CITY OF NORWALK
FINANCE/CLAIMS COMMITTEE
SPECIAL MEETING
FEBRUARY 16, 2012

ATTENDANCE: Carvin Hilliard, Chairman; Matthew Miklave, David McCarthy, Douglas Hempstead, Warren Peña, John Igneri,

STAFF: Finance Department: Robert Barron, Fred Gilden, Comptroller.

OTHERS: Frederick Wilms, Board of Estimate and Taxation

CALL TO ORDER

Mr. Hilliard called the meeting to order at 7:30 p.m. and stated that there was a quorum of members in attendance.

BUSINESS

Operating Budget and Cap Review and Discussion.

Mr. Barron presented the summary FY 2012-13 and explained the process and stated that the purpose is to set the appropriations cap to be delivered to the Board of Estimate and Taxation. He stated that the intention is to provide output relative to the bottom line and not the detail by line item. He noted that one week from tonight will be a public hearing to further discuss the budget, and receive comments from the public.

Mr. Hempstead asked if as requested last week, was the Governor's budget information incorporated into the assumptions, for example the ECS funding and other grants. Mr. Barron replied that Mr. Hamilton had done a preliminary analysis and it appears that ECS funding has been taken into account. He added he will check on the status of those budget outcomes and see how it can incorporate them into the budget.

Mr. Barron added that recent newspaper articles reported a negative take on the grant of $600,000 and the MME pilot project in lieu of taxes was replaced by revenue sharing. He added that the statutory formulas are reflected with intergovernmental revenues and the only change is the ECS funding. He pointed out that the total of $16.4 million is reflected.

Mr. Hilliard asked if there specific recommended changes and suggested a review by department. He asked what the reason was for the additional $80,000 for IT and stated that there should be an additional column to explain key changes.

Mr. Hempstead stated that he understands that one of the key budget drivers is the pension contribution, and asked if what the charter requirements were and if there was further analysis done to compare against other municipalities. Mr. Barron stated that he would check with Mr. Hamilton to have that e-mailed to the members.

Mr. Miklave stated that he would like to discuss the OPEB, other post employment benefit category, and asked if this is a charter requirement or a statutory regulation. Mr. Gilden replied that it was not a charter requirement, but is a municipal guideline is that the actuarial recommendation is applied to the ARC and this is the accepted practice for municipalities. Mr. Barron added that it is an accounting requirement to put the liability on the books 4-5 years ago and it is a municipality requirement to list them. Mr. Miklave asked what other municipalities are doing, and Mr. Barron replied that it is a pay as you go approach.

Mr. Miklave stated that while he understands this, he would like to address what the other 169 municipalities in the state have done to fund the post retirement employee benefits. He added that if there is a rating or bond rating correlation versus the percentage of funding. Mr. Barron replied that of all the AAA bond ratings there are only 7-8 in Fairfield County.

Mr. Miklave added that all actuarial assessments change year to year and moment to moment, and represents a guess into the future, and with changes in mortality tables, the numbers change radically and can take on a life of its own. He added that actuarial studies are more “sacrosanct” than the City’s needs and objectives, and all this has no relationship on the AAA rating. He restated that he would like to address what other municipalities in the state have done to fund the post retirement employee benefits.

Mr. Barron then brought up the discount rate for future liability at 8.4% that is going down to 8% and that Mr. Hamilton reported at a recent conference this is predicted to go down to 7.5%. He added that at present value it grows a great deal and an analysis of the discount rate might address some Mr. Miklave’s concerns.

Mr. Miklave replied that the question is can we pay the promises made when they come due, and when mathematical precision attempts to quantify the “have to fund” it takes from the real needs and put in to what may or may not happen 20-30 years into the future.

Mr. Igneri stated that he disagrees with this theory and that a percentage of underfunding could take on a life of its own and how we fund it presents greater problems in a future year. He added that actuarial standards are critically accessed with generally accepted standards used by municipal accounting practices, and these averages should be carefully analyzed and used.

Mr. Miklave added that it is not a real debt right now, and it is important to note that we have to be reasonable, but the real needs are a trade off.

Mr. Hempstead asked how much is saved if the OPEB is zero, and Mr. Barron replied $5 million. Mr. Miklave replied that he wanted to stress that it is not impossible, it is difficult and it requires a great deal of analysis and heavy lifting, but it can be done at a reasonable level.

Mr. Hempstead if the annual salary increase is 2% across the board, the pension liability grows with salary increases.

Mr. Igneri stated that this issue is very complex and perhaps a sub-committee could work on this and come up with a recommendation, but this committee has other work to do to approve the bottom line cap.

Mr. Igneri stated that he would like to discuss the issue of the Museum and he has received several e-mails regarding the savings from the closing and if the costs associated with moving the collection have been taken into account.

Mr. Barron explained that Mr. Hamilton has put a $75,000 contingency to move the collection and it is important to keep in mind that this is a one-time cost, but the savings would be an annual savings that over time generates long term savings.

Mr. Kimmel stated that he agrees with Mr. Igneri on the prior issue regarding OPEB funding and urged the Committee to be very cautious as this could take on a life of its own. He stated that there are clear guidelines for reasons and it is important to follow these actuarial recommendations and established, accepted guidelines.

Regarding the museum, Mr. Kimmel stated that the collection is valuable, and represents both old, large, and small items and questioned whether $75,000 would be enough to guarantee the preservation of the collection. He asked about the lease and when it was up, and Mr. Barron replied that it expired in September 2011.

Mr. Kimmel stated that it is important for the City to have a museum particularly in the historic district, and the current location is perfect and a museum enhances the area. He added that the City is missing an opportunity to remarket this and that it is an opportunity to see it as a financial boost, and to look at the museum as having a long term benefit for future budget years. He added that if the decision to close is based on budgetary pressures, for $250,000 it sends a message of negativity about the feelings on the history for the City. He summarized with a statement that he would like to see this item off the table as a proposed cut for the 2012-13 budget.

Mr. Hilliard stated that he agreed with Mr. Kimmel and there are other remedies rather than to close it down, as the City needs a museum.

Mr. Pena asked if there were 700,000 pieces of art, maybe there is another opportunity to display the works at libraries or at the Mansion.

Mr. Hempstead stated that this is a red herring, and the city owns buildings with no rent requirement and this is an opportunity to put the museum back to the Lockwood House. He gave a review of the background of the Keystone House, Lockwood Matthews Mansion and Mill Hill that have been run not by the City, but by the Friends of the Museum. He added that the collection at Norwalk Museum is not currently well preserved, and this may be an opportunity to have the Mansion handle the collection and the Library to re-catalogue the items. He added that this versus a long term lease has long term implications, but we have a bigger price to address to avoid a 4% tax increase to property tax payers. He asked Mr. Barron to review the major budget savings, and he explained that the proposed closing of the museum, the privatization of garbage collection, the position of the library and an administrative position at the Fire Department adds up to $765,000. Mr. Hempstead stated that we have a long way to go beyond these items to limit the proposed increase to the mil rate.

Mr. Miklave stated that he agreed with Mr. Hempstead and would like to see a plan for operational changes rather than to just shut it down.

He added that with OPEB there is a choice, and it could be $5 million or $4 million and that is a much larger debate to have.

Mr. Kimmel reviewed the revenue assumptions and expenditure drivers and highlighted the Board of Education 3.5% increase is over $5 million over last year versus other municipalities where they report BOE increases of 2-2½ %.

Mr. Barron stated that they are having discussions with the Finance Officer at the Board of Ed regarding HSA benefit reductions from 75% contribution to 50% and this would save a great deal. He stated that one of the reasons for the increase this year is to address underfunding from previous years, and this will be identified and quantified with the impact based on the BET. He added that health insurance is significantly less generous.

Mr. Hilliard asked if it is self-funded for the City and Mr. Barron replied yes, and they are looking at less generous benefit packages.

Mr. Peña stated that he is aware that the Board of Education is shopping out their health insurance benefit programs. He asked Mr. Wilma if all these discussion are a mute point and if the BET will take these comments into account.

Mr. Wilms replied that he is very interested in the comments, and that is why he is here to observe this meeting. He stated that he appreciates an opportunity to comment and added that the budget is a very political document. He stated that comments made are very valid points, for OPEB he agrees with Mr. Miklave and the pension funding is an accrual of a future liability trade off. He suggested that this perhaps should be phased in not fully funding and the discount rate now versus the future is another trade-off, and is 8% too high. He added that these issues should be weighed against the sacrifice of services.
Mr. Wilms continued that regarding the Board of Education, the former CFO stated that the financial system is broken, and is not capable of managing $160 million, and this creates a

credibility gap. He added that regarding the health benefits discussion, it is important to note that the NFT is overly generous and there is an emphasis on reform to bring this into public standards. He stated that relative to the unions, the BOE has done a poor job with contract negotiations; and City attorney representation to eliminate this controversy is an item for debate every year.

Mr. Wilms stated that the most critical element to address is to increase the grand list with redevelopment projects and this will grow the grand list to make an impact on the budget.

Mr. Hempstead asked if there was a way of addressing the fact that the state continues to lower the funding of ECS to Norwalk, and that is an ongoing battle that needs to be fought.

Mr. McCarthy stated that he agrees strongly with the issue of the ECS funding and asked to look at benchmarks of other municipalities both for OPEB and education to frame our thinking and evaluate this variance based upon what the city can afford.

Mr. Peña asked how it is captured by other municipalities in terms of analysis, and Mr. Barron replied that he will examine the data that Mr. Hamilton has been collecting and provide it to the Committee.

Mr. Barron stated that one suggestion it to have multi-year budgeting for the Board of Education and to combine the public balance of City services with the BOE requests.

Mr. Miklave stated that tying the tax increase in to value of property value of real estate is wrong and a better analysis is the purchase value of income. He added that with the Board of Education, the language of distrust and attack versus collaboration needs to be done to bring consensus of values and to release the competitive spirit of how we deliver the City services.

Mr. Miklave stated that the model is backwards and there needs to be a way to build a budget like how it is done in the business world and the Common Council should have line item input not just bottom line overview.

Mr. McCarthy stated that the real estate tax versus perceived value and compare with as a percentage of median income is a better model for the balancing act for budgeting. He added that this should be compared to like cities.

Mr. Kimmel added that average should be median and there should be a way to quantify the balancing and budget decision in a diverse town, it is impossible to look at a cap in isolation of many departments and the end result is just a number.

Mr. Hempstead stated that he will make a commitment to have a study group or ad-hoc committee to study the services to design a bottom up budget for a department. He added that the Council has authority to reorganize a department.

Mr. Miklave stated that he agrees with this and there should be a broader approach for all departments and it is part of looking at services and efficiencies with performance standards. Departments should be held accountable and there are impediments for accountability. He reviewed the structure used in business for employee evaluations and the creation of incentives and explained that there is a 3-tier structure of the 60-20-20 rule. He explained that those at the bottom 20% you just manage, the top 20% are motivated and you let them continue to thrive and move forward with little management; but the focus is on the 60% sector, and that is the group that can affect the greatest gain. He summarized that the Committee needs to look at that analogy and identity the 60% in the City budget that can be improved and managed in a better way.

Mr. McCarthy stated that there are many possible explanations for the values being down, either the average sale price is down, or the volume per transaction could be down or fewer commercial transactions. He stated that he would try to see what data is available from the Town Clerk. Mr. Hempstead clarified that he would like to see present day value of a typical home in Norwalk and to get some examples from the assessor's office. He feels that the comparison of the median sales price is low yet we have not seen the bottom.

Mr. Miklave stated that as he pointed out last week, some of the budget reductions represent a very small percentage of the total budget and represents .0023% of the total or an insignificant trickle down to the average increase to property taxes. He stated that he has lived with this process for a very long time is very backwards where the requests are added up and dollars are recommended for cuts without a strategic plan of where the priorities lie. He added that there needs to be macro not micro overview and while this debate is good it we get lost in the numbers and lose the values. He would like to see value based discussions at a better way to spend the $300 million, not just cut services. Mr. Hempstead stated that he agreed and added that the critical missing element is to determine the objectives and long term strategies to bring the City to where we want it to be.

There was no further business discussed.

<u>ADJOURNMENT</u>

**** MR. IGNERI MOVED TO ADJOURN.**
**** THE MOTION PASSED UNANIMOUSLY**.

The meeting adjourned at 9:30 p.m.

Respectfully submitted,

Marilyn Knox
Telesco Secretarial Services