

DRAFT MINUTES
MUNICIPAL FINANCE ADVISORY COMMISSION
SPECIAL MEETING
THURSDAY, SEPTEMBER 12, 2013

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

Date/Time: September 12, 2013 - 10:00 A.M.

Members Present: Chairman Thomas Hamilton
Mr. Robert Burbank
Mr. Robert Dakers
Mr. John Schuyler
Ms. Rebecca Sielman

Members Absent: Ms. Kathleen Clarke Buch
Mr. Douglas Gillette
Ms. Diane Waldron

Others Present: Benjamin Barnes, OPM Secretary
GianCarl Casa, OPM Undersecretary of Legislative Affairs
William Plummer, OPM Staff
Jean Gula, OPM Staff
Morgan Rice, OPM Staff
Kristen Wirtanen, State Treasurer's Office
Dale Martin, Town Manager, Town of Winchester
Robin Manuele, Finance Director, Town of Winchester
Kevin Nelligan, Winchester Town Attorney
Christopher King, King & King, CPAs
Judith Blank
Ken Fracasso
Lois Clough
Jay Budahazy
Peter A. Janus
James Roberts
George Closson
Paula Gladee-Morabito
Candy Perez
Jay Case
Kenneth Fracasso
Lisa Smith
Ricky Campbell
Ruth G. Torres

Agenda Item 1: Call to Order

Chairman Hamilton convened a special meeting of the Municipal Finance Advisory Commission (the "Commission") at approximately 10:10 A.M.

Commissioners introduced themselves as there were a number of members of the public in attendance.

Agenda Item 2: Minutes of the May 9, 2013 Commission Meeting

The May 9, 2013 minutes were approved by all members present except for Commissioner Sielman who abstained from voting as she was not in attendance for the May meeting.

Agenda Item 3: Town of Winchester – Financial Condition Update / Status of 2012 Audit Report

Chairman Hamilton indicated his awareness that there were a large amount of residents present at the meeting from the Town of Winchester. Although the meeting is a public meeting, the meeting was not a public hearing and therefore he would not be entertaining discussions from the public but that he would allow elected and appointed officials of Winchester and its Board of Education a chance to speak.

Chairman Hamilton acknowledged the presence of Winchester's Town Manager, Dale Martin and Finance Director, Robin Manuele and asked them to provide an overview of the Town's financial condition and for a status of the FY 2011-12 audit. He also acknowledged the submission of the Town's 2011 audit report, which had not been issued when the Commission last met on May 9th. He has since reviewed the report and indicated he had a number of questions related to this audit report. He was also aware that the Town was experiencing some level of cash flow problems and wanted the Town to update him on its cash situation.

According to Mr. Martin, the Town's Water and Sewer Authority has raised its water/sewer rates by 30% as the rates previously charged to users were significantly inadequate to fund the water/sewer services. The 2011 audit was issued in May of 2013 and shortly thereafter the 2013-14 budget was adopted by taxpayers. The Town's bond rating was withdrawn by Moody's in the summer of 2013. Soon thereafter the Town filed a civil suit for \$7.5 million against its former finance, who was subsequently arrested for allegedly taking approximately \$2.5 million of Town monies over a 5-year period. The Town did receive a payment from one of its insurance carriers for \$650,000 for some of the funds alleged to have been taken by the former director.

Ms. Manuele provided an update on the 2011-12 audit. She indicated the general ledger system being used was very limited and that the trial balances she has run have been out of balance and that she could not rely on the general ledger system in place. One of the reasons for the latest delay in submitting the 2012 audit is that there needs to be a significant amount of adjusting journal entries such as interfund receivables which won't come to fruition, receivables to the trust fund that are being researched, deficits in certain special revenue funds that also need to be researched to determine their validity, etc.

She indicated that there is a lack of adequate training in staff of the finance department which also is causing delays to issuing the 2011-12 audit report. Her latest projection is that the audit report would not be issued before November of 2013.

Chris King of King and King indicated that his firm is conducting the 2011-12 audit. According to him the tests that he has run on certain transactions indicate that there were quite a few entries made that could not be correct and therefore there is a need to reconstruct/research a significant amount of transactions. Chairman Hamilton indicated that based upon Mr. King's description of the problems it appears doubtful that the 2012 audit would be issued by November. Commissioner Dakers questioned Ms. Manuele as to whether she had an estimate for the results of operations for the General Fund for FY 2011-12. Ms. Manuele indicated she could not provide a specific number, but that she was confident that Town would show an operating deficit for that year. She could not predict the results for 2012-13, especially in light that there appears to be the need for a number of balance sheet write-offs, but she did believe that the 2012-13 budget to actual figures presented to the Commission did have some reliability.

A discussion ensued as to the relationship between Winchester's Board of Education and Town in terms of financial accounting and records systems and whether Board of Education bills are paid by the Town or the Board of Education.

Chairman Hamilton inquired about the cash problems the Town and its Board of Education were encountering. He had read a number of articles indicating the Town was still paying off bills incurred from FY 2012-13, and that there were a significant amount of bills related to 2012-13 Board of Education expenditures that were still outstanding. Ms. Manuele indicated that there were still over \$700,000 in unpaid Bd. of Education bills related to FY 2012-13 and over \$200,000 in Town related bills for FY 2012-13. This is significantly less than the \$2.3 million in unpaid FY 2012-13 bills that existed at the end of June of 2013. She explained that she is not aware of either the Board of Education or Town over-expending its 2012-13 appropriation but rather the Town has delayed paying some of the 2012-13 bills to ensure that it had sufficient cash to continue funding current year Town and Board of Education operations.

Chairman Hamilton asked a number of questions related to his review of the Town's 2011 audit report and the accompanying management letter and Ms. Manuele and Mr. Martin provided responses to the questions posed. A discussion ensued on the budget vs. actual numbers presented in the 2012-13 and 2013-14 budgets. Questions raised in regard to the 2013-14 adopted budget included how the rates for the increase in the water/sewer fund was determined and whether the amount of the rate increase was sufficient to cover water/sewer operations and at the same time pay back monies from the Town that were used in the past to finance water/sewer operations. Chairman Hamilton provided suggestions as to several areas that the Town might want to pursue in terms of additional revenues to assist its cash problems, including various financing mechanisms available to distressed municipalities. Mr. Martin described some actions that the Town had taken to try to improve its cash situation including the seeking of a bank loan for short term relief. Until the cash problem is resolved the Town will need to continue to allocate funds to the Board of Education keeping in mind the limited cash available to the Town.

Commission members indicated that they were aware that the Board of Education has had to also curtail the amount allocated to the Gilbert School for tuition payments for high school services for Winchester. Winchester's Board of Education also makes payments to Region 7 and Shared Services for certain other services provided to school children from the Town and those payments have also been affected. These organizations have expressed strong concern to OPM and the MFAC in regards to the reduced funding and its affect on their organizations. Chairman Hamilton stated his belief that it is the Town government's responsibility to provide sufficient funds in a timely manner to the Board of Education so that the Board of Education can conduct its operations and pay its bills (including payments to the Gilbert School, Region 7 and Shared Services) within a reasonable amount of time, as it is the Town that has the tools to raise sufficient cash to meet both the Town and Board of Education operations. Revenue raising and budgeting tools available to the Town but not the Board of Education would include, the Town setting the mill rate, determining the bottom line level of appropriations for the fiscal year, deciding on the level of fund balance it will retain, the issuing of debt, etc. He believes it is not unrealistic for the Board of Education to expect regular timely payments to fund its operations in a timely manner and although he understands the difficult financial times the Town is undergoing, he believes the Town has to take primary responsibility in coming up with a strategy to address the cash flow needs for the Board of Education and the Town. Commissioner Schuyler inquired whether the cash projection analysis shared with Commission members assumed that all unpaid outstanding bills (town and board of education), whether it be from FY 2012-13 or FY 2013-14, would be paid in full by the end of FY 2013-14 and Ms. Manuele indicated that it did not; there would definitely be outstanding bills that would move over to FY 2014-15. Commissioner Dakers pointed out the need for the Town to run out its cash flow projections through the end of June, 2014 and that the analysis should also look at not just the General Fund but all the other funds that could impact cash flow. Commissioner Burbank inquired whether the Town had considered a one-time supplemental tax as allowed under the statute. He understands that it is not a popular solution but it can bring the Town's cash situation on track.

Chairman Hamilton allowed several officials and representatives for the Town, the Board of Education and the Gilbert School to make comments on the Town's fiscal situation and its affect on their respective organizations. He did indicate that he did not want to get into a general debate with those from the audience attending the meeting on what the Town should or should not do to resolve its problems.

Chairman Hamilton acknowledged the attendance of Secretary Ben Barnes from the Office of Policy and Management. Secretary Barnes indicated his understanding of the difficult fiscal situation facing the Town. He indicated that it was his observation that in addition to addressing the cash flow situation, the Town needed to ensure that it is meeting the minimum budget requirements for education mandated under State Law and violation of this requirement can have serious repercussions on future budgets. It was also his observation that in the absence of financial audits for fiscal years 2012 and 2013, it is his strong belief that given the serious nature of the Town's cash problems, the Town will be facing a significant cumulative fund balance deficit once the results of the 2012 and 2013 audits have been provided. He strongly urged the Town to have its 2012 and 2013 audits issued as soon as possible and the Town should begin immediately working on a financial plan to address its cash flow difficulties with an understanding that in all

probability the Town will need to address the fund balance deficit that will be presented in these audits.

Chairman Hamilton expressed his appreciation for the financial update provided by Mr. Martin and Ms. Manuele and the work they have done to date in trying to resolve the fiscal situation facing the Town.

Agenda Item 4: City of West Haven – Financial Condition Update

Mr. Plummer indicated that he recently spoke with finance director Joe Mancini who sent his apologies for not being able to make today's special meeting due to another meeting that he had previously scheduled. Mr. Plummer indicated that Mr. Mancini had transmitted budget vs. actual numbers for FY 2012-13 but unfortunately it did not include expenditures for the Board of Education. Mr. Mancini indicated that the Town should have an operating surplus for FY 2012-13 ranging from approximately \$1.2 million to 2.0 million. He is also anticipating \$600,000 favorable results from operations in the sewer fund for FY 2012-13. Mr. Plummer stated that he was not provided any information on the financial results of the internal service funds for FY 2012-13. These funds had reported significant deficits as of June 30, 2012.

Agenda Item 5: Town of East Haven –Financial Condition Update

Mr. Plummer referred Commission members to the financial documents submitted by the Town of East Haven. He reminded Commissioners that the Town was not officially under the purview of the Commission. Town officials approached the MFAC several years ago for assisting it in its fiscal problems which included a cumulative general fund deficit. Since that time the Commission has provided recommendations to the Town and the Town has been able to eliminate its deficit and is now working towards maintaining a reasonable fund balance. The 2012-13 budget to actual numbers would indicate an operating surplus for the general fund of about \$850,000 but audit adjustments could reduce those figures to the \$600,000 range. Chairman Hamilton inquired in regards to the Insurance Fund which in the past had reported a significant fund deficit. Mr. Plummer indicated that the Town had not transmitted any information on that fund.

Agenda Item 6: Borough of Jewett City - Update.

Mr. Plummer indicated there was nothing new to report on the Borough.

Agenda Item 7: Other Business

Poquonnock Bridge Fire District – Chairman Hamilton referred Commissioners to the letter from the District which indicated that the District was experiencing significant financial difficulties and was seeking assistance from the Commission. Questions were raised in regards to the Town's latest financial audit and the latest budget. Mr. Plummer indicated that at the end of FY 2012 the District reported a \$900,000 fund balance in its General Fund. He explained that in FY 2012-13 the District operated under a \$4.5 million budget. The District subsequently proposed a 2013-14 budget that would represent an increase of more than \$1 million as compared to FY 2012-13, with the increase due primarily to funding a portion of the unfunded liabilities for its retiree health

plan (OPEB). That budget failed and what was ultimately adopted was a 2013-14 budget of approximately \$3.5 million. There was also a dispute in regards to a recently negotiated contract with the firemen and how that contract would affect the District's finances. Chairman Hamilton inquired as to what exactly the District was seeking from the Commission. Based upon the lack of current financial information as well as little information on the pension and OPEB plan, the Commission requested that OPM obtain more financial information from the District. The Commission suggested that OPM meet with the District and obtain more details on the District's fiscal situation. OPM would thereby have further information to share with the Commission so that the Commission could decide on a course of action if it so chooses.

Pension Deficit Bonds Statute – Mr. Plummer provided a brief description of how the recent changes under GAAP for reporting on defined benefit pension plans could impact the Connecticut Law regarding municipalities that issue pension deficit bonds or that have issued pension bonds in the past. A discussion ensued and Commissioners indicated it would be taken up at future meetings.

Adjournment: Meeting was adjourned at approximately 12:15 P.M.

Respectfully submitted,