating. Mr. Askham noted that the reserves were over 11%, but when \$3 million was used to buy the Ethel Walker land, the reserves dropped to a level that was lower than the Board really wanted and they would like to build it back up to around 10% as that is the level that the rating agencies want to see. Mr. North added that, with an increasing operating budget every year, the reserve then has to move up proportionately in order to maintain that ratio. There is no way to fund reserves other than excess that comes in through a more favorable collection rate or money that does not get spent

during the fiscal year. Therefore, the collection rate has always been used as a device for keeping the reserves in a 7%-10% range.

Mr. North noted that last year the Board had much discussion regarding the fact that Moody's generally looks for a 10% reserve level for towns of this size with an Aa1 rating. He said the Board generally tries to dip into reserves for capital projects and not operating costs, as once this is done, it is almost impossible to wean away from that practice and, ultimately, it is just delaying an inevitable tax increase. Capital projects are usually picked off the six-year plan and funded by reserves in order to better contain tax increases.

Mr. Henault stated that the approved capital projects which will be included in the \$4.7 million include the Firetown/Barndoor Hills purchase, the Route 10 streetscape project, the golf/recreational maintenance building, the Greenway, the Tariffville School addition, the Central School brownstone maintenance and district core switches.

Relative to line item detail, Mr. Henault noted that operating budgets for both the Board of Selectmen and the Board of Education are available to the public and are handed out at the Town Meeting and at Board of Finance Public Hearings. The audit report (about 97 pages) can be found online and provides historical information going back about 10 years. The minutes for the Board of Finance meetings can also be found online.

Mr. North noted the efforts of the Consortium for Municipal Fiscal Responsibility which is looking to the State legislature to provide relief to local communities relative to unfunded mandates, binding arbitration and prevailing wage issues. He encouraged all local residents to contact their State legislators and let them know that you would like them to start providing more flexibility in these areas as they have quite onerous local fiscal consequences.]

4. ADJOURNMENT

Mr. North made a motion to adjourn the meeting at 8:18 P.M. Mr. Mason seconded the motion and it passed 5-0.

Paul Henault, Chairman

Debra L. Sweeney,

Clerk