

MINUTES OF THE TOWN COUNCIL BUDGET COMMITTEE MEETING HELD ON TUESDAY, SEPTEMBER 29, 2015, AT 7:00 P.M. IN ROOM 207, TOWN HALL, 84 SOUTH MAIN STREET, CHESHIRE CT 06410.

Present

David Schrumm, Chairman; Committee Member Thomas Ruocco and Peter Talbot.. Staff: Michael A. Milone, Town Manager; James Jaskot, Finance Director; Dr. Greg Florio, Supt. Of Schools; Vincent Masciana, DOE, Director of Management Services. Others Present - Town Council members Patti Flynn-Harris and Liz Linehan; BOE Members Gerry Brittingham and Kathy Heilrich.

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. GOVERNOR'S BUDGET ADJUSTMENTS TO STATE FUNDING.

Mr. Jaskot reported a cut of \$151,620 in State funding to Cheshire, and this is an accurate number. From what was budgeted, \$2,125,667 there was a slight change due to allocations across towns...and this is the \$479,000 difference. Other adjustments under State grants were known when the Governor adopted his budget in June. The tax revenue was included in the report at 99.1%; there were settlements with Macy's and Webster Bank which will decrease the surplus, and one settlement is outstanding, which could be another \$43,000. W.S. Development anticipated budget revenue of \$424,000 will not be realized due to cancellation of this project. Overall revenue adjustments, as of today, are \$15,000 to the good, and this is due to a better tax collection rate.

Regarding impacts of the Governor's budget, simply looking at grant for revenue, Mr. Milone stated he wanted to give Council the whole picture. The State cut is only \$5,344, because prior to this there was extra ECS money to the Town. There is a concern about these early cuts which could be a harbinger of future municipal cuts.

There are some favorable expenditure variances, and Mr. Jaskot pointed out the Town does not have to hire any consultants for the north end project. He will provide more details in his quarterly report. The variance is favorable by \$100,000.

Chairman Schrumm moved agenda item #8 to current status.

8. SPECIAL EDUCATION EXCESS COST RESERVE FUND

Dr. Florio and Mr. Masciana were present for this agenda item.

Mr. Milone noted the Council wanted to revisit the ECS reserve fund issue, and stated stuff has been carried for over two years.

Dr. Florio stated that the reason to have this reserve fund results from the inconsistency of revenue and expenditures related to ECS, and large costs for outplacement. He explained that if the BOE receives more reimbursement than what was budgeted, it could be put into a reserve fund to cover a year when reimbursements are less or to cover higher expenditures. The reimbursement is after the district's 4.5x the average per pupil cost; this is the max to be spent for special education; and anything above that cost should be reimbursed by the State. At the present time the State reimbursement for excess costs is being capped at 70% so the Town does not get its full reimbursement. Another issue involves reports from all school districts, the money is distributed on a proportionate basis. Cheshire's share is relative to everyone else, and there has been a reduction in funding.

Dr. Florio said the idea for the ECS reserve fund was to smooth out the dollars, and give flexibility with high expenditure years or low reimbursement years. This year the BOE came back to the Council asking for funds, and this would be eliminated with the reserve fund in place. He reiterated the fact that Cheshire could get more reimbursement funds, but it is based on the experience of other districts.

There was a brief discussion on keeping track of another reserve account, and whether it is worthwhile. Dr. Florio explained the BOE would be in favor of the reserve fund, and he can bring the matter back to the BOE for review. Money that is not needed in any given year would go into the fund. In the past 4 years the BOE has come back to the Council two times, demonstrated it exceeded the special ed budget, and with a reserve fund this could be eliminated.

Mr. Milone stated this fund would have to be established as a special revenue fund.

Chairman Schrumm moved agenda item #7 to current status.

7. MEDICAL BENEFITS TRUST FUND POLICY

Handout, pages 3 to 5 - Mr. Milone noted this information was previously reviewed with the Town Council, and some changes have been made. The Budget Committee did not want to see fluctuations in the way medical expenses are reflected. Under certain circumstances the reserves can be used; they must be used as revenue so the effect does not understate the expenditures. Expenditures are gross. If the budget is \$1 million next year, and we want to use \$200,000 from the trust fund...the budget would still be \$1 million in expenses and \$200,000 in revenue. This allows continued use of the trust fund within the guidelines discussed. There is no distortion created year to year on the expenses; it does not create using too much of the trust fund balance in one year, and then have to catch up.

Page 7, Trust Fund Policy - Mr. Milone reviewed the key sections of the policy; some language has been changed; one consistent thing is the two (2) months of run out claims, which is 16.7%. There must be 110% of claim expenses maintained, so there are two elements of reserve -- 2 months of run out in the event of changing/transferring to another carrier; and +5% as a cushion for the reserve, 110%.

#2 - two elements of reserve total 21.7% of expected Town and BOE claims.

#3 - new section; if there are excess insurance payments coming back to the Town the money is distributed to whoever paid the claim...Town or BOE.

#4 - statement that BOE and Town must estimate a fund balance by June 30th during the budget process.

4a. Expand trust fund reserves.

4b. new line reads - This relief will be in the form of a revenue line item rather than a reduction in the medical benefits expenditure line item. Mr. Milone said this is the key difference.

4c. new line reads...This will occur when paid claims exceed expected claims. The reserve would be used to cushion excess expenses in the current year, and if we have above 21.7% in the reserve, it will be used to offset cost increases in the next fiscal year.

4 d and 4 e - no changes.

#5 - refers to #2; it is a formal process to insure there is a plan in place if the fund goes beyond the minimal amount.

#6 - this refers back to excess; new language...in accordance with section 4b.

The rest of the policy reads the same as last month. The policy is still a work in progress.

Handout, Page 3 - Mr. Milone referred to the information on this page; total collectively BOE and Town is \$2,482,596.19 in trust fund balances.

Page 4 - expected Town claims is \$265,850; BOE expected claims is \$740,000; that annualizes to \$12,070,000. Taking 21.7% of \$12+ million, it is \$2,619,000. Based on the model, we are already under what is in the reserve.

Mr. Schrumm stated his hope that the Town and BOE work to get a single plan for everyone, which would make it easier on the administration of the plan. He also commented on the costs of the consulting firm, based on claims.

For the BOE, Mr. Masciana said the \$740,000 is based on claims. The variances occur in the larger claims, \$300,000+ which cannot be actuarially predicted. From April to June, the BOE reduced \$400,000 due to self insured Blue Care/HMO.

When Mr. Milone used the 21.7% the number that came up was less than the reserve because there were only two coverage components in there...PPO and HSA. Because

of being self insured now for the HMO, the number has increased by about \$1.2 million to \$1.5 million. Those claims were being paid directly to the insurance company, and claims are now passing through the Town.

An example was cited by Mr. Schrumm. Town costs are \$2 million; 9 months into the year it is more than \$2 million; and the extra money would come out of the trust fund, without an increase in the operating budget.

In the subsequent year, Mr. Milone said reserves are used to offset the increase, which is revenue. He cited an example -- this year the Town took \$200,000 from the trust fund; this reduced its request to \$2.8 million; under this scenario it would have kept it at \$3 million on the expenditure side, and budgeted \$200,000 in the revenue item on the revenue side. This shows gross expense not net expense, which creates the distortions.

Dr. Florio stated that with the reserve fund the 25% budget difference would go away.

There will be a limit on the amount to be used from the trust fund, not to offset more than 5% of the total cost of the expense. Mr. Milone cited an example -- expenses at \$3 million; no more than \$150,000 from the trust fund could be used as revenue.

Employee medical deductions are from each paycheck, and Mr. Masciana said they are charged whatever the bargaining group agreement says...18% over all paycheck through the year.

Stating the policy still needs some work, Mr. Milone will rework it with the BOE staff for future Council review.

BOE Chairman Brittingham stated that the BOE has advocated two months of balance, and questioned a legal problem wherein municipalities cannot tell a BOE how to use its funds. He has legal issues and concerns on the trust fund reserve fund, and asked that the Town Attorney look at the policy, and provide a legal opinion. Mr. Brittingham stated his support of the reserve fund, but believes a legal opinion is necessary.

Dr. Florio commented on a concern with the BOE having one line item in the Town budget...and asked about assurance to the BOE using one revenue offset it is not compounding a reduction to the BOE. If medical benefits was a separate account, it would not be an issue. Medical benefits is one line item in the BOE budget. There is no assurance the money will be used to the benefit of the BOE.

4. STATUS OF FIRE AERIAL LADDER TRUCK R.F.P.

Mr. Milone informed the Council that the Town Attorney is putting final touches on the RFP. Five companies have expressed interest in receiving the RFP, which will go out next week. The companies have 45 days to respond; the Town has 21 days to review the proposals in detail; the review committee will call back a few or all the companies to discuss differences and why there are differences. The evaluator will participate in all

the meetings to insure his expertise is part of the process. A time line has not been set for the process, but it is expected the interview meetings will take place in January 2016.

5. AMENDMENT TO A.J. WASTE CONTRACT

a. Impact of tip fee increase

Mr. Milone announced that the Wallingers were not ready to come to this meeting to discuss the contract.

Handout, Page 1 - represents the residential and commercial tonnage, by month, dropped off at the Wallingford Resource Recovery Project. Mr. Milone reviewed the Cheshire commercial numbers, July 2014 to June 2015; the first 3 months average was 582 tons of commercial waste; October to December 531 tons; January to March 292 tons; April to June 673 tons; July 2015 to August 2015, delivery was 53.52 and 34.85 tons. For the same time last year the hauler delivered 839.38 tons in August and 525.85 tons. The hauler is bringing about 6% of the tonnage to the facility compared to a year ago. Other towns have also dropped significantly. MidCon facility was broken down, forcing everyone to go to Wallingford, and Covanta was trucking to Massachusetts, and raised the tip fee to \$100 a ton.

Mr. Milone reported that Covanta was asked a reduction in the tip fee, and the company said they need another month of trends before reducing the fee. It is obvious Covanta does not want commercial waste; haulers have found other places to go; and A.J. Waste claims additional charges for April, May and June. Mr. Milone estimates it is about \$5,000 to \$6,000. Covanta's tip fee started at \$70.30; went to \$79.75; and then to \$100 a ton. It is expected A.J. Waste will come back to the Council with some modifications to the contract.

b. Consideration of revision to solid waste collection service.

The Council was informed by Mr. Milone that he asked A.J. Waste to look at automatic solid waste collection service, similar to the recycling service. The hauler is interested in doing this, but numbers are needed before the matter comes to the Council. There could be savings for the hauler with a single truck, lower workers comp costs, etc. The down side is buying the containers, and the Town would probably purchase them again.

(Ms. Flynn-Harris left the meeting at 7:55 p.m.)

Ms. Linehan asked if the solid waste collection service issue will go to the Solid Waste committee.

Right now it is with the Budget Committee and Mr. Schrumm said the actual "collection" issues will go to the Solid Waste Committee.

The tip fee is a big issue, and Mr. Milone said recycling went to Solid Waste, and the collection of solid waste will go to this committee if it is worthy of further discussion.

(Ms. Flynn-Harris re-entered the meeting at 7:58 p.m.)

6. REVIEW PUBLIC HEARING AND REFERENDUM LIMITS.

Every five years the Council can increase public hearing and referendum limits up to the percentage increase in a specific C.P.I. The 2006 resolution was in the packets. The limits were last adjusted in March 2006. Benchmarks from March 2006 to December 2014 were looked at by staff, and based on the indexes which are required to be used, the index was 17.65%, and the information shows how the numbers changed. March 2006 to June 2015 the index was 19.145%. The Charter is clear that the amount does not have to be increased; it does not have to be increased to the limit; and this is what was done in 2006...to the mid-point.

Mr. Milone explained the way the change is done. Take the C.P.I. number from March 2006 which was \$126,000; compare it to the December 2014 number of 148.24. We take the difference and get the percentage increase, and this was done for June 2015.

The Council requested Mr. Milone to get information from other towns and their limits. If there is a public hearing, people have 21 days to petition for referendum.

Mr. Schrumm stated going from \$350,000 to \$400,000 makes sense, after 9 years, in light of inflation.

Mr. Talbot looked at the numbers, and said it might be a good idea to go to \$200,000 and \$400,000. He also commented on the fact that costs have risen, and asked about \$50,000 increase making any difference. He also asked what other towns the size of Cheshire do in this regard.

Stating we must be careful about delineating projects and resolution for payment, Mr. Milone will review past projects, where they would have fallen, and what happens. The matter will be on a future Budget Committee meeting for review and discussion.

7. MEDICAL BENEFITS TRUST FUND POLICY

8. SPECIAL EDUCATION EXCESS COST RESERVE FUND

9. DISCUSSION OF UTILIZATION OF DEBT SERVICE RESERVE

Handout, pages 6, 7 and 8 - The process has started to determine the best policy and model to decide on use of reserve money to offset the 2018 debt service spike.

Page 6 - spreadsheet showing debt service components. Column #4 shows how much debt service will increase as a result of the Clean Water Fund (CWF).

Page 7/Column #2 - WPCD Gross Debt for CWF. These numbers are carried over. In 2018, \$3,559,615 is debt service due to CWF; in 2019 it is \$1,703,125. Mr. Milone went out 5 years; for the 5 years the total debt is \$10,222,115 repayment for the CWF loan. Mr. Milone determined how much each year of those gross debt payments

represented as a percentage of the total. For example...in FY 2018, the \$3,559,615 is 34.82% of the total amount over the five years, the \$10,222,615.

Column #3 - Proportionate Debt Reserve Proposed. The debt reserve currently has \$6,148,000. If this money were distributed based on these percentages it represents the amount used in the reserve to offset the increase. In FY 2018, the Town would use 34.82% of the \$6,148,000 which would be \$2,140,899. When all five years of the reserve are added up, it comes to \$6,148,000.

Column #4 - after taking the use of the debt reserve this shows the net WPCD debt for CWF, the net increase. In FY 2019, 2020, 2021 and 2022, using this methodology, the numbers stay close. In year #1 there is the spike for interest costs. For illustration, it was decided to try to use other funds -- i.e. Capital Non-Recurring (CNR), \$500,000. We could also try to defer projects for \$500,000, and use \$200,000 from fund balance. The goal was to get the numbers down without draining the debt reserve. In FY 2018, the net increase is \$718,716.

Other Column - there are going to be other sources of money to be used to mitigate the increase, such as operating budget surplus with redirection of money into a fund for debt service.

WPCD fund balance with dedication of a user fee increase exclusively for debt service. Mr. Milone noted the General Fund is paying for this upgrade, not WWTP user fee, which is for the operating expenses. If there are years with a blip, it would be a one time assessment, but would help defray some of the costs.

Medical Benefit Trust Fund Balance - can be used for emergency situations.

Energy Performance Contract Rebate - there is money here that can be used.

State Dept. of Corrections Settlement - it is hoped this materializes.

Regarding the DOC settlement, Mr. Milone reported on some good movement with the State responses to the Town. The State response to the Town it was admitted that the meters at the prison facility did not operate correctly. The Town made the case this was known all along; the meters stopped recording at 500 gallons per day; and the State has admitted it is not over reporting because it stops at a point of 500 gallons a day. This deduces that the prison generated more than 500 gallons a day. Another significant thing is the State paid the Town the first year and never challenged the methodology, which is the same one used going back.

A letter from the Town of Cheshire was sent to the DOC Commissioner telling him that they have admitted in two separate situations their meter did not work, it was their meter, and were, obviously sending more effluent than what was reported. With the authority of the Town Council, Mr. Milone would like to sit and discuss the issues, possibly negotiate a resolution.

All of this is still separate from the lawsuit. Mr. Milone advised there was a court hearing on Monday; the Judge was annoyed the case was not moving along; The Town made an appearance and explained to the Judge that the reason it was dormant was

because of the other avenue of solution with the Claims Commission. If this is unsuccessful the matter will go back to court and the Judge. The Town Attorney informed Mr. Milone that the letter is another illustration that Cheshire has extended an olive branch to negotiate a settlement, which the Court and Claims Commission will see as a positive move.

Mr. Milone cited the numbers for the DOC issues as \$5 million for the upgrade to the treatment plant, and \$2.2 million for back billing with interest.

Page 8 - the analysis on page 7 only looks at the debt service associated with WWTP. Mr. Milone applied numbers using the reserve, C.N.R. fund balance, and other funds to the totality of the debt service payments, column #2 on page 8.

FY 2018 - \$10,585,914. The debt service analysis model shows what it does to the overall net debt service. In FY 2018, it would be \$7,745,015. FY 2019, debt service goes up by another \$724,000, and would level off from that point on to beyond the five years when there is a spike. The model could go out 6 or 7 years, and it just means it defrays less of the debt service in the first few years. Some of the fund balance can be used if projections are correct for over 8% by 1.2%. This would save debt service numbers for a few years. The DOC settlement money could help rebuild the debt service reserve fund.

Mr. Jaskot estimates a \$1.050 million surplus; \$700,000 will be used for FY 2015-2016.

Page 171 Budget Book - Gross surplus of \$943,723; last year \$700,000 was used for fund balance; \$100,000 for tax relief; leaving a balance of \$143,723.

Mr. Schrumm said with a two year surplus of almost \$493,000 this money could be put into debt reserve. Doing C.N.R. we can rid some projects or bond them.

According to Mr. Milone there is no perfect way to do this, and he is trying to find ways to not create an onerous tax burden in FY 2018.

Amortization Table for \$500,000 - over 20 years the debt payments would be as low as \$18,333 or a high of \$45,248; interest is \$218,000.

With regard to the operation of the treatment plant with new upgrade and equipment, Mr. Schrumm commented on more operating efficiencies at the plant, and WPCD having a healthy balance.

WPCD projected Fund Balance is \$558,000 as of June 2015. With a \$3.4 million budget this fund balance is 16% of their operating budget. Mr. Milone has suggested there could be a form of assessment, a one time spike in the user fee, to pay for the debt service. A \$5 user fee increase generates \$45,000; the user fee is not increasing this year.

Mr. Schrumm talked about taking \$493,000 from last year's surplus and this year's surplus, putting it into the debt service reserve fund.

The Council was informed by Mr. Milone that one year surplus money and some C.N.R. money was used towards bulky waste and towards acquisition of the recycling containers. Right now fund balance is \$1 million to \$1.2 million over the 8% level.

Over 10 years, Mr. Jaskot explained the smallest surplus was \$636,000. The surplus money has given a revenue item in the budget, using \$700,000 in recent years. We are now looking at \$100,000 surplus, per projections, for this fiscal year. This is taking into consideration the tax surplus, and there will not be a large surplus this year for next year's budget.

Mr. Milone stated he wants to keep the fund balance above 8% as it is critical to the Town's AAA credit rating. He does not expect to see the prior surprises, i.e. State aid, and noted we are budgeting tighter, and using more of the collection money.

In looking at the information submitted to the Budget Committee, Mr. Ruocco likes the way things are laid out proportionately, drawing from C.N.R. and the mill rate.

Mr. Milone and Mr. Jaskot will provide information for the committee on the surplus calculations.

10. ADJOURNMENT

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

MOVED to adjourn the meeting at 8:45 p.m.

VOTE The motion passed unanimously by those present.

Attest:

Marilyn W. Milton, Clerk