

MINUTES OF THE CHESHIRE TOWN COUNCIL AND BUDGET COMMITTEE JOINT SPECIAL MEETING HELD ON WEDNESDAY, MARCH 30, 2016, AT 6:30 P.M. IN ROOM 207-209, TOWN HALL, 84 SOUTH MAIN STREET, CHESHIRE CT 06410

Present

Town Council Chairman Robert J. Oris Jr.; Vice Chairman Paul A. Bowman; Budget Committee Chairman Tim Slocum and committee member Michael Ecke. Council Members Patti Flynn-Harris, Liz Linehan Thomas Ruocco, and Peter Talbot.

Absent: Sylvia Nichols

Staff: Michael A. Milone, Town Manager; James Jaskot, Finance Director; Gina DeFilio, Deputy Finance Director. Town Attorney Alfred Smith.

Dept. of Education: Supt. Scott Detrick; Chief Operating Officer Vincent Masciana.

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. LAND ACQUISITION - executive session.

Moved to later in the agenda pending arrival of Town Attorney Smith.

4. ENDORSEMENT OF THE REGIONAL PERFORMANCE INCENTIVE PROGRAM PROPOSAL REGARDING PROCUREMENT OF STOP/LOSS CAPTIVE INSURANCE.

Moved to later in the agenda pending arrival of Town Attorney Smith.

5. DISCUSSION RE: PROPOSED FY 2016-17 GENERAL FUND OPERATING BUDGET.

Town Manager Milone distributed one of the handouts for March 30th. This handout contained information on the alternative budget presentations for FY 08-09 and FY 09-10.

Option A - FY 08-09 - budget increase of 4.25%; mill rate of 28.16 mills.

Option B - FY 09-10 - budget increase of 3.25%; mill rate reduction to 27.80 mills.

For FY 09-10 (page 7) there is illustration of proposed revisions with a 0% budget increase, and distribution between Town and DOE, and use of C.N.R.

Budget Reduction of \$1,123,108; Town 29.11% or \$248,340; DOE 70.89% or \$604,768; C.N.R. \$270,000. The Town side of the budget cuts were \$436,425; BOE took cuts of \$214,485.

Pages 9 to 11 - show the mill rate reductions, average assessments and median assessment.

Mr. Milone stated that, with the guidance of the Council, he and staff can put together a summary of budget options for Council review and discussion.

March 29th handout - page 1 shows the cost detail analysis of the proposed new positions and position adjustments for FY 2016-2017.

On page 1 of the handout, Mr. Slocum cited a cost for proposed full year salary (column 1) \$171,984; total yearly cost of \$251,742; and divided for half year impact the number is just under \$126,000.

Mr. Milone explained the cost of 2 new positions for the fiscal year has 12 paydays for the union positions. FY 2017-2018 costs assume a 2% increase included in the numbers. The HSA has a net cost after what the Town pays. The March 14th handout has the exact costs of the positions without medical costs included. Unemployment, workers comp, sick leave and vacation are not included in the numbers for the new positions. Police Officer extra duty cost is grossed out.

The Council postponed discussion on the budget, and brought agenda item #4 to current status.

4. ENDORSEMENT OF THE REGIONAL PERFORMANCE INCENTIVE PROGRAM PROPOSAL REGARDING PROCUREMENT OF STOP/LOSS CAPTIVE INSURANCE.

Mr. Masciana distributed overview/information on the Stop/Loss Captive Insurance program, an initiative led by CREC to form an insurance company to serve Towns and Boards of Education, and permitted under Connecticut law. The advantage to Cheshire is stabilization of the stop/loss insurance programs, and going forward to be self insured for stop/loss, and see total premiums reduced over time.

The other towns include Berlin, Bloomfield, Canton, CRED, Enfield, Farmington, Glastonbury, Granby, Manchester, Plainville, Simsbury, South Windsor, Southington, Suffield, West Hartford, Wethersfield and Windsor. The towns in the program are similar to Cheshire; there are no large cities; and from a stop/loss perspective, it is a good group to be involved with.

Legislation was passed in 2008, amended in 2011, permitting captive insurance companies to be formed. This would be the first municipal captive insurance company formed in Connecticut. The initial work is for stop/loss insurance, but once formed the company can offer other types of insurance. The company would be a non-stock corporation; it would be governed by a Board of Directors of up to 9 members; and Cheshire wants a seat on the Board. The company must be properly capitalized. There is a request for a \$650,000 grant, through the Capital Region of Governments, to fund the capitalization of the company.

Mr. Masciana stated the Council is being asked to give Town Manager Milone the authority to sign, agreeing that Cheshire supports this \$650,000 grant application.

The grant is a regional incentive grant, and the State is big on getting towns, cities, boards of education to work together to regionalize. This captive insurance company is one of the approved regionalization incentives. All the interested towns must show support for the grant per the resolution before the Council. By April 30th, the Town of Cheshire must agree to participate in the stop/loss captive. The Town Attorney's office, through Attorney Smith and Attorney Suerth, has reviewed the legality of the documents.

Attorney Smith informed the Council that Attorney Suerth specializes in insurance law. He reviewed the documents, the documentation regarding formation of the consortium, and concluded it complies with applicable laws. With regard to the liability of the member towns, Attorney Smith said it is like a mutual insurance company. The members would be required, in the absence of grants, to make funding available to insure extraordinary expenses.

If the \$650,000 grant is not approved, Mr. Masciana said the question becomes how does this get capitalized. The member towns would have to put up funding to capitalize that insurance coverage. This would come back to the Town as another request.

Mr. Masciana said the Town Council is being requested to agree to the capitalization grant by the resolution. Without the grant, the Town is not bound to fund a portion of \$650,000. This would put another layer of complexity on all the towns...would they be willing to put up money to capitalize the insurance company.

Assuming the numbers work, Mr. Masciana said the Town and BOE combined premiums are \$800,000 per year. Once we become part of the stop/loss captive then we begin paying premiums on whatever the basis would be, i.e. monthly. There is no financial obligation until there is a Town and BOE commitment to being part of the captive insurance formation. At this meeting, the Council is agreeing to give Town Manager Milone the authority to sign the resolution of endorsement and authorization.

Preliminary Financial Overview - the participating towns submitted actual data. Current total premiums being paid are \$10.5 million; this will continue to be paid; Cheshire's \$800,000 is part of this \$10.5 million; of the \$10.5 million, \$7.9 million will be used to pay the actual \$150,000 and above claims, and would cover the expenses of having a captive stop/loss insurance company. \$1.9 million is the buffer...what is left after all claims are paid in a year. All the towns submitted 3 years of claims history; Cheshire's history of premium paid versus losses paid out is about 55% of premiums paid out in losses; the 25% buffer is very good.

At this time, Mr. Oris stated the town has a risk only with its own pool, and this is taking that risk and magnifying it with the other towns. Whether this is a greater risk or lower risk is unknown.

Mr. Masciana believes the town's risk will be limited to Cheshire, i.e. not to fund Avon's overage. There must be a stop gap for Cheshire, and the benefit comes in pooling all the towns' stop/loss resources.

Attorney Smith commented on part of it being the nature of a mutual insurance company rather than a publicly held company. There are no profits. Any profits in a publicly held company go to the shareholders; in a mutual insurance company any profits are put into a reserve, used to offset future premiums, or given back in a dividend.

Mr. Oris asked about reserves being distributed amongst all the towns...if we are paying ours and Glastonbury is paying theirs...how is the reserve distributed.

Ms. Linehan asked about forming the captive company to get the grant, and said it makes sense for CREC to have the information to apply for the State grant.

A copy of the grant application was provided to the Council, and it is pretty generic. According to Mr. Masciana there is a need to know how many towns will participate. If the captive does not go forward there is no grant. The goal is to have the captive up and running by July 1, 2016. There is, probably, a 3 year commitment to stay in the captive company. Mr. Masciana stated the experience is highly positive in formation of a stop/loss captive insurance company. Cheshire pays more premiums than it receives back in losses that were claimed. He mentioned that this is a layer of insurance. The way the town's medical claims work is payout of the first \$150,000 per incident/individual; anything above \$150,000 to \$500,000 would be the responsibility of this insurance captive; anything above \$500,000 would be paid by the reimbursement policy, out of the \$7.9 million.

In response to a question about captive insurance being positive or negative in other states, Mr. Masciana said he does not have this available at this time.

If Cheshire goes to the next step with this insurance, gets beyond the grant funding, there will be a formal presentation to the Town Council by the firms hired for the initial formation of the program (March & McLennan and Day Pitney). Mr. Masciana said the risk to Cheshire with a bad claims year is low, as the town has always paid more in premiums than it has gotten back in losses. With this program there is opportunity for the town to reap the benefits, at some point, of claims it never made. The buffer would be funded for 3 or 4 years; once there is enough of a reserve built in, the premiums could drop for the members; or towns could receive a dividend. This is all governed by the Board of Directors of the captive insurance company.

Cheshire would be an investor/owner of the captive company.

Mr. Masciana informed the Council that the BOE is aware of this captive insurance company initiative, and is waiting on the steps...just as is the Council. The Council has to authorize Town Manager Milone to sign the grant as it is a Town function.

Mr. Ecke said the Council is deciding tonight about whether or not it wants to apply for a grant. To go forward there will, clearly, be very detailed meetings with all the ins and outs of how this company would function.

MOTION by Mr. Talbot; seconded by Mr. Ecke.

BE IT RESOLVED, that that the Town Council approves Resolution #033016-1.

RESOLUTION #033016-1

BE IT RESOLVED:

(a) that the Town of Cheshire hereby approves the procurement of a stop/loss policy to mitigate the Town's exposure to large loss claims through a new Connecticut-domiciled captive insurer to be created by the Capital Regional Education Council (CREC) (the "Captive).

(b) that the Town of Cheshire and the Cheshire Board of Education are authorized, on behalf of the Town of Cheshire to contract with the Captive for the procurement of such insurance and to enter into a participation agreement, a membership agreement, or such other agreement as may be necessary to procure such insurance; and

(c) that the proper officers and officials of the Town of Cheshire and the Cheshire Board of Education, including specifically Michael A. Milone as the Town Manager, are authorized to take any and all actions necessary or desirable to procure the insurance as described above.

Discussion

Mr. Ruocco stated this is a higher commitment than what it sounds like and he questions the Council action on this matter.

Ms. Flynn-Harris agreed, and read paragraph (c), which gives Mr. Milone authorization to secure insurance when there has not been discussion on what the insurance will cover and how it will be governed. If it is just going for support of the funding, she does not agree with (b) and (c).

Mr. Masciana said the Regional Performance Incentive Resolution of Endorsement and Authorization is the only thing Mr. Milone would be willing to sign.

Stating that is correct, Mr. Milone said the resolution on the floor is the one that accompanied their submittal. This is all he is signing.

It was pointed out by Mr. Oris that the motion does not state that.

Technically, this resolution is not due until April 30th, and Mr. Masciana said this is the Council's resolution.

The Council decided to amend the resolution on the floor...and only include (a) for the approval of the Council. Paragraphs (b) and (c) were withdrawn from the motion.

Mr. Talbot and Mr. Ecke amended paragraph (a) to read as follows:

BE IT RESOLVED,

- (a) That the Town Council authorizes Town Manager Michael A. Milone to execute The Resolution of Endorsement and Authorization for the Regional Performance Incentive Program Grant Application.

VOTE The motion passed 7-1; Ruocco opposed.

3. LAND ACQUISITION - executive session.

MOTION by Ms. Flynn-Harris; seconded by Mr. Talbot.

MOVED to enter Executive Session at 7:15 p.m. to include Town Manager Milone and Town Attorney Smith to discuss land acquisition.

VOTE The motion passed unanimously by those present.

MOTION by Mr. Talbot; seconded by Ms. Flynn-Harris.

MOVED to exit Executive Session at 7:56 p.m.

VOTE The motion passed unanimously by those present.

Continuation of agenda item #5 - Proposed FY 2016-2017 Operating Budget.

March 14th handout, page 3 -- without the extra hours for the CPFA Director, the salary and position adjustments total \$78,991 reduction.

It was recommended by Mr. Milone that the Council give staff the mill rate reduction it wants. He cited a Council suggestion of cutting 3/10 of a mill, with the Town at 28% cut and BOE 72% cut. Mr. Milone can find revenue and expenditures to meet the stated mill rate reduction.

In 2014-2015 the budget increase was 2.481%, a 2.4% increase. FY 2016-2017 total budget increase is almost \$3.5 million.

It was noted by Mr. Oris that one salary in PW Dept. has someone getting a 5% raise, and Council must look at this issue. He has a philosophical problem with this raise for one person being under paid and because he does a great job.

Ms. Flynn-Harris stated her agreement with Mr. Oris' statement.

Mr. Slocum said the budget is almost \$3.5 million, and he does not see advancing the budget at more than \$2 million. A 25% reduction in the BOE request is only \$875,000. He expressed the fear of further State funding reductions to municipalities next year.

March 14th handout, page 5 -- Mr. Milone referred to the information on this page. It illustrates the proportionate budget revisions and distributions for the Town and BOE. 3/10 mill cut = \$810,450 budget cut; Town cut of \$246,732; BOE cut \$563,718. A mill rate cut of 3/10 of a mill = 31.19 new mill rate. For 30.19 mills, the cut would be \$1.62 million.

Mr. Ruocco stated the Council must look at new positions and overtime reductions.

It was recommended by Mr. Ecke that the Town Manager start at a 7/10 mill rate cut, moving forward with 6/10 mill reduction, 5/10 mill, 4/10 mill, 3/10 mill. He suggested the Council ask the Town Manager to look at scenarios based on a mill rate cut, and then the Council can make logical conclusions based on the information.

At 5/10 mill revision, Mr. Oris pointed out that it is a \$400,000 cut in the Town Government budget. At 4/10 mill cut, the proportionate reduction is \$751,624 and BOE is \$949,530; at 7/10 mill revision, the Town's reduction would be \$575,000 and BOE is \$1.315 million. He is interested in seeing what these cuts would do to both the Town and BOE budget.

Ms. Flynn-Harris asked about the other pending issues which have been brought up by Mr. Milone, and which the Council cares about...i.e. the Fire Marshal, and whether the \$10,000 request is enough for this department's situation.

Under any of these scenarios, Mr. Milone said that would not go into the budget with a \$400,000 reduction. He would go back to the Fire Marshal and tell him to find a way to make it work. It would be up to the Council to add this funding back into the budget.

The Council was told by Mr. Milone that a total \$400,000 reduction in the Town Government budget will include expenditure reductions and revenue increases. He does not want to be out in front, propose cuts, say we take them all, and take a disproportionately lower amount from education. In FY 09-10 the Town budget went down by \$70,000 and BOE budget went up by over \$1 million...he does not want this to happen again as it is not equitable.

Ms. Linehan is not in favor of an increase in the tax collection rate on the revenue side.

The proposed budget is using a 99.1% collection rate, and Mr. Milone said he would do that. He is looking at other soft revenues. Next year this might be done to get one time additional revenue for the debt spike.

The deferred compensation for a position, i.e. Mechanic position, was raised by Mr. Bowman.

It was explained by Mr. Milone that the pension plan was closed out. In lieu of this plan, the Town offers a 401A plan, which would be equivalent to a 401K private plan. Right now there is a fixed 6% of a new employee's wages into an equivalent into the deferred compensation plan. It is a retirement plan with a fixed percentage of the salary.

With regard to mill rate cuts, Mr. Milone will start with 5/10 of a mill up to 7/10 of a mill, coming up with \$411,220 to \$575,708 in reductions. On Monday, the Council can review the information, and make a determination of what happens to get to the required mill rate.

On page #1 of the March 14th handout, Mr. Ruocco pointed out that the mill rate for a cut of \$1.620 million should be "31.09" mills.

Mr. Ecke stated the numbers can be rounded out, and BOE budget is so broad, it can take a bigger hit. But, the Council does not have the detailed expertise of what is in those numbers, and to state where their cuts should be made.

Regarding the world language program, Mr. Ecke said it is difficult to have a program that will add up to \$1 million in the BOE budget. If there was lots of money and things were going great, this is a worthwhile program. He expects the State deficit will affect municipal aid next year.

Mr. Oris stated that once such a program starts, the Town is committed to it.

Concern about school building infrastructure was raised by Ms. Flynn-Harris. This is why the Town and BOE committed to the Facilities Plan, and she knows in coming years we will be looking at massive funding for the school buildings. To start a world language program and make that investment is a good idea. But, she questions whether this is the right time to implement the program when there are other things to look at in the next five years.

Ms. Flynn-Harris commented on her fear that the language program is implemented, and in the future there is not enough funding due to other challenges. It will be difficult to end this program.

With the FY 08-09 budget, Mr. Ecke said this was an easy budget because there was nothing else to do but cut the budget.

If there is a 25% impact on \$13 million from the State, Mr. Slocum said this is a huge amount of money.

Mr. Milone stated that in spite of how he feels about the positions and protecting things, he is not out of touch with reality, and he lives the numbers daily, seeing what is

happening at the State level. He is fearful of what will, likely, continue to happen. He has never felt more uncomfortable, uncertain, and distrustful of the State situation as he does now. This is Mr. Milone's 38th year of doing municipal budgeting, and he is frightened by the future prospects...the State does not understand the depth of its problems. We must protect and guard every resource the Town has...all of the reserves...and presume they will have to be used at some point if the bottom falls out. Next year the Town has a \$3.7 million spike, a \$500,000 increase in debt service, which is unseen in 10 years. The fiscal limitations and potential calamity are real and must take precedent over what the Town and BOE wants and continuation of services.

Mr. Milone said we must shrink the budget, as in FY 09-10, coming off the 2008 recession, when an immense amount of revenue was lost. If the Town is lucky enough to prevail in the June court hearing, get \$1 million or \$2 million, this could help to restore some funding at that time. Should this happen, the Council can decide to restore some worthy budget items, or not. Mr. Milone believes the next time the State has to cut, it will go after municipalities.

Another fear was cited by Mr. Ecke...that many people have not participated in the recovery of the last few years. And, if the Town spends wildly in this budget, it will have to ask these people with limited incomes to pay for larger mill rate to offset many things, including raises for Town staff when these taxpayers have not received raises in many years.

Mr. Ruocco stated the way benefits are structured, the Town health programs need to be equated to the private sector.

Mr. Oris commented on the need to start cutting salaries and positions, i.e. after retirements, eliminate the position. He reiterated the concerns expressed by Ms. Flynn-Harris...addressing some of our aging infrastructure and investing in some of our buildings.

A comment was made by Mr. Milone about the need to protect the capital side of the operation. He cited the discussion about the CPD radio system costing \$3 million. There are things looming out there.

Ms. Flynn-Harris talked about the Council seeing photos of rotting pipes with holes behind walls in the high school, the other old schools, not knowing what is behind the walls...the Town has a big issue in front of it.

The concept of Parks and Rec needing additional staff help given its work load, but not buying into having more Town employees, Mr. Oris asked about taking a Public Works Maintainer shifting to Parks and Rec. This would eliminate one Maintainer from the budget.

Mr. Milone stated his recommendation of taking one year of dealing with the issues, stretching the elastic, and then make a decision on whether another position is needed.

If worse came to worse, the Town out-sources cutting the lawns at Town Hall and other places, at \$15,000. Then, those who usually do that work take care of the maintenance and lawn work at the Trail and open space areas. Or else, we don't do the work on the open space...which has not been done to date. Mr. Milone stated the PW Department is not over-staffed...but people can be stretched more...and there is a lot of mileage out of the summer temporary help.

With regard to CPD, Ms. Flynn-Harris asked if there could be a look at the Elim Park gift account to fund something from the operating budget that this account could cover.

It has been made clear by the Council that some things are needs and not wants, and Mr. Milone will check into whether some of the needs from next year can be absorbed into this year's budget. He will not dip into the reserves as it is too dangerous and too fragile.

6. ADJOURNMENT

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

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

VOTE The motion passed unanimously by those present.

Attest:

Marilyn W. Milton, Clerk