

MINUTES OF THE CHESHIRE TOWN COUNCIL BUDGET COMMITTEE, SPECIAL TOWN COUNCIL AND BOARD OF EDUCATION MEETING HELD ON WEDNESDAY, DECEMBER 14, 2011, IN ROOM 207, TOWN HALL, 84 SOUTH MAIN STREET, CHESHIRE CT 06410.

Present

Town Council Members: Chairman Tim Slocum; Vice Chairman David Schrumm; Michael Ecke, Andrew Falvey, Patti Flynn-Harris, Sylvia Nichols, Thomas Ruocco, James Sima, Peter Talbot.

Board of Education Members: Chairman Gerald Brittingham; Vice Chairman Tod Dixon; Anthony Perugini, Marlena Soble.

Staff: Michael A. Milone, Town Manager; James Jaskot, Finance Director; Gina DeFilio, Deputy Finance Director; Supt. Of Schools Dr. Greg Florio; Asst. Supt. Of Schools Scott, and Vincent Masciana, Director of Management Services.

1. ROLL CALL

The clerk called the roll for the Town Council and Board of Education and a quorum for both bodies was determined to be present.

2. PLEDGE OF ALLEGIANCE

The group Pledged Allegiance to the Flag.

Before the start of the meeting, Town Manager Milone introduced Gina DeFilio, Deputy Finance Director, to those present at the meeting.

3. FY 12-13 BUDGET PRE-PLANNING

Mr. Milone reviewed information he distributed for reference during the meeting.

This information is a frame of reference for this year's budget. The FY 11-12 budget increase was \$1.9 million, or 1.98%. In the development of the BOE budget \$892,000 was used from the trust fund to pay for a portion of the medical benefits expenses. The Town's large increase was due to the 27<sup>th</sup> payroll at a cost of \$430,000, a one time expense; the medical benefits trust fund was low and could not be used for the budget increase; there was an actuarial valuation and pension contributions increased significantly by \$360,000.

Page 3 – Multi-Year Budget Comparison. For the last three fiscal years the average budget increase has been 1.25%, with a mill rate increase of 1.45 mills. Taking out the revaluation the actual percentage has been 1.64%. In the last few years other revenue sources has seen a \$2.5 million loss from State and revenue income sources. In FY 11-12 non-tax revenue increased by \$908,000. Because of the 27<sup>th</sup> payroll \$500,000 was in a reserve fund for this expense, with the actual revenue increase being only \$408,000. The grand list growth has had a low increase in the last three years, and is now in the \$300,000 range.

Page 4 – Expenditures FY 2012 through 2014. These projections represent where it is expected the budget will be based on information available at this time. The assumption is for the BOE budget to increase by \$2.7 million, and the Town budget to increase by \$614,000. Just as last year the 27<sup>th</sup> payroll distorted the increase, and distorts it again in the next fiscal year. \$430,000 comes out of the base this year in building next year. Debt service is going down by \$608,000; CNR is increased by \$200,000 each year; and CNR has been kept at \$1.1 million for the last few years.

Mill Rate – The estimated mill rate with these budget assumptions and to support this budget is 28.12 mills, 4.72%; one mill is valued at \$2,783,483; out to 2014 the assumption for the mill rate is 29.58 mills, an increase of 5.23%.

The grand list growth is disappointing. The 2013 projected is \$7.5 million for real estate and personal property taxes; this is additional revenue of \$201,373 without motor vehicle taxes; in 2014 there is additional revenue estimated from the grand list of \$201,373.

Page 5 – Department of Education Multi Year Budget Projections.

Dr. Florio spoke to the BOE projections. This detail supports the summary numbers. This is a broad scope of the major categories of the BOE budget from the current operating budget to a projected budget for next year. At this time, the BOE is going into great detail preparing the budget for presentation to the BOE by the end of January 2012. The major issues are salary and personnel related. The teacher's contract, which was scheduled to end in this current year was renegotiated. The cost of the last year of the contract was flipped over two years. Next year the average increase will be 2.3%, \$600,000 to \$650,000. The BOE is in the 2<sup>nd</sup> year of a retirement incentive, and to date 10 retirements have been stated. The largest impact on the salary line item is the fact that the ARRA funding was gone at the end of last year, was supplemented by the federal jobs money, about \$540,000 in direct grants to school systems is gone. The positions supported over the last three years by this funding was about \$500,000 to \$650,000 in grants, and this must now be absorbed into the operating budget. This is factored into the FY 2013 budget.

Another big issue being faced by the BOE for the first time in quite a while is the anomaly in the change in enrollment. When school opened this year there were seven more students than last year. But, the budget for this year is built on a projection of a 130 student drop. Most of these students are at the elementary grade levels, so there are class size concerns and issues going forward. Dr. Florio said he would have to recommend some addition to staff.

Dr. Florio reported that over the last three years 30 teaching positions have been eliminated; 19 of those have been classroom teachers; and 14 have been in grades K through 6. Even with a decline in enrollment there has been a significant decline at the classroom level. Other assumptions for non-certified salaries have contracts in the 2% to 2.5% range. The employee benefits projection increase is 5%. This does not restore any of the money being used from the medical benefits trust fund for the

operating budget. The BOE is looking at the H.S.A. plan to determine whether claims are lower, and it is hoped that trend will continue going forward. The BOE is not seeing a great shift in the numbers of people moving to the H.S.A. plans from the traditional plans.

There are some adjustments to be made for special education costs going into the next year, which look like they will be constant, without a need for increase in those areas. One area associated with special education is transportation, which has increased. Another increase is in the cost of diesel fuel so there must be adjustments in the transportation area for these additional expenses for special education.

Page 6 – General Government Expenditures. Mr. Milone explained there are eight categories in the General Government expense side of the budget. Trends are looked at for the average costs over three years for these expense categories. Staff takes the average and last year's base, times 3 year averages, with some exceptions. The three year average for Salaries was averaged to 2.5%; Supplies and Services was averaged at -.003% and level funded; Utilities were averaged at 2.5%; Contract Services was 0.39%. Some accounts have stayed flat or declined slightly in the last three years.

Page 7 - Employee Benefits. 5% assumption rate is used for 2013-14; 6% for Workers Compensation; Heart & Hypertension was budgeted at \$180,000 this year, and was increased by \$70,000. Pension increased by the actual amount.

Pool contribution is averaged at \$420,000 in 2007, and in 2011-12 it is at \$372,000.

Page 8 – Revenue Budget Projections. Non tax revenue from this year to next year is reducing by \$600,000. FY 2013 tax revenue is projected to be \$78.4million; FY 2014 the projection is \$82.5 million.

PILOT – Payment in Lieu of Taxes. The Town did receive a PILOT payment for Manufacturers Machinery & Equipment, and this was eliminated in the Governor's budget. The Pequot Mohegan Grant increased by about \$300,000, and this was due to the way the formula worked for the State PILOT payments. FY 2013 the PILOT payment will be \$5.4 million; and in 2014 it will be \$5.4 million. The PILOT revenue will be reduced by about \$270,000, which is being offset by the Pequot increase.

For the Manufacturer's Machinery & Equipment revenue there is restoration in another way.

Town Departments – another significant change is in the Town Clerk's Office with revenue going from \$797,000 to \$558,000. Last year the Governor had proposed increasing the real estate conveyance tax from .05% to 1%, and the expectation was built in that this additional tax would come to the Town. As a result of restoring some money as a result of the MM&E grant, the State adopted a new revenue program for municipalities. The State took the additional money from the real estate conveyance tax, and redirected it into the General Revenue Sharing Program for Municipalities.

Overall, in the revenue category (PILOT) there will be drop of about \$200,000. Additional changes were made by the Governor and Legislature with replacement of the MM&E grant with Municipal Revenue Sharing. This represents an aggregate of three things – the additional revenue stream from the increase in the real estate conveyance tax, and rather than coming to the Town it goes into a pot of money to be distributed by the State. The State told municipalities that they would share in the increase in the sales tax, 1/10<sup>th</sup> of 1%. That was later eliminated and the revenue stream from the additional sales tax was also aggregated into these two revenue items. Cheshire lost the MM&E, real estate conveyance tax is not coming directly back to the Town, and the sales tax money is reconstituted in the two grants. In the PILOT category, the Town will see about \$825,000 more in revenue.

Last year the Town received the final payment from CRRRA, with about \$320,000 supposed to go into the \$2 million reserve account set up with the Wallingford project. Cheshire received more than it had to allocate to this project, \$191,000, and Mr. Milone recommended that the Council appropriate this money – a one time revenue. The \$500,000 was from the reserve account set up to offset the 27<sup>th</sup> payroll on the expenditure side. Mr. Milone noted that expenditures drop off by \$430,000, but the Town lost \$500,000 set aside for the 27<sup>th</sup> payroll. The offset of all of this is a loss of about \$866,000.

Education Grants and Miscellaneous Education Revenue – Dr. Florio said this revenue does not change significantly. The State bolstered the ECS funding through this year with ARRA money, and the Governor did level fund ESC which is the largest revenue of almost \$9.3 million in the biennial budget. The reason for a slight drop in revenue is due to BOE services for the blind reimburses the school district for services provided to students with visual disabilities. They have not been funded, and they do not reimburse the district for its full expenses, and revenue has not been seen for this service in a few years.

There is a reduction in the Building Grants and Interest Subsidy revenue line. Over a decade ago the State stopped reimbursing towns by paying part or offsetting part of their bonding costs. The BOE receives the money up front for a project, i.e. a \$1 million project, the BOE receives \$400,000 up front so it does not have to bond the \$1 million. Over the next decade this will go away.

Dr. Florio pointed out an issue with Excess Cost. The BOE has the students; is spending the money; and the question is whether there is enough State money. Once the State sees the needs of all towns, they pro-rate this money. It is hoped Cheshire will see the amount projected. Last year the BOE should have received close to \$1 million, and actually received \$850,000.

With the Birth To Three program, this is not a mandated program, and Dr. Florio said with the revenue received, it covers the cost of the services provided at Darcey School. If this funding went away the BOE would see a subsequent reduction in the Birth to Three costs.

Under "Miscellaneous Revenue", Mr. Milone pointed out that the sewer assessment money is dropping because there have not been assessments in recent years. The Town is weaning off reimbursement from WWTP. This has been as high as \$700,000 a few years ago. In an effort to try for WPCA to grow its fund balance as it took on some of its debt which the Town used to pay.

On page 9, Mr. Falvey asked about ECS revenue anticipated at \$1.5 million more than expected.

Dr. Florio said the State in FY 11-12, funded \$8 million, and \$1.3 came from federal money through the State passed onto Cheshire. In FY 13-14 budget the State is fully funding the \$9.3 million as opposed to having State and federal money. This was approved in the biennial State budget. Dr. Florio said there are bigger issues with ECS which could impact Cheshire over the next 5 to 10 years. There is an ECS committee looking at the funding formula for education, and each year he, Mr. Milone and other staff go to the State to talk about shifts in the way population is counted, which could be detrimental to Cheshire. This is in terms of the prison population, and Dr. Florio said there will be problems with ECS in the future.

Page 10 – General Fund Equity. Mr. Milone said the same assumption is being done for use of general fund equity.

Pages 11, 12, and 13 – are the fund balance representations of the three funds which the Town operates. The most important one is the General Fund. Last year (6/30/11) the Town ended with a \$636,000 surplus; used \$600,000 of the surplus; leaving the undesignated fund balance of \$8.7 million, which is 9.20% of Actual FY 11 GF expenditures. The Town tries to maintain an 8% balance which is what the rating agencies expect. There is an excess over the 8% of about \$1.1 million.

WPCD Control Fund – this fund has a balance of \$245,000. The user fee was projected to go to \$350, but was increased to \$345, and the numbers for this fund will have to be re-calculated.

Pool Fund – a settlement is still being discussed with the insurance company; there was a settlement on the capital side of things; but for business interruption losses the Town is trying to get the company to make the Town whole as a result of the pool closure and expenditures as a result of the closure. The Town had to pay \$20,000 in unemployment compensation costs. The fund balance is predicated on the insurance settlement number.

On page 11, Mr. Schrumm noted that the 9.34% of fund balance dropped to 9.2%, and said the Town will not let the surplus get to the 8% level.

Page 14 – General Fund Five Year Capital Expenditure Plan, FY 2012-2016.

Mr. Milone said there are four major cost drivers in the budget – Debt Service at 9.2% of the budget; Medical Benefits at 11% of the budget; Salaries and Wages about 55%; and Medical Benefits between BOE and Town which aggregates at about \$10 million. These areas are profiled on page 14.

Debt Service – the good news is that it is decreasing for existing bonded debt. There is un-issued debt for appropriations which have not yet been borrowed for. The information on page 14 represents the value of the capital budget that was adopted by the Council in August 2011. The cost of the WWTP upgrade cost is segregated based on \$30 million with the \$7.5 million assumption of a State grant. This project was defeated at referendum, and staff had to recalculate and move everything up a year. There is a \$608,000 drop in debt service for next fiscal year. The following year, if all stays on course, there is a \$686,000 debt increase. In 2014 the debt service is back to \$9 million.

Page 15 – Pensions. Mr. Milone commented on three options which were looked at for the impact to pensions due to the stock market drop in 2008. The Town's valuation which affected the FY 11-12 budget required an increase in the pension contribution up to \$1.3 million. The Town only increased its pension contribution by \$979,000. This was not up to the recommended contribution and it was a difference of \$553,000 (\$340,000 in the Town Plan, \$172,000 in the Police Plan and \$40,000 in the Fire Plan). There was an approach of phase in, with the problem being reasonable for FY 2012, and a big spike in FY 2013. A level approach over five years was looked at with a contribution of \$473,000 this year, and \$450,000 in the subsequent five years. This is the plan which the Council adopted and recommended, and this plan must be adhered to by the Town. \$300,000 is contributed for the Town Plan (\$60,000 BOE and \$240,000 is General Government), and the Police Plan contribution is \$150,000.

One thing which might mitigate this is that the assets have grown in the retirement plan than what was predicted when the phase-in was adopted last year. This will be discussed in more detail during the budget process. The Town will have a full actuarial valuation in June 2012.

Mr. Jaskot informed the group that in July 2011 the assets did grow. The question is whether the Town wants to take advantage of this growth now, or continue to fund based on what was looked at a year ago. There will be more information next month on the pension assets. The assets may go up dramatically, but because there have been smoothing techniques used, it softens the increase, and will not have a big impact on the valuation.

Mr. Milone advised that this does plan does not assume using any of the pension reserves.

Page 16 – Medical Insurance Trust Analysis, Town and BOE. Mr. Milone stated that the BOE fund balance started the year with \$3,143,000; and after four months the fund balance is \$2,687,000.

Dr. Florio explained that had the BOE been funded at a level where this line item was not reduced by \$1 million, a larger monthly contribution be made. The monthly contributions this year have been less than prior years by about \$60,000. It is hoped that with more people converting to the H.S.A. claims will be mitigated, and increases and adjustments will not have to be as large going forward.

Mr. Milone explained that the Town medical fund balance started the year at \$227,000, and it is now at \$365,000. Due to good claims experience the trust fund has increased.

Page 17 – this page details the total cost of the Town’s medical benefits program, at \$3.1 million.

Page 18 – this page details the total cost of the BOE medical benefits program at \$7 million. This number was reduced by \$892,000, so the gross number would have been \$7.9 million.

Page 19 – Town Medical Benefits (Paid Claims). Mr. Milone said this data is for all the self insured plans. The H.M.O. numbers do not appear in this detail. The information on this page shows paid claims for each month in a fiscal year. These are the numbers the medical benefits consultant uses in terms of projecting claims. In looking at FY 2011-12, the claims have been less than projected, with \$128,000 more paid in versus what was paid out.

Page 20 – Dept. of Education Medical Benefits (Paid Claims). Mr. Milone pointed out the BOE claims in the first four months of FY 11-12 as being \$95,000 less than expected. The net effect is that claims are running \$44,000 better than expected. Because some of the trust fund balance was used to make up for claims paid, the balance is declining.

Page 21 – Budget Mitigation Options as of December 14, 2011. Mr. Milone reviewed this information with the group for expenditures and revenues which could mitigate the budget impact. These options will be looked at during the budget process.

## EXPENDITURES

The Council has established many reserve accounts from the CRRRA payment received. Debt Service Reserve Account has \$4.3 million; Pension Reserve Account has \$500,000; Heart & Hypertension Reserve Account has \$500,000; OPEB account has \$500,000.

Mr. Milone reported that the Town is entitled to a Clean Water Fund Grant which was applied for, but never built into the debt projections as it was not certain the Town would receive the funds. This is money to be reimbursed to the Town for the design expenses associated with the plant upgrade.

CNR Fund – it is assumed there will be a \$200,000 increase in this fund; it has stayed level funded the last few years; there is the opportunity to take money out of CNR and keep the fund consistent at this year's level.

Medical Benefits Trust Fund – the General Government balance is \$366,000; the Education fund has \$2.6 million.

Pensions – the Town could modify the pension increase; there is the \$450,000 expected increase in each of the next five years; but assets have grown better than projected.

Medical Benefits – Labor Contract Revisions. This is an issue which will be discussed by the Personnel Committee for the four contracts coming up for renewal. The assumption is a 2.5% salary increase and 5% medical benefits increase.

Campion Ambulance Contract Savings - \$60,000.

Human Services Department Reorganization - \$45,000.

Public Works – Modify Recycling Collection – potential savings of \$80,000 to \$160,000 with modification of the collection program, using 90 gallon totes, with their cost of \$540,000 being paid out of CNR. The Solid Waste Committee will be further discussing this collection program at its January meeting. The Town's hauler wants to revisit its proposal on this program. Mr. Milone informed the hauler that better numbers must be forthcoming if the Town is expected to review and consider this program. The initial savings estimate going with the change in the recycling program and the 96 gallon totes is \$80,000 to \$160,000.

## REVENUES

Fund Balance is \$8.77 million (in excess of 8.0%).

Projected surplus is \$300,000. Mr. Milone has informed the Council that this year's budget surplus is estimated to be \$900,000, with \$600,000 to be used in the next fiscal year's budget. This would give the Town another \$300,000 to work with for the budget.

Tax Collection Rate Increase – the rate is now budgeted at 99% collection rate; last year 99.6% was collected; (.1% = \$0.70M); revenue could be \$70,000 to \$420,000.

Fees/Fines Increase – some fees and fines were increased last year generating about \$80,000 in additional revenue.

Mr. Milone said that all the numbers can be reviewed and reconsidered. The staff tried to aggregate everything to enable everyone to go through the information without going back to the operating budget, bond prospectus, audit, etc. With this summary everything is self contained.

### COMMENTS AND QUESTIONS

Mr. Schrumm referred to page 14, FY 2013, Debt Service, which shows a (\$608,295) change in the upcoming budget. He said this money could be used as revenue. In the following year the swing is \$1.2 million, with the need to find \$600,000.

In response, Mr. Milone said this is not a \$1.2 million swing. He and Mr. Jaskot have looked at this carefully. All that has to be done is get back to \$9 million in FY 2014. It is not coming up with \$1.2 million, but restoring the money that is being saved this year.

For FY 2012 debt service is \$8.9 million; FY 2014, debt service goes back to \$9.4 million. There is no doubling affect of the \$600,000; the Council must find \$600,000; and there is \$4.3 million set aside in the debt service reserve. The purpose of that reserve is because the debt service increases were seen as forthcoming. For next year the Council can decide to use the reserve funds for the increase.

Regarding the treatment plant project, Mr. Milone said there is the assumption of getting \$7.5 million from the State. The WPCA project has an assumption of \$30 million as the total cost. WPCA will not proceed with the phosphorous portion of this project (\$4 million), so the gross project cost will go down. If the WPCA is not successful with OPM, the Town will try to get it adopted by way of legislation with support from other prison towns. This issue was included in the Town's Legislative Package.

For FY 2012-14, Mr. Schrumm questioned the net revenue increase or decrease from for the Town and BOE, and changes over the next two years.

On page 10 Mr. Milone pointed out Other Revenue - FY 2012 (adopted) \$22,986,931; FY 2013 - \$22,264,752; FY 2014 - \$22,225,110.

Mr. Milone commented on the need for the Council to provide guidelines to the Town Manager and Supt. Of Schools in order for them to bring forward a realistic budget.

In looking at the revenue and expenditures (page 21), Mr. Schrumm said the Town will have about \$1.3 million to \$1.4 million to spend.

The value of one mill is \$2,783,483.

Dr. Florio commented on looking at the quality of services provided by the BOE and Town Government to Cheshire citizens, and not just the bottom line and totals.

Mr. Schrumm stated that the Town and BOE must look at the big things to be done.

The pension fund is a start, and Mr. Milone said it is hoped that the investment returns continue to improve. We have stemmed the tide of continuing growing liabilities from a benefit side. From an asset standpoint we have to hope we see a better market and better returns.

On December 15<sup>th</sup> the Personnel Committee will meet to develop strategies for the upcoming four labor negotiations.

Regarding page 11, Mr. Perugini asked if part of the reserve funds would be used.

Mr. Milone advised that 8% of the actual expense from the previous year is the number for the fund balance. On page 11, that 8% is built on \$95,303,995. \$600,000 of that reserve was used in this year's budget as revenue, and the Council has been consistently using \$600,000 in surplus each year as a revenue item.

Mr. Schrumm stated that there has been use of \$600,000 for the next year's budget in past years. The Town got to 9% fund balance as a result of a few years of large surplus amounts. Ten years ago the Town had only a 3% surplus in fund balance. In the coming year, the Council can take \$1.1 million, and reduce the fund balance to 8%. The question then becomes is where do we get another \$1.1 million next year.

The fund balance information and compilation was reviewed by Mr. Milone. The Council has replenished the \$600,000, and if there is more money than that it has been redirected to expenses. The group was informed by Mr. Milone that in this year some of the surplus money was used for the blower at the pool, and in the past this fund money has been used for the medical benefits trust account.

#### 4. ADJOURNMENT

MOTION by Mr. Ruocco; seconded by Mr. Falvey.

MOVED to adjourn at 9:05 p.m.

VOTE The motion passed unanimously by those present.

Attest:

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Marilyn W. Milton, Clerk.