

**MINUTES OF THE CHESHIRE TOWN COUNCIL BUDGET COMMITTEE MEETING
HELD ON THURSDAY, FEBRUARY 5, 2015, AT 7:30 P.M. IN ROOM 207, TOWN
HALL, 84 SOUTH MAIN STREET, CHESHIRE CT 06410**

Present

David Schrumm, Chairman; Thomas Ruocco and Peter Talbot.

Staff: Michael A. Milone, Town Manager; James Jaskot, Finance Director; Fire Chief Jack Casner; Deputy Fire Chief Donn Youngquist; CFD members Dan Ford and Jay Hershman. Vincent Masciana, Dept. of Education, Director of Management Services
Others Present: Council members Patti Flynn-Harris and James Sima.

1. ROLL CALL

The clerk called the roll and a quorum was determined to be present.

2. PLEDGE OF ALLEGIANCE

The group Pledged Allegiance to the Flag.

3. PURCHASING PROCESS FOR FIRE TRUCK APPARATUS

Mr. Talbot revisited the "Conflict of Interest" policy issue from the January 13th Council Meeting regarding referral of this agenda item to the Budget Committee with Councilor David Schrumm as committee chairman.

It was stated by Mr. Talbot that Mr. Schrumm's brother works for an independent firm which deals with fire apparatus, and is a CFD volunteer firefighter. He further stated that in the last 4 to 5 years the fire truck purchase was never brought to referendum to the voters; it never got out of Budget Committee; was finally brought to referendum this past year because there were not enough votes to stop it; and Mr. Schrumm penned a letter to the newspaper editor on October 30, 2014 urging voters to vote "no" on the \$1 million for the fire truck. In his opinion, Mr. Talbot said this constitutes hostility towards judgment on this particular issue.

With regard to agenda item #5 of the Budget Committee meeting, CFD Volunteer pension, Mr. Talbot reiterated that Mr. Schrumm's brother is a member of the CFD, and his service is appreciated. However, Mr. Talbot believes this creates a direct conflict of interest for Mr. Schrumm working on the CFD pension when his brother is affected in a financial way when it comes to said pension.

Mr. Talbot cited the Conflict of Interest Policy, Section 10-1, #3 Personal Interest, and read this section into the record.

A request was made by Mr. Talbot that Mr. Schrumm abstain from discussion on agenda items #3 and #5.

Mr. Schrumm stated there is no conflict of interest with respect to the fire truck as his brother is not involved with this truck purchase or prior purchases by the CFD, and is a long standing member of the Fire Department. With regard to agenda item #3, Mr.

Schrumm will not abstain, and said he has been critical of the way things have been done at CFD for many years...not just this truck...and there is no conflict in talking about the process.

Mr. Talbot cited the Code of Ordinances, Section 10-1, Section F, #4, and read it into the record. Per this section of the policy, Mr. Talbot overruled the abstention and turned the issue over to Mr. Ruocco.

It was stated by Mr. Ruocco that the issue from Mr. Talbot is politically motivated, is wasting his time and it is unfair to cite Conflict of Interest now when Mr. Schrumm has been voting on fire trucks and apparatus in the negative. He noted that Mr. Talbot voted on the budget and no one took issue with his vote. He stated Mr. Schrumm is an honest man, as is Mr. Talbot, and raising the conflict of interest is unfair.

According to Mr. Ruocco, if Mr. Schrumm's brother did bid on this truck, it would not be an issue as long as Mr. Schrumm does not vote on the matter. There is no bid list right now, and he said an open bid process is better and is fine for discussion. He said it is unfair to bring up potential conflict of interest, and knows if there is conflict Mr. Schrumm will bow out of the process.

The vote on the overruling was 1-1; Mr. Ruocco objected to the overruling, and said the matter can proceed.

Fire Chief Casner submitted the proposed process to be followed for purchase of the Aerial Truck for CFD. He advised that the word "examiner" should be changed to "evaluator"; the process is more detailed; it has a more open bidding process; and it is okay to move forward as soon as possible. The proposed process is outside the Town Charter policy, so Town Council approval is required. With regard to a comment made about holding up this process, Chief Casner stated that he was not "dragging his feet" and following a meeting today the matter goes forward. Because this is a bid for a specific piece of equipment, the Chief noted that there may be a small number of bids, i.e. 3 or 4, received by the Town.

Town Manager Milone informed the committee that the way to proceed is with an RFP rather than a formal bid solicitation. With a solicitation CFD would have to develop specific specifications at the outset. The RFP allows the CFD to be very broad and generic at the outset and through the entire process. It narrows down the focus of what the CFD needs based on the proposals submitted, has opportunity for discussion, openness to negotiation, and availability of going with alternatives and substitutes as the responders are interviewed. The Town Attorney has confirmed that this is a viable process that also needs Council approval in lieu of the formal bid process.

The document on the process for the purchase of the aerial truck was reviewed by Chief Casner with the committee members. (copy attached to these minutes).

The word "vendor" was changed to "vendors".

It was made clear by Mr. Milone that the evaluator will review proposals and make recommendation to the executive board. As long as the criteria are met, the evaluator will transmit to the review committee all the proposals that meet the criteria. There will be a set number of vendors being formally interviewed.

Chief Casner explained that with the executive board as part of the process, it also gives the CFD a say in the process.

Deputy Chief Youngquist stated that the CFD is comfortable with the process. He noted that the interview process will be enhanced with a demo truck on site which resembles the proposed fire truck.

For #7 Mr. Talbot asked if calls to vendors has been done before, and if there is a call to the vendors prior to the selection or after the selection. The date closes, there are bids received, with 2 or 3 vendors not responding, and he asked if the Chief calls to find out why they did not respond.

Mr. Milone pointed out #5 which also has opportunity for a vendor to respond. The CFD wants an immediate written response if a vendor will not be bidding. The idea is to open up the process as broadly as possible, and Chief Casner will send a letter to each participant so they understand the significantly different process.

With the prior process all vendors took a look at 100+ specifications, and Chief Youngquist said the subject matter will be a 6 to 8 page document, explaining the different process, without bias towards anyone.

Mr. Schrumm pointed out that the truck is a generic aerial truck.

The committee was told by Mr. Milone that the role of the evaluator is a very important one.

Chief Casner displayed the voluminous RFP for the last fire truck.

MOTION by Mr. Ruocco; seconded by Mr. Talbot.

MOVED that the Budget Committee moves the process for purchase of an aerial truck by the Cheshire Fire Department, as outlined, to the full Town Council for review and approval subject to revisions made by the Town Manager and Fire Chief.

Discussion

Mr. Ruocco addressed Chief Casner on the statement about "his dragging his feet" and stated he knows this is untrue. Mr. Ruocco has been a vocal critic of the purchase of a truck, but it was approved at referendum by the voters, and he supports the purchase and process proposed.

VOTE The motion passed unanimously by those present.

4. MEDICAL BENEFITS TRUST FUND POLICY

Medical Benefits Trust Fund Policy from Councilor Schrumm - The trust fund policy drafted by Mr. Schrumm was read into the record.

Mr. Schrumm commented on needing a more formalized process, better clarity, better assignment of costs for the fiscal year, taking away the annual ritual of numbers submitted, and finding an easier way to simplify the trust funds. Mr. Schrumm has met with Town Manager Milone on the proposed policy which will be reviewed by the Budget Committee. The proposed solution is to establish a trust fund policy that covers both the Dept. of Education and the Town.

Town Manager Milone commented on Cheshire having many policies, with the Medical Benefits Trust Fund Policy started about 20 years ago.

The Town trust fund has a balance of \$1.5 million, and the BOE trust fund has \$35,000 balance.

Mr. Milone stated that the estimated average cost is called an "allocation", and as experience changes there is modification of allocation rates going forward.

Mr. Schrumm cited the following. 105% of this allocation is required to be used by the Town and BOE in their final budget. There would be no borrowing from the prior year's trust fund to pay current and future claims. With an Anthem generated premium, one can assume, on average, budgeted dollars for Town and BOE would cover administrative costs and annual claims.

Regarding the last comment by Mr. Schrumm, it was stated by Mr. Milone that this would not, necessarily, happen. In a fully insured situation it would happen. Because the Town and BOE are self insured it is a function of how severe the claims are over 12 months, and there are fluctuations.

Mr. Masciana said it is admin. costs, claims, actual premiums on the fully insured, HSA contributions for employees, and employee waivers.

Mr. Schrumm cited the following: Under the proposal 2 months of claims is maintained in the trust fund; this can be adjusted to 1.5 months over time or revised upwards. Actual costs incurred in the fiscal year would be recognized in that year and are not spread out over the years.

Under "Annual Variances" Mr. Schrumm said the final expended amount is unknown until the close of the fiscal year, and the budgeted amount for medical benefits, 105% of premium, will never be perfectly accurate. He explained his proposal for expenses (claims and admin) less than budgeted and greater than budgeted amount. For a bad

year of claims exceeding 110%, additional funds can be withdrawn from the trust fund with the trust fund replenished when the surplus occurs.

Mr. Schrumm summarized his Trust Fund policy submitted to the Council.

Under "Methodology" #6, Mr. Talbot asked about the two months of claims in the trust fund, and how the amount is determined, i.e. average for a year.

In response, Mr. Schrumm said the same could be done as the Humiston Fund for the BOE, taking a percentage each year. For the trust fund it would state 2 months of average claims of the last fiscal year, or 12 months rolling claims average.

Mr. Milone said the Town and BOE has used "expected claims", what is paid monthly, and can double that number. He noted that the best time to understand the trust fund is during the budget process, talking through everything, and see what it actually means.

Mr. Masciana likes the idea proposed, and talked about what has happened with the BOE over the past few years. In 2011, BOE had \$3.1 million in the trust fund, and used this money to supplement the operating budget. The BOE has \$10 million in medical expenses annually; this is pre-employee contributions etc.; the annual increase is about 4% each year; in year #2 \$10.4 million should be budgeted; the next year it should be \$10.8 million; the next year \$11.2 million. As the BOE started working down the medical benefits trust fund to \$2 million over a 5 year period, claims ran to \$12 million; and at year #5 there is no trust fund money. The BOE has an operating budget line of \$12 million.

Mr. Masciana said as the trust fund is tapped, the budget amount is under funded, and this year the BOE has a large request.

According to Mr. Milone we are going from a net number to a gross number, and in the first year we will have significant spikes to put in the budget, with the process requiring a phase-in.

Mr. Masciana stated if the BOE budgets contributions to equal the actuarially sound claim rate, it is fine. The problem is catch up on the run rate by tapping into the reserve balance. If the BOE and Town budget to expected claims it will be fine...but this has not been done when there is a large reserve balances.

Town Manager Objective-Medical Benefits Trust Fund Policy - Mr. Milone developed this policy with the help of Mr. Jaskot and Mr. Zullo, and it is part of his goals and objectives.

The Town has two useful policies that guide the administration -- Fund Balance Policy and Debt Service Policy. Mr. Milone commented on the rating agencies being impressed with Cheshire having these policies and establishing a medical benefits trust

policy. The proposed trust fund policy follows the outline and formatting of the other two policies. In the Town Manager's model there is a provision for preserving the excess trust fund balance in the trust fund...not all of it but some of it. The excess can be used in many ways as listed in the proposal. The incentive was to ensure the fund maintains an excess balance/reserve to cushion situations where medical benefit expenses exceed the estimated expenditure levels. This is to achieve a reserve for a bad year, and not erode the 2 months of reserve of claims, having something beyond the 2 months of reserve funds.

Mr. Milone wants to have something beyond the 2 months of reserve suggested by Mr. Schrumm, i.e. 16.7% of expected claims. This number was developed based on the Anthem contract. If the Town changed carriers the run out owed after the change would be equivalent to 2 months of claims. If carriers are not changed there may not be a need for 2 months of expected claims; it could be 1.5 months of claims; and, the reserve balance should be sufficient to pay up to 10% of expected claims. The Town is self insured, and is responsible for up to 110% of expected claims. If expected claims are \$1 million, the Town is liable for up to \$110,000 in that fiscal year, spread out in equal payments over 12 months. This is a rolling deficit into the next year.

#3-Mr. Milone pointed out this section lays out what is done with the excess balance, including funds for a fiscal emergency.

#5-puts a cap on the use of the trust fund balance at 5% of the operating appropriation for the medical benefits account.

#6-the level should be 26.7% which is 2 months of claims, 16.7% + 10% to be paid if claims exceed expectations.

The Town went out to bid on the medical benefits insurance, and Mr. Milone advised the Town is seriously exploring getting away from the fully insured HMO, and going with a complete self insured program. Right now the PPO and HSA are self insured programs; the HMO is on a premium based coverage and is not self insured. The consultant is looking at the HMO premiums paid versus claims payout. If the premiums are in excess of paid claims it makes sense to self insure the HMO.

On the self insured side, Mr. Masciana stated the calculations are accurate, and it is a 63% loss ratio.

Mr. Ruocco commented on surplus money on the fully insured programs, the company taking the risk, with a 30% up charge. He said the Town and BOE would save money on going with a self insured plan.

The committee was told by Mr. Milone that the Town is also looking at going with an ASO rather than minimum premium, and under the ASO we do not need to set aside an excess of 10%. The claim run is the claim run; administrative costs are less; and bid rates are out and look good.

According to Mr. Ruocco the medical plans in place are too expensive; the HSA is too generous; and they should be more in line with plans of typical tax payers. He commented on Town and BOE employees getting raises, having good benefit plans, and that things to be thought about during negotiations.

An analysis was done, and Mr. Masciana said the medical benefits trust fund increases by about 4% annually; the normal average is 5%; there have been changes in the HSA deductibles; and the BOE run rate has not caught up with claims. The catch up is a high number.

5. FIRE DEPARTMENT VOLUNTEER PENSION

Mr. Schrumm commented on the well thought out and lengthy report from Chief Casner regarding the many benefits to volunteer firefighters, including the complicated pension fund. There are two plans -- defined benefit and defined contribution plans, and every plan for the Town is now a defined contribution plan.

It was suggested by Mr. Schrumm that this agenda item be referred to the Personnel Committee.

There was a brief discussion about the point system for the volunteer firefighters, reallocation of points, changing the pension plan, rewards and incentives for younger volunteer firefighters, including a future pension plan.

Chief Casner informed the committee that the CFD has been responsive to meeting with the Council Personnel Committee. He noted there is a financial impact to be considered and CFD has ideas and recommendations to discuss with the Council committee.

Mr. Hershmann addressed the Council, noting the volunteer firefighters are not Town employees but are willing to be included in discussions on the CFD pension plan.

Chief Youngquist commented on handouts and reports from 2012 given to the Council, the list of members receiving benefits, and recent payments that reflect COLA adjustments.

Chief Casner reported that CFD is using the same dispatch system as the CPD.

Mr. Ford stated CFD has documentation (forms) for CFD narrative and tracking personnel and what takes place at a scene.

Before adjournment, Mr. Milone informed the committee members that the budget books will be given to Council by March 10th.

Mr. Schrumm will schedule workshops immediately after March 10th. The deadline for adoption of the budget is April 17th.

6. ADJOURNMENT

MOTION by Mr. Ruocco; seconded by Mr. Talbot.

MOVED to adjourn the meeting at 9:05 p.m.

VOTE The motion passed unanimously by those present.

Attest:

Marilyn W. Milton, Clerk