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Cc:

BOARD OF FINANCE
FEBRUARY 24, 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 Conference Room D172 at Simsbury High School. The following members were present: Paul Henault, Peter Askham, Candace Fitzpatrick, Nicholas Mason, and Kevin North. Also present were Director of Finance Kevin Kane, First Selectman Mary Glassman, Selectman Robert Hensley and other interested parties.

2. REVIEW OPEB PERFORMANCE

Chris Kachmar of Fiduciary Investment Advisors reviewed the current performance of the Other Post-Employment Benefits (OPEB) Fund with the Board and provided them with a summary booklet. Mr. Kachmar explained that he provides investment counseling to the Town (as well as several other area towns) relative to their OPEB Trust Funds. He noted that a discussion regarding rebalancing methodologies was an issue that had been brought to his attention by Mr. Kane at the Board's request.

Mr. Kachmar stated that initially the Board was presented with a variety of alternatives relative to asset allocation strategies and ultimately decided on Mix #3 (55% equity/45% fixed income) with an expectation of a 7.3% return over a 7-10 year timeframe. In spite of the recent market volatility over the past year, he expected that to continue to be a reasonable expectation, with the assumption that markets start to function again and mean reversion occurs, in which returns start to come back towards an historic norm. Mr. Henault asked what asset mix was being used by other towns that have established OPEB funds and Mr. Kachmar replied that they are using mixes with a strategy similar to the one adopted by the Town of Simsbury.

Mr. Kachmar noted that, according to the Policy Statement that was adopted when the Fund was created, ranges were built around the individual asset class targets to accommodate market fluctuation in order to frame a long-

term strategy. He also noted that an initial rebalancing was done in November 2008 in response to the lower performance of equities relative to fixed income assets in the recent market. The allocation as of 2/20/09 reflected 54% in US Treasury securities and Treasury inflation-protected securities which he felt warranted a discussion on another rebalancing, noting that the asset classes were still within the established ranges.

Given that the assets are within their ranges, Mr. North asked Mr. Kachmar if he suggested that the policy should be proactively revisited or if the Board should rely on a regular periodic rebalancing. Mr. Kachmar responded that most peer towns adopt a quarterly framework where they formally look at the asset allocations and weightings vs. target and then make a decision regarding rebalancing. He stated that very few are on auto-rebalancing. He added that FIA would like to have periodic discussions with the Board regarding rebalancing and suggested a quarterly frequency.

Mr. Henault asked the Board to discuss moving the oversight of the Fund from the Board to the Pension Subcommittee. Ms. Fitzpatrick stated that she had no strong feelings as to who oversees the Fund, but, given the current market volatility, she would like to have FIA appear quarterly until the markets settle down and the relationship becomes more long-term. Mr. Mason stated that the Pension Subcommittee would be meeting tomorrow morning and that he was unsure as to how the Subcommittee felt about taking on oversight of the Fund. Mr. Henault asked Mr. Mason, who is the Board's liaison with the Subcommittee, to broach the subject with them and get their feedback. Mr. Kane stated that the Pension Subcommittee has been overwhelmed by recent market events and, thus, may be somewhat reluctant to assume additional responsibility at this time. Mr. Mason did not think that was the case. Mr. North felt that the index approach was best and thought that it would be appropriate to have rebalancing done periodically subject to review.

Mr. Askham asked Mr. Kachmar if the investment policy was still prudent in the current market. Mr. Kachmar stated that it was and that the actuarial demographics have not changed that dramatically and the Board may eventually want to adjust the asset mix as the portfolio grows and the situation matures to include nominally more equity. Mr. North stated that he is comfortable with rebalancing to the targets on a quarterly basis and felt that the Board should not be "tinkering" with the Fund as it would mean that it is actively managing the Fund, which is not in compliance with the Trust's policy. Mr. Kane concurred.

Mr. North made a motion that the Investment Advisor be authorized, consistent with the investment policy of the OPEB Trust, to rebalance this

portfolio on a quarterly basis to the target levels, unless the Investment Consultant deems it necessary to make a special visit to recommend otherwise. Mr. Askham seconded the motion and it passed 5-0.

3. SIX-YEAR CAPITAL IMPROVEMENT PLAN

Ms. Glassman stated that the Board of Selectmen adopted their proposed Six-Year Capital Improvement Plan at last night's meeting. She stated that the Board initially thought that there would be no projects, but then decided that there were two projects that warranted consideration: an access road at Simsbury Farms and a Parks/Golf Maintenance Facility. Both projects totaled \$650,000. Ms. Glassman noted that there is a grant pending for the access road, but given the budget cuts, could not rely on actual receipt of those funds. Should they be received, the access road project could come off the list. The project has been on the books since 1999 and the Board felt that it was important to move it forward. The Parks/Golf Maintenance Facility has been under discussion for many years and the initial estimate for the project was \$1.2 million. The project was revised to include prefab-type modular structures so that the cost of the project was decreased to \$550,000.

Three projects were forward to the Board of Selectmen by the Board of Education: replacement of the generator at Squadron Line School (\$200,000), brownstone re-pointing and rebuilding the stairs at Central School (\$150,000) and fiber optic connectivity and district network infrastructure improvements (\$450,000). Ms. Glassman stated that the BOE felt very strongly that these three projects were maintenance-related and urgently needed. Mr. Hensley stated that the maintenance facility is in dire straits and is a potential safety issue.

Superintendent of Schools Diane Ullman, Board of Education Business Manager David Holden, and Board of Education Chairman Jack Sennott joined the meeting at 6:40 PM. Mr. Holden stated that the generator at Squadron Line School, which is one of three emergency shelters in Town, is 39-years old and periodically overheats. Mr. Sennott stated that the stairs at Central School are crumbling and are a safety hazard. He added that the fiber optic connectivity/district network infrastructure, which the BOE would deem to be its top priority of all three of the projects, would provide additional bandwidth and data storage space, an upgrade to the firewall and connectivity to Tariffville and Tootin Hills Schools.

Mr. Askham asked about the Parks/Golf Maintenance Facility. Mr. Toner stated that the facility is part of the 1998 master plan and that there never was any adequate parks maintenance facility. He stated that

equipment is currently stored at various sites around Town. He also noted that there have been many changes in safety regulations relative to equipment wash-downs and pesticide storage that were never addressed. Mr. Toner stated that the Complex Committee addressed the viability and efficiencies of combining the two separate facilities as prescribed in the master plan into one facility. Tom West, of the Complex Committee, stated that this facility is their top priority due to the hazardous conditions in the current Parks facility. He also noted that the Committee decided that centralization and a modular concept were the most cost effective solutions.

Mr. Henault asked Ms. Glassman if either project was on the list of shovel-ready projects. Ms. Glassman stated that the access road is, but was unsure about the maintenance facility project.

Mr. North asked Mr. Kane how much debt service could be anticipated if all the projects were to be bonded. Mr. Kane thought the net impact would be about \$200,000. Mr. Askham asked if the projects should be run through CNR rather than capital, but Mr. Kane did not think they should be due to the dollar amounts. Mr. Askham asked if the debt service for the maintenance facility could be moved to the Simsbury Farms budget. Mr. Kane said it could be, but did not think that the Farms budget would cover the cost and the deficit would ultimately have to be covered by the General Fund. Mr. Hensley also pointed out that the facility is not 100% for use of the Farms, but is for Parks and Recreation maintenance as well. Therefore, it would be inappropriate to allocate 100% of the cost to the Farms.

Mr. North asked Mr. Kane about the impact to the debt service policy. Mr. Kane stated that next year's budget would have debt service at 7.18% and the addition of these projects would increase that amount to 7.33%.

Mr. Henault stated that he would be inclined to have no capital projects moved on to Public Hearing due to the struggles the Board is having with the operating budget. He noted that he would be more inclined to do so if there were some assurances relative to the receipt of federal grant money. Ms. Glassman stated that the Board should not be counting on these funds in making its decisions as the State does not even have a structure in place for distributing these funds. Should funds be awarded, she felt that projects could be moved forward to Special Town Meeting and could be moved forward fairly quickly. Mr. Mason agreed with Mr. Henault and stated that, although he supported the projects, felt that spending must be reduced. Ms. Fitzpatrick concurred. Mr. Askham stated that he could only support the projects if they were charged back to Simsbury Farms or put into CNR or

the operating budgets.

Mr. North stated that, of the five projects on the list, three projects were of concern. He could foresee a potential liability for failing to replace or protect the Town's existing assets. Mr. Holden emphasized that the fiber optic connectivity project was a top priority for the Board of Education because it would resolve bandwidth problems that are currently being experienced and would replace four switches that are the backbone of the entire system. He stated that he could foresee the Board coming forward with a request for an emergency appropriation because all communications had been lost. In response to a question from Mr. North, Mr. Holden answered that \$95,000 of the \$450,000 proposed for technology was for the maintenance of essential switches for existing technology and connectivity. He added that the connectivity did not just involve the schools, but included the Town in part as well. Ms. Glassman stated that the Board could entertain options to pare down or charge back the costs. Mr. Hensley asked the Board to consider the projects due to the safety and security issues involved.

Ms. Fitzpatrick asked if reserves could be used. Mr. Mason added that it would have to be on the assumption that reserves would not be used to offset operating budget deficits. Mr. Henault concurred and noted that there still was concern about a potential reduction in ECS funding. Mr. North thought that the Board should consider at least \$1 million of capital expenditures due to pressing need and the maintenance issues involved. Mr. Askham asked about the debt service impact of \$1 million. Mr. Kane thought it would be approximately \$120,000.

Mr. North made a motion that the Board accept \$1 million of capital projects, consisting of \$450,000 for Board of Education projects and \$550,000 for Board of Selectmen projects to be spent on projects as prioritized by the respective boards. Mr. Mason seconded the motion.

Mr. North stated that his motion was based on the understanding that \$200,000 was needed for the generator replacement, \$150,000 for the brownstone work and about \$100,000 was essential for switches. He said that he could make the motion more project-specific, but did not see the need. Mr. Henault asked Ms. Glassman how the \$550,000 would be split between the two projects that were submitted and she stated that it would all be applied towards the golf maintenance project. Mr. Henault added

that the funds must be project-specific when the projects move on to Public Hearing or are voted on; it can not be a lump amount. Ms. Glassman added that the motion does not commit the Board, but would serve to move the projects on to referendum.

The motion passed 3-2 (Mr. Henault and Ms. Fitzpatrick voted "no".)

4. MINUTES

Mr. North made a motion to approve the minutes of the February 10, 2009 Regular Meeting. Mr. Mason seconded the motion and it passed 4-0 (Ms. Fitzpatrick abstained).

5. OTHER BUSINESS

Mr. Henault stated that information had been received from Milliman regarding OPEB valuations relative to allocations to the two Boards along with the Annual Required Contribution (ARC). He noted that the initial funding of \$600,000 had been made using calculations which were based on 2005 data and that most had been allocated to the Board of Selectmen budget. The current valuation, which is based on 2007 census data, is resulting in a \$250,000 reduction in the required funding on the Town side and an increase of \$283,000 on the Board of Education side. Mr. Kane noted that the amounts are coincidentally similar, but are not correlated as the censuses are done independently. Mr. Kane stated that the census data in the 2007 valuation found that estimates for claims were overestimated and that the liability should be about 20% lower.

Mr. North noted that there is volatility on the cost side and asked if there are any assurances from Milliman that such huge variances will not occur in the future. Mr. Kane stated that health care costs are much more volatile in nature than pension costs and recommended that Milliman could do annual valuations rather than every two years.

Mr. Askham noted that the required funding is down about \$75,000 from last year and it was his understanding that the previous allocations between the budgets for these dollar amounts had been based on estimates with no census data and that data is now available and the allocations have changed.

Mr. North advised that, relative to OPEB compliance, the Fire District has decided to use an online software product that is offered by Milliman for small entities.

6. ADJOURNMENT

Mr. North made a motion to adjourn the meeting at 7:45 P.M. Mr. Askham seconded the motion and it passed 5-0.

Paul Henault, Chairman
Clerk

Debra L. Sweeney,