

APPROVED
STATE OF CONNECTICUT
MUNICIPAL ACCOUNTABILITY REVIEW BOARD
REGULAR MEETING MINUTES

Meeting Date and Time: Thursday, May 2, 2019 10:00 AM – 12:30 PM

Meeting Location: State Board of Regents Boardroom, Ground Level, 61 Woodland Street, Hartford, CT

Members in Attendance: Secretary McCaw, Deputy Treasurer Savitsky (for Treasurer), Thomas Hamilton, Dave Walker, Patrick Egan, Robert White, Scott Jackson, Mark Waxenberg, Stephen Falcigno, Sal Luciano

OPM Staff in Attendance: Julian Freund, Gareth Bye, Alison Fisher

I. Call to Order & Opening Remarks by Secretary Melissa McCaw

The meeting was called to order at 10:04 AM.

II. Public Comment* Period

- a. Portia Biez, West Haven, spoke in support of the Mayor's recommended budget
- b. Carroll Brown, West Haven, spoke in support of a MARB takeover of the City
- c. Ralph (Ted) Brown, West Haven, spoke in support of a MARB takeover of the City
- d. Leslie Hammond, Hartford, spoke about the City's costs of outside council and CHRO complaints, as cited in Kevin Brookman's blog
- e. John Galvin, West Haven, requested that the MARB reject the City's proposed budget
- f. Colleen Bailey, West Haven, spoke in support of additional funding for the City library

III. Approval of Minutes:

- a. April 4, 2019 Regular Meeting: Mr. Jackson made a motion, with a second by Mr. Egan, to approve the minutes of the April 4, 2019 MARB meeting. Approval was unanimous with Ms. Savitsky abstaining.

IV. City of West Haven Issues and Items

- a. Review, discussion and possible action: FY 2020 Budget

Gareth Bye, OPM Director of Legal Affairs, provided the board with an overview of the MARB's statutory responsibilities with respect to municipal budgets and the municipal restructuring funds agreement with the City of West Haven. As a Tier 3 municipality receiving municipal restructuring funds, the City must receive MARB approval of its FY 2020 budget. The agreement for restructuring funds with OPM further provides that the Secretary may withhold all or a portion of restructuring funds if the Secretary determines that the City is not in compliance with the agreement.

Secretary McCaw explained that the City Council took action on the Mayor's recommended budget on April 30th. The Secretary sent a letter reminding the Mayor of the statutory requirement that the MARB approve the budget. Mr. Freund provided an overview of the budget as originally recommended by the Mayor with the adjustments made by the City Council on April 30. A summary

of the West Haven subcommittee discussion on the budget at the April 16 subcommittee meeting was also provided. Among the budgetary highlights noted:

- Grand List growth generated about \$1m more in revenue at the existing mill rate
- The budget maintained current mill rate at 36.6, .99 mills or \$2.3m less revenue than in 5 year plan
- State aid is relatively flat – consistent with the 5 year plan, also assumes MARB funding
- Decrease of \$1m on expenditure side
- Maintained health insurance plan costs consistent with 5 year plan
- Pension – fully funded required employer contribution recommended by actuary firm
- Debt service – funding for payments due, financing plan for West Haven HS project (fall bond issue), no funding included for future debt payments for additional capital investment in FY20
- 3% health insurance claims reserve and money for OPEB trust in 5 year plan, not included in budget
- Efficiency savings of \$1.2million in the 5 year plan is not included in budget
- The adjustments by City Council on April 30th included some corrections to budget in utilities, adjusted Education funding (up to FY19 funding level), added \$150,000 for storm water management requirements, reductions in the Contingency account to set aside funding for a library study and library expenses, contingency account to set aside funding for police pension study, and parking study. Adjustments also corrected for a transfer in to general Fund revenues from Sewer fund transfer, and a reduction in funding for employee termination payouts in the Fire Fund to offset a revenue calculation error in the original budget.

Mr. Walker questioned how detailed the MARB should be in its review and whether its evaluation of the budget should focus on its consistency with the 5-Year Plan. He suggested the possibility of tying future financial assistance to achieving specific results, including increasing the tax base and reducing recommended spending, and earmarking MARB funding for specific purposes.

Mr. Waxenberg asked if the MARB could earmark restructuring funds for a specific purpose. Ms. McCaw said that the current agreement for restructuring funds ends June 30, 2019 and that a successor agreement could attach conditions for funding, such as specifying how the funds are to be used.

Mr. Hamilton asked when the next revaluation will be. City Finance Director, Frank Cieplinski, responded it will be in 2020. Mr. Hamilton asked what the grand list growth is attributable to. Mayor Nancy Rossi said that there was significant development in the Allingtown area and that the tax collector has made efforts to improve the identification of personal property. Mr. Hamilton asked if outstanding tax appeals had been analyzed. Mr. Cieplinski indicated that the Board of Assessment Appeals has completed its process with adjustments totaling about \$150,000. Corporation Counsel Lee Tiernan indicated that the remaining tax appeals are minimal. Mr. Hamilton asked about the change in projected pension contribution and whether the actuary had changed investment assumptions or other assumptions. He asked Mr. Freund to follow up on the question. He also asked whether the City feels its contingency amount of \$350,000 is adequate. Mr. Cieplinski said he would prefer a larger contingency amount.

Secretary McCaw asked why no health claims margin was budgeted. Mayor Rossi responded that the health insurance account increases by 7.6% based on original projections, but the City is preparing to transition to the Partnership. \$150,000 has been included for runoff costs. Mr. Egan asked where employee leave payouts for non-Police staff are budgeted. The Mayor answered that these costs are handled on a pay as you go basis from the employee's salary account. Mr. Egan

asked about language in the labor contracts regarding shifting health plans. Mr. Tiernan indicated that he did not expect an issue with the unions. Mr. Egan suggested including language that allows for health plan changes or re-openers in pending contracts.

Mr. White asked if there were any large projects that impacted the grand list for FY 2018. The Mayor referenced the Yale distribution center. The Atwood was another large project but had been granted a tax abatement by the prior administration. Mr. White asked whether the projects that created higher than projected grand list growth were projects that were known, but not expected until a later grand list year. The Mayor answered that the original projections were conservative projections provided by the assessor. Mr. White asked whether the \$1.75 million in contingency for deficit reduction is part of the FY 2020 discussion. Secretary McCaw responded that it is part of the FY 2019 discussion. Mr. White said that the funding needs to go to substantial structural issues. He asked if the board should be looking at fund balance or be looking 5 years out. He expressed disappointment that the updated 5-year plan shows a reduced grand list in year 5. He also asked about the FY2020 deficit in the Fire Fund. Mr. Freund clarified that the deficit was due to a calculation error in the City's original version of the budget, but was offset when the City Council made a reduction on the expenditure side. Mayor Rossi said that their state representative is working on finding additional funding for the fire district through the state budget process. Secretary McCaw indicated that she is not aware of any additional funding commitment at this time.

Secretary McCaw said this Board has been charged with helping ailing municipalities be restored to fiscal health. Accountability has been built by OPM guidance and statute to avail the City of all of the tools to do this. The recovery plan was a requisite condition of receiving funds. She expressed concerns that by rescinding a number of items from the 5-Year Plan in the budget, the City is not on a path to health. Examples include lack of consideration of OPEB reserve, lack of medical claims reserve, lack of efficiency savings, etc. She suggested that reserves and contingency be adjusted, efficiency savings should be restored, and consideration be given to the mill rate increase. Mr. Waxenberg said that rescinding on the promised that were made the board is concerning and he shares the Secretary's frustration. At this time, he cannot support the budget. Mr. Walker said that reserves should be restored and savings should be required. Fund balance needs to be built and the board may require the City to change health plans and to meet its revenue target. Behaviors that achieve what the board is seeking should be rewarded. Mr. Egan said that reserves need to be funded properly. If the City had followed the plan, it would have an additional \$4 million. He asked for a report of efficiencies in FY19 with dollar amounts associated. Mr. White said that he is not in support of the budget and urged the MARB to reject it. He asked what guidance is being provided to the City. He expressed concern that a crisis is being wasted and that there are so many deviations from the approved plan. Structural changes need to be made. He suggested that the MARB fund \$2 million earmarked for IBNR costs and nothing else. Mr. Luciano indicated that he also would not be voting in support of the budget.

Secretary McCaw made a motion to reject the budget as presented. Mr. Egan seconded the motion. All voted in favor of rejecting the budget.

Secretary McCaw suggested a special meeting of the MARB for the Mayor to resubmit a revised budget. That meeting would likely be dedicated to review the West Haven and Sprague budgets.

b. Presentation: Health insurance analysis

Terry DeMattie of Segal Consulting provided an overview of projected health insurance savings that could be achieved by moving to different versions of a high deductible health plan or to the State

Partnership plan, and explained what is driving the savings. Projected annualized savings related to the high deductible plans range from approximately \$250,000 to \$1 million. A switch to the Partnership could save approximately \$4 million. Of this, \$2 million would be for active employees and \$2 million for retirees. Deputy Treasurer Savitsky asked if the City knows who the retirees are and how much they are paying. Mr. Tiernan replied that the City does, and that having the MARB in place has forced auditing which is helpful going forward. Mr. Walker asked how difficult the transition would be. Michael Milone, OPM consultant to the City, replied that a transition for January 2020 is planned, resulting in a half year of savings. Mr. Walker asked what the reserves for IBNR would need to be. Ms. DeMattie said the reserves going forward would not be necessary, but that the total IBNR for the switch plus the processing fees is estimated at \$2.5 million. Ms. Savitsky and Mr. Egan both recommended deeper analysis of retirees and what is possible for that group. Secretary McCaw said that these are next steps and will be taken up at subsequent meetings.

c. Review and discussion: Monthly financial report, March 2019

Mr. Cieplinski presented the monthly report and indicated there are no material changes from the prior month. His only concern is regarding the tax lien sale. The City is projecting an end of year surplus of \$3.765 million. His projections assume the City receives the full \$8 million in municipal restructuring funds and the \$1.75 million contingency for deficit reduction remains unspent.

d. Update re: MOA Compliance

Secretary McCaw noted that the Board received an updated compliance chart in the distributed meeting materials.

e. Review and discussion: Non-Labor contracts (none)

f. Review, discussion and possible action: Labor contracts (none)

V. Town of Sprague issues and Items

a. Review, discussion, potential action: FY 2020 Budget and assumptions in budget

b. Review and discussion: Monthly financial report, March 2019

The Town of Sprague agenda items were tabled.

VI. City of Hartford Issues and Items

a. Review, discussion, potential action: FY 2020 Budget and assumptions in budget

Mayor Bronin provided an overview of the City FY 2020 budget. The budget is largely status quo with some staffing adjustments. Overall spending is about \$2 million less than projected in the recovery plan. Property taxes are held constant. Secretary McCaw asked about contingency in the budget. Acting Director of Management, Budget and Grants and Revenue Jolita Lazauskas replied that \$4.1 million is included as contingency. Finance Director Leigh Ann Ralls explained that the collection rate assumed in the budget is based on the average over the last 3 years as required by Charter. Mr. Walker asked about what is anticipated with the next revaluation given the volume of appeals that have taken place. Mayor Bronin indicated he expects an increase in valuation. The next revaluation is in 2021. Mr. Jackson asked about funding for capital projects. Mayor Bronin replied that \$32 million is budgeted for capital projects. A motion was made and seconded to approve the assumptions used for the City's FY 2020 budget. Motion was approved unanimously.

b. Review and discussion: Monthly financial report, March 2019

Ms. Lazauskas provided an overview of the monthly financial report. The City is currently projecting a surplus of \$3.97 million for FY 2019.

- c. Review and discussion: Non-Labor contracts (none)
- d. Review, discussion and possible action: Labor contracts (none)

VII. Other Business

Mr. Freund called board members' attention to the subcommittee updates that were provided, in particular the update on the City of West Haven's participation in the CCM Energy Purchase program.

VIII. Adjourn

Mr. Luciano made a motion to adjourn at 12:34 PM with a second by Mr. Egan. All voted in favor.