

STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

DRAFT MINUTES

MUNICIPAL FINANCE ADVISORY COMMISSION

RESCHEDULED REGULAR MEETING

WEDNESDAY, SEPTEMBER 16, 2020

Meeting Location: Telephonic Meeting

Date/Time: September 16, 2020, 10:00 A.M.

Members Present: Chair, Ms. Kathleen Clarke Buch
Mr. Douglas Gillette
Mr. Anthony Genovese
Ms. Kimberly Kennison
Mr. Michael LeBlanc
Mr. John Schuyler
Ms. Rebecca A. Sielman
Ms. Diane Waldron

Members Absent: None

Others Present: Julian Freund, OPM Staff
Jean Gula, OPM Staff
William Plummer, OPM Staff
Morgan Rice, OPM Staff
Richard Dziekan, Mayor, City of Derby
Andrew Baklik, Chief of Staff, Derby
Keith McLiverty, Interim Finance Director, Derby
Curt Leng, Mayor, Town of Hamden
David Garretson, Chief of Staff, Hamden
Patrick Donnelly, Deputy Chief of Staff, Hamden
Walter Morton, Director of Legislative Affairs, Hamden
Curtis Eatman, Director of Finance, Hamden
Rick Galarza, Deputy Finance Director, Hamden
David Panico, Hamden Bond Counsel, Robinson & Cole
John Accavallo, auditor for Derby, AO & Company
David Capelletti, auditor for Hamden, Clermont & Associates
Barry Bernabe, Financial Advisor, Phoenix Advisors

1. Introduction/Call to order

The meeting was called to order at 10:03 a.m. by Commission Chair Buch.

2. Approval of the Minutes to the May 27, 2020 Meeting

The minutes of the May 27, 2020 meeting were unanimously approved, with Commissioner Genovese abstaining.

3. City of Derby Presentation

Commissioner Gillette noted for the record that his firm is Bond Counsel for the City, therefore he is recusing himself.

Mayor Dziekan introduced himself to Commissioners and stated that the City is completely committed to its financial plan for improving its financial condition. He indicated that he would have the City's Acting Finance Director, Keith McLiverty, walk Commissioners through the details of the financial plan that had been provided to Commissioners earlier for today's presentation. He also acknowledged the presence today of his Chief of Staff Andrew Baklik, the City's Auditor, John Accavallo and the City's Municipal Advisor, Barry Bernabe.

Mr. McLiverty introduced himself. He provided an explanation of what led to the City reporting a cumulative negative General Fund balance as of June 30, 2018 and continuing for June 30, 2019. He indicated that the deficit was primarily the result of a mistake in the finance office whereby the City incorrectly budgeted and accounted for the Alliance Grant by double counting the grant in FY 2016-17 and 2017-18. The incorrect budgeting/accounting resulted in a revenue shortfall of \$1.2 million for the grant in each of those years. The error was not identified until sometime during FY 2017-18, causing the City's auditor to restate the July 1, 2017 beginning fund balance of the City to a lower amount. The cumulative effects of these overestimations of the Alliance Grant led to the General Fund cumulative deficit as of June 30, 2018.

In addition, there were two other factors contributing to the negative fund balance: (1) the City overestimated certain formula grants in its adopted budgets as a result of not paying close attention to the municipal grant numbers presented in the State's biennial budget; and (2) an increase in medical costs in FY 2017-18 above what the City had been projecting for its self-insurance medical plan.

The City now has in place a financial plan to eliminate the deficit and to restore its fiscal condition. Mr. McLiverty described the City's 8-point recovery plan that involved a combination of debt restructuring, sale of assets, mill rate increases, adjustment to its long-term costs, tax lien sale, structured organizational changes, grand list growth, and fund balance replenishment. He indicated that the financial plan was presented to S&P rating agency and that despite reporting a negative fund balance, the City's bond rating was lowered by only one notch from AA- to A+.

In order to effectively address the audit findings, the City engaged its auditor to conduct a “Best Practice” agreed upon procedures to identify best practices to be used towards developing and implementing corrective actions to eliminate the audit findings in the audit reports that have been in existence for a number of years, including the matters described in the management letter. A significant part of the corrections included the restructuring of the finance department.

The City’s auditor John Accavallo indicated that the City had not been fulfilling the basic duties required of any municipality. This included not doing basic reconciliations, not having a centralized finance office, not performing monthly closings, not making adjusting entries when needed, etc. He indicated that he has observed a definite improvement in a number of these areas, including a good tone from the top from management and communication among departments.

A number of questions were posed by Commissioners including funding of the City’s pension plan in accordance with the actuarial determined contribution over the next several years and how the City budgets for these contributions, the internal control deficiencies and how the audit findings may impact the auditor’s opinion on the financial statements, the effects of COVID on the City’s adopted budget, etc.

Commissioners congratulated the City for developing its 8-point recovery plan and for appearing before the Commission. Commissioners indicated that they would provide OPM a list of items that they would be seeking from the City for the next meeting with the City.

4. Town of Hamden Presentation

Mayor Leng introduced himself and acknowledged several other individuals that were in attendance for Hamden’s presentation. Mayor Leng provided a history of some of the circumstances that has led to the Town’s current fiscal situation and the actions the Town has taken during that time to resolve its financial challenges. However, the Town is projecting that it will report an operating deficit in the \$4 to \$6 million range for FY 2019-20, which will cause Hamden to report a cumulative General Fund deficit in the \$2 to \$4 million range as of June 30, 2020.

Mayor Leng indicated his strong belief that the current plan he and his finance team have developed will be successful in moving the Town towards sound financial footing. There are three phases of the recovery plan.

Phase 1 of the recovery plan began with the FY 2020-21 budget and included successful negotiations with Hamden’s unions for medical insurance cost savings and reduced cost of living adjustments to its pension plan. There was also a restructuring of debt service and a mill rate increase. Although the restructuring of debt service will create cost savings in FY 2020-21, the Town’s adopted FY 2020-21 budget reflects the full debt service cost prior to the restructuring, creating opportunities to reduce or eliminate the projected June 30, 2020 deficit. Mayor Leng acknowledged that the FY 2020-21 adopted budget assumed \$6 million in revenues for lost tax and other municipal revenue

and expenditure reimbursements due to COVID-19. If that revenue item does not materialize, he believes that the FY 2020-21 budget has a sufficient surplus built in whereby at least 50% of the \$6 million revenue shortfall could be absorbed in the budget. Hamden's finance department has recommended that the Town begin to seek either expenditure cuts or raise additional revenues if the COVID-19 revenues are not realized by November of 2020.

Phase 2 of the recovery plan is designed to tackle the Town's structural imbalance between revenues and expenditures. Currently, the Town does not generate sufficient recurring revenues to cover its recurring expenditures. To that regard the Town has established a Fiscal Stability Committee made up of legislative council members, Hamden citizens, administrators, the Mayor, Council President, School Superintendent, the Board of Education Chair, and the Finance Director.

Phase 3 of the recovery plan is the Town's longer-term plan towards fiscal improvement. This would include further changes in its pension and medical plans for additional cost savings and a possible restructuring of its outstanding pension obligation bonds.

Rick Galarza, Hamden's Assistant Finance Director, provided a description of the Town's two internal service funds, the medical fund and the workers compensation fund, that both reported deficits as of June 30, 2019. He believes the deficit is partially due to the incurred but not reported liability being reported and believes the IBNR will be reduced in the future. The Town is exploring a number of steps to reduce its internal service fund costs to eliminate the deficits in these funds.

Commissioners inquired about the Town's debt service restructuring plan, the assumed COVID-related revenue adopted in the FY 2020-21 budget, the commitment on the part of the residents to fixing the fiscal problems of the Town, how the amount for pension contribution is budgeted in comparison to the timing of the information provided by the actuary, etc. Chairperson Buch commented that she believes the fiscal stability commission is an excellent idea. Commissioner Kennison inquired about whether the June 30, 2019 audit had identified audit findings for that year as her Office had not been provided with any documents. The Town's auditor indicated that there was a management letter issued to the Council and Board of Education. Ms. Kennison requested that the management letter be provided to OPM.

Commissioners congratulated Hamden for developing its current recovery plan and for appearing before the Commission. Commissioners indicated that they would provide OPM with a list of items that they would be seeking from the Town for the next meeting with the Town.

5. Other Business

None.

6. Adjourned.

The meeting was adjourned at 12:04 p.m.

Respectfully submitted,

Douglas W. Gillette
Commission Secretary