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Cc:

BOARD OF FINANCE
DECEMBER 15, 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, Nicholas Mason, Anita Mielert and Kevin North. Also present were Director of Finance Kevin Kane, Board of Education Business Manager David Holden, State Representative Linda Schofield, First Selectman Mary Glassman and other interested parties.

2. MINUTES

Mr. Askham made a motion to approve the minutes of the October 20, 2009 Regular Meeting. Mr. North seconded the motion.

Mr. Mason expressed his concerns that the motion made on page 5 was too broad in its scope regarding actions taken by the Pension Subcommittee such that it could be inferred that any action taken by the Subcommittee would first have to be approved by the Board of Finance including approval of minutes. It was agreed that the minutes were accurate, but that the issue warranted further discussion by the Board under Item 5 of the agenda.

The motion to approve the October 20, 2009 meeting minutes passed 5-0.

Mr. North made a motion to approve the minutes of the November 19, 2009 Special Meeting. Mr. Askham seconded the motion and it passed 5-0.

Mr. North made a motion to approve the minutes of the November 19, 2009 Special Meeting (Public Audience). Mr. Askham seconded the motion and it

passed 5-0.

3. 2010/11 OPERATING/CAPITAL/SPECIAL REVENUE FUNDS

Mr. Kane discussed the Mill Rate Projection Worksheet which was been distributed to the Board members to assist them in compiling next year's budget assumptions. He noted that next year's debt retirement budget will be approximately the same as the current year. He also noted that this year's supplemental auto assessment of \$17 million represents a decrease of \$4.3 million from last year (or a 20% decrease). He added that there may be a possibility that the grand list may decline rather than increase. The assessed value of personal property has decreased throughout the State and there will most likely be a decrease in motor vehicles again. He felt that, in the worst case scenario, the decrease could be as much as 1%, but could be closer to 0%.

Mr. North asked about State aid, noting that the current assumption used on the worksheet was no change. Mr. Kane stated that, although the status is still unknown, simple math would dictate that, while the State is facing a budget deficit of approximately \$3 billion in the year after next and are currently giving \$2.8 billion in aid to municipalities, something has to give.

Mr. Askham made a motion to move Item 6 of the agenda (State Aid Legislature Update) to be the next item addressed by the Board. Mr. Mason seconded the motion and it passed 5-0.

4. STATE AID LEGISLATURE UPDATE

Mr. Henault stated that he had asked State Senator Kevin Witkos and State Representative Linda Schofield to provide an update on State aid from the Legislature, which went into Special Session today. Senator Witkos sent a letter, copies of which were distributed to the Board. Representative Schofield, who was in attendance at the meeting, summarized that the Governor's proposal included a significant reduction in State aid to towns, but that is not likely to happen this year. The Secretary of OPM gave a presentation to the Appropriations Committee last week suggesting that the towns had a much more stable tax base as property taxes did not fluctuate as dramatically as sales tax or income tax and, therefore, are in better shape than the State and should help to bail it out.

Many of the legislators present, including Ms. Schofield, made the point that, while the towns may not be seeing as large fluctuations as the State, they have not gone unscathed. Grand lists are declining and taxes are going unpaid. The towns are not immune from what is going on in the economy. Also, educational systems need to be made the top priority for

State funding. Ms. Schofield's largest concern with the Governor's proposal was that, in essence, the State is just shifting responsibility for raising taxes to someone else, such that the State is vicariously raising taxes without being held accountable for having done so.

Ms. Schofield stated that the Special Session involved simply fulfilling the call and then leaving and not acting on anything that the Governor proposed. They will most likely be called back into session next week, but a quorum the day before Christmas was unlikely. Currently, the Senate and the House are not in agreement as to what has to be done, although both are opposed towards cutting aid to the towns in the middle of their fiscal year.

Ms. Schofield agreed with Mr. Kane's assessment in that the State will have no rainy day fund in fiscal year 2012 and Federal stimulus money will run out, resulting in a projected \$3 billion deficit, and significant adjustments will have to be made. The only options are to raise taxes, make cuts or continue to borrow money, which is not feasible as the State is already facing a potential downgrade by Moody's and today's failure to act most likely makes it one step closer to being downgraded. If no action is taken in January, she felt the State would most likely be downgraded and the repercussions of that will be significant. Her advice was to plan conservatively for several years.

Mr. North wondered about the real cost to the Simsbury taxpayer of increasing the state income tax vs. increasing local property tax, as they tend to pay out disproportionately more in income tax than the Town receives back in grants from the State. Ms. Schofield and Ms. Glassman both felt that the property tax is the worst way to raise taxes as it is non-progressive in that it can disproportionately hit those least able to pay, such as seniors.

Ms. Mielert asked about efforts to reduce unfunded mandates to offset the expected reductions in grant funds. Ms. Schofield stated that, while many are in favor of this initiative, there are currently not enough to make it happen. Mr. Henault wondered what it will take to make it happen, noting that the municipalities have been asking for repeal of unfunded mandates for years and are now in a crisis situation. He noted that Mr. Holden has a list that is 4 to 5 pages long of all the unfunded mandates that are currently imposed on the Town by the State. Ms. Mielert thought that perhaps, rather than outright repeal, alternative solutions such as mediated compromise vs. binding arbitration awards could be pursued.

Mr. North asked if there has been any real discussion about addressing the expense side rather than just the revenue side, noting that that have been continued increases in real dollar expenditures expressed in 2008 dollars

while the State population has remained relatively flat. Ms. Schofield stated that, whenever any cuts get proposed, resistance will come from anyone facing those cuts.

Ms. Glassman stated that the State has no prioritized long-range plan. Bills have been introduced, but never adopted. She felt that the towns are doing a better job in this area. Mr. Mason felt that Simsbury is not doing enough long-range planning. Mr. Henault noted that it is very difficult to do long-range planning when funding is unknown year to year. He felt that, the message received here is that, when the Board of Finance gives direction to the Board of Selectmen and the Board of Education regarding the budget in January, it should be extremely conservative in its estimates. Ms. Schofield agreed.

Ms. Mielert asked what the potential loss could be to Simsbury if cuts are made in the current year to State aid. Ms. Glassman said that the estimate is \$500,000-\$800,000, but using a straight 3% to estimate can be deceiving, since the Town is already six months into its fiscal year so the longer the delay, the more expensive any cut could be to the Town since 50% or more has already been expended in some budgets. Mr. Kane stated that he projected the impact on Simsbury could be \$600,000. Mr. North noted that, if such cuts were to happen, they would be realized mostly on the general government side.

Ms. Mielert asked about the process that would be used to decide how to handle such a shortfall. Mr. Kane thought that a shortfall in the range of \$800,000 could feasibly be handled by the Town due to the fact that the Board, in setting the collection rate at 98% when they determined the mill rate, will result in approximately \$800,000 in revenues being generated. He noted that the impact of such cuts will be much greater on communities other than Simsbury as they do not have the level of reserves that Simsbury currently does.

Mr. Kane felt that it was next year or the year after that the Board should be most concerned about. Ms. Glassman added that, if the shortfall is larger than that, there would have to be a Town-wide decision as to whether to deal with it by transfers or a supplemental tax billing. Mr. Henault noted that was why the Board had such a lengthy discussion last year about the use of reserves and decided not to use to reserves and instead go to the voters with the budgets as is and ask for a slight tax increase so that there would be reserves available for unexpected shortfalls. He said that the Board may have to take a similarly conservative approach next year. Mr. North and Mr. Mason concurred.

5. UPDATE ON 2010 BOND ISSUE

Mr. Kane stated that the bond issue will be between \$4.8 and \$5.1 million. He said there are about \$7 million of bondable projects and there needs to be a bond issue in order to get a positive cash balance for the capital projects. Based on a \$5 million bond, next year's debt service should stay approximately the same as this year. The bond issue may be pushed off until March. Mr. Mason asked if there would be any opportunities to call in some bonds for re-issue. Mr. Kane stated that, whereas Simsbury usually does 10-year bond issues, most communities do 20-year bond issues which they will call within years 11-20 for refinancing under a call provision. Simsbury does not have a lot of high debt service. The Simsbury High School bond was a 15-year bond, but the weighted average cost is only 3.53%. Mr. North stated that it does not make sense to incur the cost of a call provision at the current borrowing rates.

Mr. Mason asked if any other items could be included in the issue to take advantage of the favorable rates now. Mr. Kane stated that the \$1.7 million Barndoor Hills purchase is outstanding but the purchase has not been finalized and you can not bond something that has not yet been paid for. However, the Gertsen land purchase may be closing shortly and could possibly be included.

6. JUNE 30, 2009 CAFR

The Board received copies of the June 30, 2009 Comprehensive Annual Audit Report. Mr. Kane distributed the management letter and indicated that the Town will comply with the issues raised and that he and Mr. Holden will be issuing responses to the auditors' issues. Mr. Kane noted that GASB 54, a standard which redefines fund balance categories, will most likely be implemented by 2010, although is not required to be implemented until 2011. Mr. Kane indicated that he would distribute copies of his response to the Board.

7. PENSION PLANS ACTUARIAL ASSUMPTIONS

Mr. Henault referred to a memo from Mr. Kane regarding "Pension Plan Actuarial Assumptions" discussing the assumed interest rate and how it impacts the Annual Required Contribution (ARC) for 2011 and the discussion that the Board had at their October meeting with the representative from Milliman, the Town's actuaries. The actuary is looking for a response as to whether to move forward with an assumption of 7.75% or 7.5%.

Mr. Henault added that there was also discussion at the October meeting that the Board would like the opportunity to comment on any recommendations by the Pension Subcommittee, such as changes to investment policy, prior to

any action by the Board of Selectmen. Ms. Glassman stated that the Board of Selectmen has extended the service of the temporary boards, including the Pension Subcommittee, for 60 days so as to allow time to determine whether the committee should continue. She added that the Board of Finance currently has a member that sits as a liaison on the Pension Subcommittee and, therefore, should always be aware as to what is transpiring, but was open to any change to current procedures. Mr. North pointed out, however, that the Subcommittee did make a major change in the assumed rate of return and the amortization period was changed from 25 to 30 years and the Board of Finance was not made aware of these changes.

Mr. Mason stated that the Pension Subcommittee normally does not send recommendations to the Board of Selectmen for their approval and, therefore, this change was not sent to the Board of Selectmen for action. Ms. Glassman reiterated that she is open to all suggestions for changes in procedures and will discuss it with the Board of Selectmen. Mr. Mason added that they should also review what sort of reporting the Board wants from the Pension Subcommittee. Mr. Askham felt that the Board of Finance should take charge of actuarial assumptions that are made. Ms. Glassman countered that the Town has hired actuaries that are advising the Town, but then runs the actuaries' decision through various committees and commissions in Town who may not have a proper understanding of the recommendations. Also, the actuaries, as hired professionals, are making their assumptions based on what is being done in other towns. Mr. Henault asked them to also address who would assume the responsibility if there were no Pension Subcommittee.

Mr. Henault noted that if the current 7.75% investment rate is used, the increase in the ARC would be \$455,466 (\$172,986 for the Town, \$170,011 for the Board of Education and \$112,409 for the Police). If the assumed rate were to be changed to 7.5%, the amount would be higher. Mr. North stated that the long-term objective should be to lower the assumption to 7.5%, but that it is not necessary to do so next year. Mr. Mason added that the actuary stated at the October meeting that she was comfortable with a 7.75% rate and thought that it was a conservative assumption. The consensus was for Mr. Kane to advise the actuary to use the 7.75% rate.

8. OTHER BUSINESS

Mr. Henault stated that he will be sending a copy of "Capital Budgeting and Finance: A Guide to Local Government" to Ms. Glassman to assist both boards as they move forward in setting next year's priorities.

9. ADJOURNMENT

Mr. Askham made a motion to adjourn the meeting at 7:15 P.M. Mr. Mason seconded the motion and it passed 5-0.

Paul Henault, Chairman

Debra L. Sweeney, Clerk