

STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

OFFICIAL MINUTES

MUNICIPAL FINANCE ADVISORY COMMISSION

SPECIAL MEETING

WEDNESDAY, OCTOBER 10, 2018

Meeting Location: Office of Policy and Management
450 Capitol Avenue, Conference Room 4A
Hartford, CT 06106

Date/Time: October 10, 2018, 10:00 A.M.

Members Present: Ms. Kathleen Clarke Buch
Mr. Robert Dakers
Mr. Douglas Gillette
Mr. John Schuyler
Ms. Rebecca A. Sielman
Ms. Diane Waldron

Members Absent: Mr. Robert Burbank
Mr. Michael LeBlanc

Others Present: Jean Gula, OPM Staff
William Plummer, OPM Staff
Morgan Rice, OPM Staff
Ann Marie Rheault, Finance Director, Town of Plymouth

1. Introduction/Call to order

The meeting was called to order at 10:07 a.m. by Commissioner Dakers.

Commissioner Dakers noted that former Chairman Tom Hamilton had resigned from the Commission. The Commissioners present concurred that Commissioner Dakers would act to chair today's meeting. Commissioner Dakers also stated that Michael Leblanc, Finance Director of the City of Waterbury had recently been appointed to the Commission to replace Mr. Hamilton.

2. Approval of the Minutes to the December 13, 2017 Meeting

The minutes of the December 13, 2017 meeting were approved. Commissioners Sielman and Waldron abstained as they were not in attendance at the meeting.

3. Town of Plymouth –Review of the results of the June 30 2017 audit, status of the June 30, 2018 audit and other fiscal related matters

Commissioner Sielman indicated that her firm provided actuarial services to Plymouth.

Commissioner Dakers requested an update on the status of the Plymouth audit submissions to OPM. Mr. Plummer indicated that the Town had submitted its FY 2016-17 audit report in June 2018. He also noted his understanding that the Town, as recommended by the Commission, did hire someone to assist with getting the Town's financial records in order. The Town's finance director, Ms. Ann Marie Rheault, confirmed that the Town did hire Ms. Ann Harter, a former municipal finance director to assist the Finance Department. Ms. Rheault commended Ms. Harter on the work that she has done to get the Town's financial records in order. Ms. Rheault believes that future audits, beginning with the June 30, 2018 audit, will be completed in a timely manner and submitted to OPM by the December 31st due date required by State law. She also indicated that there was a new school business manager. She plans to work with him on various financial matters affecting both the school system and town finances.

Ms. Rheault provided a description of the FY 2016-17 audit results. The Town had a small operating surplus in its general fund of approximately \$35.0 thousand. The Town did incur revenue shortfalls in certain areas (current/prior taxes, foreclosure sale proceeds, ECS grant) but with its implementation of cost containment efforts in 2017, the town was able to end the year basically at break-even between total revenues and total expenditures. Commissioners made several inquiries to Ms. Rheault regarding the Town's fund balance, the finances of the Sewer Fund, etc. Commissioners also discussed with Ms. Rheault the audit findings and management letter comments from the FY 2016-17 audit.

Ms. Rheault also reviewed the unaudited results for FY 2017-18. Preliminarily, she is projecting that the Town will have a \$760.0 thousand operating surplus. With the continuing uncertainty regarding State aid levels and the realization that there would be a shortfall in certain budgeted State grants, the Town focused during the year on reducing costs by not filling positions and implementing other cost containment measures. She is projecting on a preliminary basis that Board of Education expenditures were \$1.1 million less than what was budgeted and municipal expenditures were \$987.0 thousand less than budgeted. Ms. Rheault anticipates having a draft of the FY 2017-2018 audit report by the end of November, allowing the Town to issue the report by the December 31st due date.

Ms. Rheault provided information regarding the adopted FY 2018-19 budget including some of the assumptions made for that budget. The Town's plan is to generate sufficient surpluses to continue to increase its fund balance reserves. The budget included \$200.0 thousand for contingencies.

In terms of current matters related to the Town's finances, Ms. Rheault reported that the Mayor is in negotiations regarding various labor contracts. The Town is in the

early stages of replacing its current accounting software. The new software will be shared by both the Town and the Board of Education. The goal is to have the new system in place by the end of FY 2018-19. The Town will be issuing bonds in the very near future and will be meeting with a rating agency. Commissioners provided suggestions regarding implementing a new financial software and the timing of putting the new system in place. Ms. Rheault also described several capital projects the Town recently undertook.

Commissioners expressed their appreciation for the Town's attendance and presentation.

4. Town of Winchester – Fiscal Condition Update

Commissioner Gillette indicated that the Town was a client of his firm.

Commissioner Dakers reminded his fellow Commissioners that the Town had indicated its desire to being removed from the Commission's purview. Mr. Plummer directed Commissioners to the financial information that the Town had submitted for today's meeting. He reminded Commissioners that at the last meeting, Commissioners indicated that they would like to see the results and the timing of the completion of the FYE 2016-17 audit before deciding whether a recommendation should be made to the Secretary of OPM that the Town no longer be under the purview of the Commission. He indicated that the June 30, 2016-17 audit was submitted in January 2018 and that there was one audit finding reported. Mr. Plummer noted that from the information provided by the Town for today's meeting the Town's finances appeared to be trending upwards based upon a number of financial metrics.

Commissioners noted that they would like to review the Town's FY 2017-18 audit prior to determining whether to request the Secretary to end the Town's referral to the Commission.

Commissioners indicated their recognition of the significant improvement in the Town's finances from when the Commission first met with the Town. However, in reviewing the June 30, 2017 audit report, Commissioners expressed some concern in regard to the Town's pension plan investment rate of return. According to the audit report, the Town in its latest actuarial valuation of the plan used a 7.75% rate of return versus the 4.0% used in earlier valuations. Commissioners discussed the reasons that might underlie such an increase in the rate of return, and the impact of such a change on a plan's unfunded liability and the actuarially determined contribution rate. Commissioners requested that OPM staff contact the Town to inquire about this matter.

Commissioners requested that OPM staff also inform the Town that the Commission recognizes that, from the information provided, the Town has made significant improvements to its finances.

5. Preliminary Projected Tiers under P.A. 17-2 and Chapter 117 of the General Statutes - MARB

Commissioner Dakers indicated that there could be an evolving role for the Commission as it relates to P.A. 17-2 (the “Act”) and designated Tier I and III municipalities. He described the following:

- Tier I Municipalities: Under the Act, a municipality that has been designated as a Tier I municipality would fall under the oversight of the Commission. This would mean that additional municipalities may come under the purview of the Commission from towns being designated as Tier I municipalities.
- Tier III Municipalities: There are several different methods under the Act by which a municipality can be designated as a Tier III municipality. One of those being that the municipality meets the Tier III set of criteria delineated in the Act and the Secretary of OPM, based upon reports and findings of the Commission, finds that the municipality’s fiscal condition warrants a Tier III designation. Therefore, it would appear that the Commission will now be tasked with providing reports and findings to the Secretary regarding the financial condition of municipalities that meet the Tier III set of fiscal criteria provided under the Act. These findings and report on the fiscal condition of a municipality will be used by assist the Secretary in determining whether to designate a municipality as Tier III.

A discussion ensued among Commissioners as to whether the Commission should seek to develop standards for the reports and findings that it would send to the Secretary to assist in determining whether a municipality should be designated as Tier III. These standards would include the development of a list of fiscal condition indicators that the Commission could use as “red or “yellow” flags regarding a municipality’s financial health. Commissioners requested that OPM Staff notify the Secretary of the Commission’s intent in order to determine if there were any specific guidance that the Secretary would like to convey to the Commission in regard to this matter.

6. Other Business

None

7. Adjourned.

The meeting was adjourned at 11:33 p.m.

Respectfully submitted,

Douglas W. Gillette
Commission Secretary

STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

OFFICIAL MINUTES

MUNICIPAL FINANCE ADVISORY COMMISSION

REGULAR MEETING

WEDNESDAY, DECEMBER 12, 2018

Meeting Location: Office of Policy and Management
450 Capitol Avenue, Conference Room 4A
Hartford, CT 06106

Date/Time: December 12, 2018, 10:00 A.M.

Members Present: Chair, Ms. Kathleen Clarke Buch
Ms. Alison Fisher
Mr. Douglas Gillette
Mr. Michael LeBlanc
Mr. John Schuyler
Ms. Rebecca A. Sielman
Ms. Diane Waldron

Members Absent: Mr. Robert Burbank

Others Present: Benjamin Barnes, OPM Secretary
Robert Dakers, OPM
Julian Freund, OPM Staff
Jean Gula, OPM Staff
William Plummer, OPM Staff
Morgan Rice, OPM Staff
Bruce Stratford, Finance Director, Town of Winchester

1. Introduction/Call to order

The meeting was called to order at 10:02 a.m.

Former Commissioner Robert Dakers who was in attendance for the meeting indicated that Mr. Michael LeBlanc, the finance director of the City of Waterbury would be replacing former Commissioner Thomas Hamilton as the representative on the Commission for municipalities with a population of seventy-five thousand or higher and that Alison Fisher from the Office of Policy and Management (OPM) had been designated to replace him as the OPM representative on the Commission.

2. Election of Commission Chair

Commissioner Gillette moved the nomination of Commissioner Buch to serve as the Chair of the Commission. Commissioner Waldron seconded the motion. There were no other nominations. All Commissioners in attendance voted in favor of Commissioner Buch as the new Chair.

3. Approval of the Minutes to the October 10, 2018 Meeting

The minutes of the October 10, 2018 meeting were approved. Commissioners Fisher, LeBlanc, Sielman and Waldron abstained as they were not in attendance at the meeting.

4. Town of Winchester – Fiscal Condition Update / Status of June 30, 2018 Audit

Prior to discussion on the Town's finances Commissioner Gillette stated for the record that his firm serves as bond counsel to the Town of Winchester.

Commission Chair Buch acknowledged the attendance of Mr. Bruce Stratford, the finance director of the Town of Winchester. Mr. Stratford indicated that he attended today's meeting to update Commissioners on the Town's fiscal condition and provide other information to Commissioners regarding information that they were seeking from the Town. He referenced the material in the packet of information provided to Commissioners regarding to the Town's finances, including a letter dated December 10, 2018 from Town Manager Robert Geiger. The Town has a draft of its June 30, 2018 financial statements and expects that its June 30, 2018 audit report will be issued and provided to OPM by December 31, 2018 to conform with State law. In regard to the General Fund budgetary results for FY 2017-18, Mr. Stratford expects actual revenues to exceed budgeted revenues by over \$300 thousand and that actual expenditures will be approximately \$500 thousand less than what was budgeted. The General Fund is therefore expected to show a budgetary operating surplus of over \$800,000 for FY 2017-18. The Town expects to report an unassigned General Fund fund balance of approximately \$6.7 million as of June 30, 2018, representing 21% of FY 2017-18 General Fund expenditures.

Mr. Stratford pointed out that the Town has been without a bond rating since 2013. Commission Chair Buch inquired whether it was the Town's intent to issue bonds in the near future and Mr. Stratford indicated that it was definitely the Town's intent since the Town was seeking to make certain capital investments that are critically needed. The Town will be meeting with rating agencies next month to present its audit results and other fiscal related information. To that regard the Town is seeking to be released from the oversight of the Commission as the Town believes being under the purview of the Commission could jeopardize a favorable rating from the rating agencies.

Commissioners inquired about the change in the discount rate for the Town's pension plan with the discount rate going from a 4% rate in valuations prior to January 2016 to a 7.75% rate in the January 2016 valuation. Commissioner Sielman

acknowledged that the explanation provided by the Town in today's packet for a increase in the discount rate appears reasonable, but she believes that a 7.75% rate would appear to be high based upon what her firm has experienced with the market in current times, although finance professionals can have different opinions. Mr. Stratford stated that the discount rate had been moved down to 7.25% with the 2017 and 2018 valuations and that the Town planned to meet over the next two months with its actuaries to further discuss the appropriate discount rate. He also indicated that the plan is a closed plan. Commissioner LeBlanc noted that from the information presented, the Town has contributed well in excess of its actuarial determined employer contribution (ADEC) amount in recent years, which would appear to allow the Town to reasonably use a 7.25% discount rate. Commissioner Sielman indicated that it may be beneficial for the Town to have formal written policies in regard to funding the ADEC amount annually including the method used to determine the ADEC. She believes that this would be beneficial to the Town in its rating agency presentation.

Commission Chair Buch indicated her preference for the receipt and review of the June 30, 2018 audit report prior to the Commission recommending to the OPM Secretary removing the Town from the purview of the Commission. A discussion ensued regarding the timing of the Commission's possible recommendation to the Secretary for the release of the Town from the Commission oversight to when the Secretary would grant the release and the Town's intended date for a referendum on bonding for the capital projects and the rating and issuance of the bonds.

Commissioners stated that the Town had made significant improvements to its finances from when the Town first came under the purview of the Commission. They thanked Mr. Stratford for attending today's meeting.

5. Town of Plymouth – Fiscal Condition Update / Status of June 30, 2018 Audit

Commissioner Sielman indicated that her firm provided actuarial services to the Town of Plymouth.

Mr. Plummer indicated that the Town was advised that it's attendance at today's meeting was not required. He pointed to the financial documents that were provided by the Town for the meeting. Commissioner Schuyler inquired about the progress of the June 30, 2018 audit. Mr. Plummer indicated that the Town had indicated that it expects to issue the audit report by December 31, 2018. The Town had also indicated to Mr. Plummer that it is progressing with its software upgrade and intends to have the new accounting system in place by June 30, 2019.

Commission Chair Buch indicated that one concern that she continues to have is the Town's lack of staffing. The Town did hire a retired municipal finance director to assist the finance office in getting its accounting records in order to prevent the significant delays in completing the audit as had occurred in the past, but as far as she is aware that was a temporary position. The Town needs to ensure that on a long-term basis that adequate staffing is in place. Mr. Plummer noted that the Town

has an A+ rating from S&P and that in October of 2018 S&P revised the Town's outlook from negative to stable.

6. Indicators for Consideration in Assessing the Financial Condition of Municipalities Meeting Tier III Criteria – Findings and Reports to the Secretary as Provided Under Section 7-576c of the General Statutes

Commission Chair Buch noted that today's packet of information to the Commission included a draft set of indicators that OPM had prepared for the Commission's consideration in developing criteria for assessing the fiscal condition of potential Tier III municipalities.

OPM Secretary Benjamin Barnes introduced himself to the Commission and provided an overview of the recently enacted legislation establishing the Municipal Accountability Review Board (MARB) and the current municipalities that are under the purview of the MARB. He referenced the October 30, 2018 letter he had written to the Commission and the role of the Commission under the MARB legislation.

Secretary Barnes indicated that as provided in his letter to the Commission, if a town was to be designated as a Tier I municipality, it would fall under the purview of the Commission. One of the means by which a municipality could be designated as Tier III is that: (1) the municipality meets the eligibility criteria for Tier III and (2) the Secretary, based upon reports and findings from the Commission, finds that the municipality's fiscal condition warrants such designation.

Secretary Barnes stated his desire for the Commission to begin to consider the factors that Commissioners will use to satisfy its role for the submission of reports and findings on the fiscal condition of municipalities meeting the Tier III criteria. The establishment of a set of fiscal related criteria will assist to create a transparent process for the reports and findings that is to be submitted to the Secretary.

A discussion ensued among members of the Commission as to the draft indicators presented and what information the Commission could request from municipalities. Commissioners provided additional information regarding the content and format of the indicators and requested that OPM provide an updated draft of the information for its review.

7. Calendar Year 2019 Proposed Meeting Dates

The Proposed Calendar Year 2019 meeting dates were reviewed and the October 9, 2019 proposed meeting date was changed to October 16, 2019 based upon preference of the Commissioners. The proposed meeting dates with revision were unanimously approved by all Commissioners present.

8. Other Business

Mr. Plummer indicated that the Connecticut Teachers Retirement System and the Connecticut Municipal Employees Retirement System had recently issued

information on pensions and OPEB that participating municipalities needed in order to issue their June 30, 2018 audit reports in conformance with applicable GASB standards.

9. Adjourned.

The meeting was adjourned at 11:11 a.m.

Respectfully submitted,

Douglas W. Gillette
Commission Secretary