

**TOWN OF SALEM
BOARD OF FINANCE
REGULAR MEETING MINUTES
THURSDAY, DECEMBER 14, 2017 – 7:00 P.M.
SALEM TOWN OFFICE BUILDING**

PRESENT

George Householder, Acting Chairman
Deborah Cadwell
Marshall Collins
Janet Griggs
John Houchin
Hernan Salas
Corinne (Cory) Bourgeois, Alternate (8:09 p.m.)
William “Skip” Dickson, Alternate

ABSENT

Michael Jensen, Alternate

GUESTS

none

ALSO PRESENT

First Selectman Kevin Lyden

CALL TO ORDER:

Chairman Householder called the meeting to order at 7:00 p.m.

RECOGNITION OF VISITORS: *none*

SEAT ALTERNATE IF NEEDED: *none*

COMMUNICATIONS: *none*

ADDITIONS TO THE AGENDA:

The following items were added to the Agenda:

- item 8 Tier I Reports (*the following numbers to be adjusted accordingly*)
- item 13 Summary Report of Federal Cuts to Local Education Budgets

AGENDA:

1. WELCOME TO NEW BOARD MEMBERS

Former Alternate Board Member Houchin was welcomed as a Full Board Member and New Alternate Board Member Michael Jensen was welcomed to the Board. New Alternate Board Members Bourgeois and Dickson were not in attendance. He stated the importance for the Alternates to attend the meetings, adding that most of the members started on the Board as an Alternate, and encouraged them to join their discussions.

2. ELECTION OF CHAIRMAN/CLERK

M/S/C: Houchin/Collins, to nominate Board Member Householder as Chairman of the Board of Finance. There being no additional nominations, the nominations were closed. Discussion: None. Voice vote, 6-0, all in favor.

M/S/F: Griggs/Cadwell, to nominate Board Member Houchin as Clerk of the Board of Finance.

M/S/C: Salas/Householder, to nominate Board Member Collins as Clerk of the Board of Finance.

There being no additional nominations, the nominations were closed. Discussion: Board Member Griggs stated that Board Member Houchin is always very well prepared, conducts a very careful and detailed review of the numbers, and presents very good questions. Chairman Householder agreed, stating that both are great candidates and he would be happy with the election of either candidate. Board Member Salas stated that, as a very active member of the community with a tremendous amount of experience and knowledge of and insight into the happenings at the Capital, he felt that Board Member Collins would make an excellent Clerk.

Voice vote to elect Board Member Houchin as Clerk of the Board of Finance, 1-3-2. Voting in Favor: Board Member Griggs. Voting in Opposition: Board Members Cadwell, Collins, and Salas. Voting in Abstention: Board Members Houchin and Householder. Motion failed.

Voice vote to elect Board Member Collins as Clerk of the Board of Finance, 6-0, all in favor. Motion carried.

3. APPROVAL OF MINUTES: November 9, 2017 BOF Meeting

M/S/C: Cadwell/Houchin, to approve the Board of Finance Regular Meeting Minutes of November 9, 2017. Discussion: None. Voice vote, 5-0-1. Voting in Favor: Board Members Cadwell, Collins, Houchin, Householder, and Salas. Voting in Opposition: None. Voting in Abstention: Board Member Griggs.

4. TREASURER'S REPORTS

A. REVENUE SUMMARY

B. TRIAL BALANCE

C. FUND BALANCE

D. OTHER

Treasurer Pam Henry stated that the Town's assets are in line with their liabilities and equities. In the *Budget vs. Actual* Report, she noted that the Town received \$434,000.00 for line item 4-093-035 – Education Equalization Grant from the State and the receipt of the ECS (Educational Cost Sharing) Grant Funds is now up-to-date. Clerk Householder noted that he will meet with her in the near future to make the necessary adjustments to correct the error in the Total Net Income figure of -\$2,243,715.00.

Treasurer Henry was thanked for her report.

5. PUBLIC COMMENTS – none**6. AUDIT DISCUSSION**

Marcia Marien, CPA, O'Connor Davies, LLP, reviewed the 2016-2017 financial highlights for the Town, as of June 30, 2017, including the:

Short Term Balance Sheet, which includes the Town's main funds – Major Funds, Capital Non-Recurring Fund, Education Grants Fund, and Other Governmental Funds. Under the Capital Non-Recurring Fund, she proposed the possibility of combining their Open Space and Land Acquisition Funds to help simplify their numbers. She also proposed the possibility of changing one the Town's accounting policies such that only those funds that are required to be collected within 60 (sixty) days, i.e., taxes, are recorded as assets (equity) under the General Fund. This would extend the time period within which the other funds, including those received from the State, are received to one-year. The change would help simplify their accounting and avoid the rolling over of any unreceived funds to the following year.

Unassigned Fund Balance – Currently, the Town has an Unassigned Fund Balance of \$3.2 million. She provided a brief history of the recommended Unassigned Fund Balance over the years, adding that recommendations may rise due to the State's fiscal crisis, which is projected to continue until 2036. Moody's Investors Service has recommended a 10% Unassigned Fund Balance for municipalities in the State of CT, while the Government Finance Officers Association (GFOA) recommends 16.6%. Due to the receipt of a higher than projected collection of property taxes and lower than projected spending on expenditures, the Town was able to accumulate \$749,167.00 more than projected during the fiscal year.

Collection History – Taxes – The collection of taxes rose over 1% from the previous year, which is very positive. Compared to neighboring towns, Salem's Tax Collections are higher than the State Average. Receivables (outstanding taxes) made up approximately 2% of the Town's total assessment.

Long-Term Debt Summary – Long-term debts have been reduced. For Compensated Absences, she recommended requiring an analysis of its effects on the Balance Sheet prior to the approval of any Union contracts. While the analysis would not affect the budget, it would affect the Town's financial health.

Revenue vs. Bond-Type Debt Over Time – Currently, the Town's bonds accounts for 25% of its revenue and is one of the lowest amounts of debt in comparison to neighboring towns.

Teachers' Retirement Plan is a cost-sharing plan in which the State pays for 100% of the Plan (approximately \$10.5 million) and the Town pays 0%. Due to the State's current fiscal crisis, the possibility of the State paying two-thirds of the costs, while the Town pays for one-third of the costs is being discussed. While CCM (Connecticut Conference of Municipalities) does not feel that the State would be able to formulate the proper legal wording enabling them to transfer part of the liability to the towns without resulting in litigation, it is possible that the State may

charge the towns the equivalent of one-third of the cost in the form of a fee. In response to Chairman Householder, she stated that the increase of over \$1.6 million from the previous year is due to a reduction in the amount of funds that the State would raise on their investments and the State's rising liabilities.

Other Post Employment Benefits (OPEB) – includes health insurance for retirees and is known as an Implicit Rate Subsidy. Though there are no retirees receiving health insurance, it is still considered a liability and is required to be included as part of the report. In addition, the reporting rules for OPEB will be changed for the next fiscal year. First Selectman Lyden added that, like the Teachers' Retirement Benefits, while the Town is not currently responsible for these costs, they might be responsible in the future based on the State's fiscal crisis and it is more reason for the Town to maintain a healthy Unassigned Fund Balance. She added that, in this year's Financial Statements, a section regarding not only the Town's, but also the State's risks, is included.

Long-Term Balance Sheet – indicates that the Town has approximately \$28 million in assets; \$6 million in liabilities, and; \$21 million in equity, \$17 million of which is invested in capital assets, which is very positive.

Long-Term Income Statement reflects the Town's expenses and revenues for the Town's Governmental Activities and the amount being taken from the Town's taxes to pay for these activities. The Statement shows that the long-term health of the Town's Net Position has gone up by \$1.1 million.

The History of the Town's Net Position shows what the Town has invested in Capital over the years and reflects that the Town's equity is rising at a steady rate.

The audit was performed under the GAAS (Generally Accepted Auditing Standards) to achieve a reasonable, but not absolute assurance, that the financial statements are free from any misstatement; there were no significant deficiencies or material weaknesses, and; no fraud or illegal acts were noted during the course of the audit. The staff was very cooperative, there were no significant adjustments, no difficulties were encountered, and the Auditors' independence was not impaired.

Future changes include OPEB (Governmental Accounting Standards Board or GASB Statement 75), Fiduciary Activities (GASB Statement 84), and Leases (GASB Statement 87). In addition, the U.S. Government Accountability Office has proposed changes to the Government Auditing Standards regarding the reporting of waste and abuse.

In response to Chairman Householder who questioned the possibility of moving funds from the Town's Unassigned Fund Balance to the Capital Reserve Fund, CPA Marien stated that, rather than scheduling a Town meeting for the transferring of funds, as required, the Board may vote to assign the funds within the General Fund. Should the Board wish to move the funds from the Unassigned Fund Balance to the Capital Reserve Fund, First Selectman Lyden introduced the

possibility of including the transfer of funds for the Town's two major upcoming Capital expenditures (Salem Fire Company Fire Truck and Salem School Roof and Air Handlers) into their Capital Reserve Fund in their next Budget Referendum; an additional Referendum would be necessary to transfer the funds out of the Capital Reserve Fund for the expenditures. The issue will be reviewed and discussed at their next meeting.

With regards to the Motor Vehicle Tax Cap, CPA Marien stated that the cap has been raised since the report was written and discussions continue regarding the elimination of the tax. The MRSA (Municipal Revenue Sharing Account) Grant has been eliminated. The State is also continuing their discussions regarding the elimination of the Excess Cost Grant.

CPA Marien felt that the audit is one of the best the Town has ever had and provided an "A" letter grade. Chairman Householder credited the financial team that works well together with the School and the Board and former Chairman T.J. Butcher for the accomplishment. First Selectman Lyden commended the members of the Finance, Tax Collectors, and Assessors Offices as well as the Board of Finance, Board of Education (BOE), and Salem School Business Manager Kim Gadaree. He also applauded the Auditors who do a very thorough job and have helped them improve and achieve their financial standing.

CPA Marien was thanked for her presentation.

Alternate Board Member Bourgeois, who entered the meeting during the presentation, joined the members on the dais at 8:09 p.m.

7. SELECTMAN'S REPORT

First Selectman Lyden reported that Selectman Stu Gadbois was elected to serve as the Acting Selectman for the Board of Selectman. As a Clean Energy Community, the Town has received a \$5,000.00 Bright Idea Grant. The funds will be used for additional energy efficiency upgrades throughout the Town's facilities, including LED upgrades. A presentation regarding foster and adoptive care was provided; information has been posted on the website and is available on the Town Hall table. Arthur Bergman, a Commissioner of the Salem Youth Baseball League, was appointed to the Recreation Commission and Commissioner Teri Natoli is now serving as the Recreation Commission Chairperson, taking the place of former Chairperson Sue Spang, who did a fine job serving as the Chair for many years.

8. TIER I REPORTS

General Government – First Selectman Lyden presented the proposed Tier I General Government reductions of \$55,000.00 for the remainder of the 2017-2018 Fiscal Year. To meet the reduction, the Public Works Department would need to be reduced from six (6) to five (5) employees. One of the employees recently accepted a position elsewhere and the six-month savings, with payroll, overtime, and benefits as well as the additional cost for relief drivers and summer help, is estimated at \$22,316.00. The impact would be moderate to major to the Town of Salem and the reduction is not favorable. Risks include difficulties in finding reliable,

experienced on-call workers who would be available during times of need. Other cuts include reductions from the various departments and Capital expenses. He noted the importance of maintaining the Town's roads to help reduce future road repair expenses.

Chairman Householder provided a brief review of the Town's current fiscal state following the State's recent reductions and does not foresee the need for the Tier I cuts for the current fiscal year. The Board agreed that, while the budget for Fiscal-Year 2018-2019 remains an unknown, they should plan for and expect additional cuts from the State that might result in the implementation of the Tier 1 cuts for the next fiscal year budget.

First Selectman Lyden proudly reported that Assistant Tax Collector Cindy Noe recently passed her final exam with a score of 94 and is now a Certified Tax Collector. In addition, Assistant Assessor Michael Kapinos, Jr., also recently passed his exams and is now a Certified Assessor (CCMA I). Both the Tax Collectors and Assessors offices work well together as does the Finance Office, comprised of Finance Specialist Lisa Jablonski, Treasurer Pam Henry, and CPA Liaison Erik Christensen; the Town is very fortunate to have such a great team.

Board of Education (BOE) – BOE Liaison Sean Reith requested the appointment of a Board of Finance Liaison to the BOE, who can attend their meetings and be involved in their discussions. Upon his request, Chairman Householder clarified that, based upon the Governor's and other proposed budgets at the time, the Board requested the General Government and BOE to present a list of proposed Tier I cuts that could be enacted as early as January 2018 for the remaining fiscal year. Because the State's cuts were not as drastic as expected, the Board agreed to extend the time period for the receipt of the proposed Tier I cuts. Nevertheless, there is still a remote possibility that the cuts could be enacted this fiscal year. BOE Liaison Reith reported that, because the Superintendent will be submitting his proposed budget in January, the earliest the Tier I cuts could be presented to the Board is February. Chairman Householder referred to the Chairman Michael Siebert's letter stating that, "the school administration, working with the guidance of the Board of Education, developed cuts for Tier I and Tier II. These cuts are not prioritized, rather just a list of items. The Board of Education felt it was our job to prioritize them and it was on our agenda for November 6, 2017." BOE Liaison Reith stated that the cuts referred to in his letter have not yet been shared with the BOE for review. Clerk Collins stated that there is no need for any details, the Board is simply looking for target numbers should they be forced to cut the budget. He expressed the difficulty the Board would have in making decisions regarding the budget for the 2018-2019 fiscal year without the BOE's input.

With respect to BOE Liaison Reith's request for a Liaison, Chairman Householder requested the possibility of re-organizing their agenda such that their budgetary discussions are held at the beginning of the meeting. The Board will request a volunteer to act as a liaison for the BOE at the Board's next regular meeting.

8. APPROVE 2018 MEETING CALENDAR

M/S/C: Salas/Cadwell, to approve the Board of Finance Regular and Special Meeting Dates for the 2018 Calendar Year. Discussion: None. Voice vote, 6-0, all in favor.

9. REVIEW 2018-19 BUDGET CALENDAR

M/S/C: Collins/Griggs, to approve the Board of Finance Budget Meeting Schedule to discuss the Fiscal-Year 2018-2019 Budget. Discussion: None. Voice vote, 6-0, all in favor.

10. CAPITAL PLAN DISCUSSION

Gardner lake Volunteer Fire Department – Chief Jim Savalle presented the following Capital Plan proposals:

- Moving the \$7,800.00 allocated for the GLVFC Thermal Imaging Camera (line item 33) from the FY2017-2018 to the FY 2018-2019
- Maintaining the \$14,000.00 allocated for the GLVFC Fire Fighting Turnout Gear and Hose (line item 32) for FY2027-2028
- Carrying over the \$38,000.00 for the micro-sealing and micro-paving of the parking lot to Spring 2018
- Adjusting the GLVFCO Seal Parking Lot (line item 34) to occur every eight to ten years for maintenance

Salem Volunteer Fire Department – Chief Gene Maiorano presented the following Capital Plan proposals:

- Move the F-350 for Replacing R-1 Medical Response Vehicle (line item 43) for \$70,000.00 from FY2021-2022 to FY2019-2020 and remove F-350 for Fire Police (line 42) for \$60,000.00. To save funds, they have agreed to utilize their current Service Truck as the Fire Police vehicle.
- The pricing for the Engine Tanker (line item 39) has risen from the estimated \$700,000.00 to a discounted amount of \$780,000.00, with the first payment due in July 2019.
- Raise the annual funding for the Replacement Gear and Hose (line item 40) from \$12,000.00 to \$15,000.00.
- Though the \$20,000.00 allocated for the Storage Building (line item 41) has not yet been expended, he requested that the funds currently allocated for both FY2017-2018 and FY2018-2019 be maintained.
- Maintain the allocated funds for the Scott/RIT Pack replacement (line item 27) in FY2024-2025 for \$4,300.00
- An updated price for the SCBA Replacement (line item 28) will be provided in the near future

Chairman Householder expressed his appreciation to Chief Maiorano for thinking outside of the box in the replacement and re-purposing of an existing vehicle, resulting in a significant savings for the Town.

Board of Education – Discussion ensued with Public Works Director Don Bourdeau regarding the timing on replacing the Salem School roof (line item 3) and rooftop units (line item 1). While there are no issues at this time, both would be beyond their life cycle. The rooftop units should be replaced either prior to or at the same time as the roof. Clerk Collins reported that both the State's bonding cap and school construction reimbursement formulas are expected to change in the very near future. Chairman Householder proposed the possibility of replacing both items at the same time and paying them off over a seven-year period, thereby leveling out their Capital Plan.

11. FORMAT & PLANNING DISCUSSION FOR LETTER TO DEPARTMENT'S REGARDING BUDGETARY EXPECTATIONS AND GUIDELINES FOR 2018-2019

Board Member Griggs felt that the letter could remain the same as the previous year, but with an addition regarding the State's current fiscal crisis, its effect on the Town, and a request to propose a zero or less than zero budget increase. In response to Clerk Collins, Superintendent Joseph Onofrio stated that the teachers' contracts will be renegotiated next year. In response to Board Member Griggs, Clerk Collins stated that there would not be a retroactive shift from the State, but a prospective partial shift is possible. In such case, towns should be able to have some input in the negotiations. The Town should have a better idea prior to the teacher contract negotiations. Clerk Collins noted that a provision (Senate Bill 1502) has been made to increase the transparency of the BOE to the Governing Body, requiring the BOE to notify and discuss with the Governing Body of any hires of \$100,000.00 or more when those funds are not already included in the budget. The letter will summarize the State's current fiscal crisis, its effect on the Town, and request a budgetary target for FY2018-2019 of the FY2017-2018 budget with Tier I to flat cuts.

12. SUMMARY REPORT OF FEDERAL CUTS TO LOCAL EDUCATION BUDGETS

Board Member Griggs researched the and found the following possible Federal cuts to local education budgets, which the Board should be aware of as they begin their budget discussions:

- A Task force to conduct a feasibility study regarding the creation of a special education predictable cost cooperative (House Bill No. 7255)

Clerk Collins stated that the Government is in the process of determining a reasonable amount for special education costs. Any overage would be paid for by the State through a fund allocated for this purpose. Superintendent Onofrio stated that one of the elements of the Bill is to prevent the catastrophic costs from influencing the current year's budget by allowing any unexpected costs to be billed the following year.

- Proposed change in the Rules for Title I in which part of the funds would be diverted into the focus program; to be eligible, the District must agree to school choice. As such, if the Town does not agree to participate in school choice, the Town would lose that percentage of Title I funds.
- Cuts in Medicaid funds may be disastrous from some school districts as funding for the school nurse and special education derives from these funds. She added that, as the result of a phenomenal job by the new Director of Special Services and a decrease in the number of 18 to 21 year olds needing care, excess cost expenses have been reduced from \$270,000.00 to \$99,000.00.
- In addition to eliminating teachers and after-school programs, the President's official budget proposes the dismantling of 20 other critical programs, including arts, foreign language, Science, Technology, Engineering, and Math (STEM), literacy, history, civics, gifted and enrichment, mental health, and bullying prevention programs, constituting a \$9.2 billion cut or 13.5% drop from the U.S. Department of Education's 2017 budget.

OLD BUSINESS: *none*

ADJOURNMENT:

M/S/C: Houchin/Collins, to adjourn the meeting at 9:44 p.m. Discussion: None. Voice vote, 6-0, all in favor.

Respectfully Submitted by:

Agnes Miyuki, Recording Secretary for the Town of Salem