MINUTES OF THE CHESHIRE TOWN COUNCIL BUDGET COMMITTEE MEETING
HELD ON THURSDAY, DECEMBER 9, 2010, AT 7:00 P.M. IN ROOM 207, TOWN
HALL, 84 SOUTH MAIN STREET, CHESHIRE CT 06410

Present
David Schrumm, Chairman, Michael Ecke and James Sima.
Councilor Anne Giddings
Staff: Michael A. Milone, Town Manager; Patty Lynn Ryan, Finance Director; James
Jaskot, Deputy Finance Director.
Guests: Stephen Carroll and Patti Flynn Harris.

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. WATER POLLUTION CONTROL AUTHORITY DEBT SERVICE/BUDGET
Mr. Milone informed the committee that the WPCA has a growing debt burden, and
cannot continue without depleting their trust fund.

The bond sale set for November was pulled at the last minute due to a decline in the
market. The Town will wait until the market corrects itself when it is more advantageous
to proceed. A series of summaries of variations of the Town would pay in debt under
various interest assumptions.

The Town pension plan and developments in medical benefits will also be discussed
with the committee at this meeting.

WWTP Rate Analysis (page 1) – Mr. Milone reviewed the scenarios of the rate analysis
which illustrated the current user fee of $315 per household and the $330 user fee
adopted by the Council in the 2010-11 budget. A scenario was also developed using
a fee of $345 per household. The WPCA wants to consider increasing the user rate to
$345, a $30 increase over the current rate of $315.

Mr. Jaskot reviewed column #3 of the analysis, 2011, projected $330 fee which was
adopted by the Town Council this year. With this fee the fund balance would be
$217,154. With the $345 fee the fund balance would be $337,556. The biggest
concern is preservation of the trust fund.

Page 2 – shows the projections out to FY 2013, with $15 rate increases in each year
2010-2013.

Mr. Milone noted that this is consistent with what was represented to the Council with
$15 increments in each of the next three years. He is not sure the $345 is realistic, and
starting with this fee, there is distortion of the 2012 and 2013 numbers. WPCA has
thought about going up $30 now, rather than $15. One of the concerns is the debt service.

Page 4 – Mr. Jaskot said this page shows the WPCD debt projections. The middle column is what was projected when the FY 2011 budget was developed. It has been decided that any of the projects in process would be picked up by the WPCA, and debt in the 2011 Capital Expenditure Plan and going forward will be in the General Fund.

Future projects will be moved to the General Fund, but there is still a concern about their fund balance, and Ms. Ryan noted that in 2012 their fund balance would be $52,000. The finance staff needs to have guidelines on where the Council feels the WPCD debt service should be, and Council approval is needed to put this debt in the General Fund for the 2012 budget.

Mr. Milone said there will have to be a subsidy to the WPCA, but this is a determination of the Council.

It was stated by Mr. Schrumm that we will always know what the debt is, but how it is to be paid is the question. Another question is how much of the debt goes over to the Town side because it cannot be borne by the WPCA fund, and it should not be. $681,000 is the number approved for the 2011 WPCA portion of the CEP. This includes the denitrification project and anticipated construction and upgrade of the treatment plant.

Mr. Milone said that anything for 2011 and forward is not reflected in this analysis. It was on the General Fund Debt Service Schedule which was given to the Council at the last meeting.

Mr. Schrumm said that what is not in the analysis is the plant and two remaining pump stations.

Mr. Ecke commented on this data being confusing, and said all the WPCD debt should be in the fund, and this would allow for an understanding of the financial statements.

According to Mr. Schrumm there is no other way out except to pay what we can given the existing fee structure, control operating expenses as much as possible, get some money in the fund balance for emergencies, and pay the balance out of the general fund debt service.

Ms. Ryan said the debt service reserve will be burned through, and there will be a large general fund subsidy.

Some 2011 projections have been done and Mr. Jaskot said they will be higher than the budget. He also said there may be a windfall due to I&I issues at the prison. Mr. Michaelangelo is projecting about $140,000 from the DOC. The paperwork from the RWA should be coming in order to do these calculations. No additional monies are
included in the data presented at this meeting. We are still using a 5% interest rate on
debt projections.

The committee was informed by Mr. Milone that staff is assuming a $15 user fee
increase this year and next year and the following year. If the WPCA adopts a $345
rate the data changes dramatically. In looking at 2011 we are assuming a fund balance
of about $217,154. The one time revenue of $100,000 was not built in because it would
have distorted the trend analysis going forward, and would have created an unrealistic
expectation. The fund balance is probably understated by $100,000. Under
expenditures, the assumption being made is the transfer to the general fund will
decrease by $100,000 in each of the next few years. This will take pressure off the
WPCA so they have more resources to sustain the fund balance. Their debt service is
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Mr. Milone commented on some policy issues related to senior citizens. There are
about 300 senior households in Cheshire who qualify for the tax relief program. If the
Council and WPCA choose, they could freeze their user charge at the current rate.
This would have an impact on the revenue stream.

It is also important to pursue a continuing effort to convey to the WPCA how significant
a reduction in the estimate of the plant upgrade will be. Mr. Milone said that some
buildings do not need new roofs or certain things, and we will work with the WPCA to
scale back the project and costs. The Council works to reduce costs, and the charge of
the WPCA is to develop the most efficient and productive plant for the Town. This must
be continually conveyed to the WPCA because cost is a critical issue.

Mr. Milone said we are not confident the Town will get the Kleen Water Fund loan
program. The first part of the upgrade may have to be funded with general obligation
bonds. After that, we may qualify for the Kleen Water Fund program with an 80% loan
at 2% interest, and a 20% grant. The plant does qualify for this program, but the
problem is whether the State has enough money to satisfy all the projects currently
before them.

Mr. Schrumm stated that the WPCA has taken a look at scaling back the plant upgrade
project. The phosphorous issue is another one which the WPCA must consider.

Mrs. Giddings asked how the commercial sewer fees are set and adjusted under the
scenarios.

In response, Mr. Jaskot said that there is a report from the RWA on the usage and the
commercial users are billed on factors received. Some growth assumptions are used
for commercial usage with the factors applied.

Ms. Ryan stated that she spoke with the Town’s financial advisor, and cash flows are
critical. The project is still in the design phase. We could do general obligation bonds in
thirds, with the project developed in phases. Every option is being looked at without missing out on any grants.

With the cash on hand, Mr. Milone said we hope to delay bond obligations and get into the Kleen Water program and grant. The debt will be phased in more deliberately with the construction phases. Mr. Milone will be having meetings over the next few weeks on the plant upgrade project. Regarding the grant program, Mr. Milone said that the State ranking determination is 20 years old and must be redesigned to reflect reality. If this is done, Cheshire’s ranking will increase. In order to get consumption data from RWA the Town must sign an indemnification agreement.

The consensus of the committee was that the WPCA debt service will be handled through the general fund, as needed.

Mr. Ecke stated that all future debt should show up on the debt service line, and the reserve fund should be used to pay this debt.

4. **TOWN PENSION VALUATION**
The last valuation was done on July 1, 2008, and on July 1, 2010 there was another valuation. The pension plan went from 113% funded to 88% funded. Ms. Ryan said the data submitted to the committee shows options for the Town to get back to better funding.

Valuation Options – the information illustrated options for 30 years amortization, 15 years amortization, and various assumptions. ARC is Annual Required Contribution. On July 1, 2008 the ARC was $618,415; and for July 1, 2010 the ARC was $1.757 million. Assumptions were looked at to mitigate this increase. The Police Department ARC also had a triple increase. The total contribution increase for all pension plans would be $1.7 million. Last year the entire plan increase was $1 million.

Column #6 – Under this assumption, the ARC would be $1,492 million and the plan would be 91% funded.

Ms. Ryan advised that she is working with the actuary for Net Pension Obligations (NPO) to get the plan back to full funding as soon as possible. The staff must know what the Council is willing to commit to get to an NPO plan.

NPO Analysis – Ms. Ryan reviewed the information, noting that for 2011 the contribution would be $618,414; for 2012 it would be $895,414. The 2012 NPO would be $556,000 plus interest, adjustments, expenses, for a total NPO at the end of the year of $1,151 million. Each year the NPO continues to grow. In 2014, the ARC would be $1.265 million.

If the Town chooses to go with an NPO this would be fine with the rating agencies. Ms. Ryan said the Town must commit to the NPO plan. At this time, Ms. Ryan would like
to get a second opinion from another actuary to see what the Town could do, and get further analysis.

Ms. Ryan explained that with “smoothing” there is a barrier on the decrease and increase in the plan of 20%.

Mr. Milone informed the committee that he spoke with Fitch and Moody’s rating agencies, and explained about phasing in the contributions. This is okay with the agencies, but if a commitment is made by the Town it must be adhered to. He also said it is important to have another actuary look at the pension plan analysis.

Page 3 – this analysis shows the ARC broken out for 2011 and 2012 by General Government, Education, WPCD, and Pool. FY 2011 is $994,440; FY 2012 is $2,867,000.

For scenario #6, Ms. Ryan noted that the Town budget would have to increase by $1 million to pay the full $1,492,000. This is why phasing in the NPO at $500,000 each year has been discussed for consideration.

Ms. Ryan stated that the Town should be more with scenario #7 on page #1 for the Town Plan; liabilities and assets are growing at 8.25%. We want to make sure we have the plan which the Town can afford.

Mrs. Giddings said she views this as a capital obligation rather than an annual budget obligation. To make up the difference will take years.

In looking at page #2, Ms. Ryan said that by 2018 the ARC and actual contributions start to match. We must show the rating agencies the Town is committed to paying off this debt. In scenario #5 the total increase is $1.5 million more for all the plans. With paying $500,000 there would be a difference of $800,000, and we must show the agencies we are doing something. The NPO could be fine tuned some more.

Mr. Milone said that staff needs guidance, and must know there is support for phasing in the plan over a number of years. He chose $500,000 increase as a place to start.

For scenario #6, Mr. Schrumm wants the analysis to include all Town pension funds to determine what new money will be needed for contributions in the operating budget.

Mr. Milone wants to pursue getting a second opinion from another actuary on the assumptions and NPO. Once the plan is established the Town must adhere to it and we want to be aggressive but comfortable.

5. TOWN DEBT SERVICE – BOND SALE

2011 $8.675 Million Bond Issue Debt Service 10 Year Analysis – Ms. Ryan reviewed this information sheet, and said that the original $9.3 million issue was reduced to
$8.675 million. The bond sale will wait until February 2011 if the rates go down. Since the Town does not need the money, we will wait for a few months.

6. MEDICAL BENEFITS PROGRAM
Ms. Ryan informed the committee that the Town is looking into bidding out the medical benefits. The consultant has come forward with the concept of a regionalization plan for a health trust fund. This will be looked into as well.

Mr. Milone commented on the Town’s current relationship with the towns in the consortium for the CRRA. With regionalization there is a committee of the towns which runs the trust fund. The savings for such a plan are being looked into. The Town’s medical benefits insurance is being bid to many carriers. Mr. Milone explained that a new plan must be “similar” to the existing plan under the union contracts. The regionalization is being researched, and the preliminary work is already there through the CRRA relationships. Other Connecticut towns are looking into the regionalization of health plans.

7. ADJOURNMENT

MOTION by Mr. Sima; seconded by Mr. Ecke.

MOVED to adjourn the meeting at 9:00 p.m.

VOTE The motion passed unanimously by those present.

Attest:

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Marilyn W. Milton, Clerk