

**CITY OF NORWALK  
FINANCE COMMITTEE OF THE COMMON COUNCIL  
SPECIAL MEETING  
FEBRUARY 19, 2013**

**ATTENDANCE:** Carvin Hilliard, Chair; Matt Miklave, John Ignieri, Sarah Mann, David McCarthy, Warren Peña (7:40 p.m.); Douglas Hempstead (8:25 p.m.)

**STAFF:** Thomas Hamilton, Finance Director; Fred Gilden, Comptroller

**OTHERS:** Council Members Bruce Kimmel, Jerry Petrini, David Watts, Michelle Maggio

**CALL TO ORDER**

Mr. Hilliard called the meeting to order at 7:35 p.m. A quorum was present.

**DISCUSSION ON FISCAL YEAR 2013-14 OPERATING BUDGET CAP**

Mr. Hamilton distributed print copies of the PowerPoint Presentation. He said that he had submitted the budget to the Board of Estimate and Taxation on February 11, 2013. A public hearing has been scheduled for February 21st. Although this hearing is not required by the Charter, it was requested by the Chair.

Mr. Hamilton then reviewed the upcoming budget schedule, which was listed on page 2 of the hard copy of the February 14, 2012 FY 2013-2014 Budget Presentation. The Council's role in the development of the Operating budget is different from its role in the Capital budget. The Council sets the spending cap for the Operating budget. The Council actually can determine which projects receive funding in the Capital Budget.

Mr. Hamilton briefly reviewed the current economic environment and how this affects the City's budget. While the economy is recovering slowly, the activity remains sluggish and uneven. The unemployment rate in Connecticut remains at 8.6%.

*Mr. Peña and Mr. Watts joined the meeting at 7:40 p.m.*

Mr. Hamilton said that the Finance Department had already assembled the final budget numbers when the Governor announced his proposal to exempt the first \$20,000 of assessed value on motor vehicles. The Finance Department had assumed that the State Aid would remain flat. Interest income, building permits and tax base growth have remained stagnant. However, employee health care and pension contributions are the major budget drivers. Norwalk is still not able to make the annual OPEB ARC (Annual Retirement Contribution) contribution that the actuary recommends, but the City has made progress in reducing this structural cost driver.

Mr. Kimmel asked about the OPEB ARC payments. Mr. Hamilton explained that the City had established the OPEB ARC trust fund for retirement, but knew that it could not make the full amount of the ARC contribution that the actuary recommended. He reviewed the details around this issue.

The total recommended budget for FY 2013-2014 is \$311,317,270. This includes a 5.3% gross increase for Education, a 34.4% increase for pension contributions and a 2.8% net increase for the City. These increases will require a 3/9% average tax increase. For a median single family in the 4th Taxing District, the tax will be \$6,399, which is an increase of \$253 dollars in the taxes.

Mr. Hamilton then reviewed the events following last year's discovery of a major BOE budget shortfall. The Board of Education will be fully funding their benefits and the City will have a shortfall in the insurance account. The City will correct half of the shortfall in the upcoming budget year and next year the second half will be corrected. Mr. Hamilton said that if the BOE had added the debt repayment into their budget, it would artificially inflate the BOE budget. The State has a requirement called the Minimum Budget Requirement (MBR), which requires the City to give the BOE at least the same amount of previous year's budget.

Mr. Peña had several questions about the details of the debt repayment. Mr. Hamilton pointed out that the repayment of this debt by the City will mean that those funds will not be available for other projects.

Mr. Peña then asked why the City wasn't monitoring the insurance fund. Mr. Hamilton pointed out that the problem was that BOE was not budgeting the proper amount, not that the accounting was flawed. The Comptroller's office is not a decision making entity, but a department that processes the funds. The auditors stated that all the accounting had been accurate and properly done. Mr. Peña repeated his perception that the City was not properly monitoring the insurance fund. Mr. Hamilton then repeated that the City was not responsible for the BOE's budgeting error.

Mr. Hamilton went on to review the major funding initiatives. Mr. Kimmel asked about the three new police officers and where they would be assigned. Mr. Hamilton said that the Mayor was hoping to use these officers for increased school security, but that the Police Chief would ultimately be making the decisions regarding the officers.

The new Fire Headquarters will be coming on line during the 2013-2014 fiscal year. The budget has been expanded to include the new headquarters maintenance along with that of the two public libraries. Mr. Hamilton explained that the new HVAC systems are much more sophisticated and need regular maintenance.

Mr. Watts asked for back up material on the cost analysis regarding the outsourcing of the garbage collection service. Mr. Hamilton said that when the Council had voted on the initiative,

the information was presented. He said that the contracts were all consistent with the documentation that had been presented at that time.

Mr. Petrini had a question about the BOE maintenance position. Mr. Hamilton reminded everyone that the City has no control of individual line items.

Ms. Mann asked if having the City buildings handled by professional managers was a normal trend. Mr. Hamilton said that he would like to see all the buildings professional managed, but that the cost was not possible at this time.

Mr. Kimmel asked about the documentation for the outsourcing. Mr. Hamilton said that the only documentation available would be the payment receipts for the contract agreements.

Mr. Kimmel then had a detailed question about the insurance fund and the accounting that is used for this. Mr. Hamilton explained that the insurance fund was an internal fund, which is not tracked in the same manner. Discussion followed about the details of the insurance shortfall.

The next topic reviewed was the Structural Budget Drivers. This included Pension Contributions, a Discount Rate reduction, and some future structural changes to pension benefits. All the City's pension funds are well funded. Mr. Hamilton then distributed copies of the pension analysis. Currently, the market value of the funds is at 83% funding. Anything over 80% is considered very good. The economic recession moved the pension funding from a surplus position of over 100% to an underfunded status of 83%. However, this was true for everyone across the nation.

The City has been actively taking steps to reduce its pension liability. Mr. Hamilton then distributed a document that was prepared by the actuary last year when the City closed the Defined Employee Benefits plan. While there are no immediate cost savings for the City, but as employees retire, the new employees will go into a matching 401 retirement plan.

*Mr. Hempstead joined the meeting at 8:25 p.m.*

Mr. Peña asked if there was a requirement for employees to contribute to their pensions. Mr. Hamilton replied that there were required contributions. The employees in the defined Benefits plan have seen increases in their contribution. The new benefit plan will have a fixed matching contribution of 5% until 2018 when the current agreement ends. Discussion followed.

Mr. Peña asked what plans had been made by the City for when the contract expires in 2018. Mr. Hamilton said that he couldn't say and that it would depend upon the economic conditions at that time. He said that conversion from one benefits plan to another is very tricky and there are many factors to be considered.

Employee Health insurance was the next topic. There has been an 18% increase. The City has been impacted by catastrophic claims experiences and this resulted in a cost per member rate that

is significantly above the CIGNA municipal norm. Mr. Hamilton pointed out that all six union contracts will be expiring within the next year and negotiations are underway.

Ms. Mann asked how successful other municipalities have been regarding cost sharing health insurance. Mr. Hamilton said that he believe that the City is doing well and the agreements require mandatory generic drugs and mandatory mail order medications. He went on to list a number of proactive programs that the City had taken in order to reduce costs. The employee costs shares are approximately 11% and well within the median for other municipalities. Mr. Hilliard commented that the benefit plans seem extremely generous to the City employees. Mr. Hamilton replied that he didn't disagree with that, but the City was in line with other municipalities.

Mr. Kimmel asked about the catastrophic experiences. Mr. Hamilton said that according to the claims administrator, the City has had a very high incidence of catastrophic events. The City does have a "stop loss" clause, but it is quite high.

Mr. Kimmel asked if the co-pays were adjusted downward when the drugs were generic. Mr. Hamilton said that this was so.

*Ms. Maggio joined the meeting at 8:45 p.m.*

Mr. Hempstead had a question about the health insurance monitors. Mr. Hamilton said that there has been significant time spent on employee wellness programs. There have been a number of initiatives, such as physical fitness programs, stop smoking programs and health eating programs. CIGNA has a number of programs for employees who are diabetic or have asthma related issues and have been hospitalized for these conditions.

Mr. Peña asked for clarification on the different percentages in the documentation. Mr. Hamilton reviewed the details with him.

Mr. Peña asked about the upcoming labor union contract negotiations. Mr. Hamilton said that any changes in the contract benefits plan would not take effect until January of 2014, which would be half way through next year's budget process.

Any impact of negotiated changes will take time before they translate into budget savings. He reviewed the retiree health benefits, which will help lower City costs over time. The percentage is based on the number of years of service.

Mr. Hamilton then went on to narrate the Budget Revenue Assumptions. These included the Net Grand List increase of .2%; an increase in the tax collection rate from 98.3% to 98.5%, and the back tax collections. It was noted that the supplemental auto tax will remain flat, along with State aid and interest income.

Mr. Igeri asked what the percentage of commercial real estate vs. residential. Mr. Hamilton said that he believed it to be about 22% for commercial.

Mr. Miklave asked what effect the .2% increase in the grand list would have if the property values decreased .2%. Mr. Hamilton said that basically it would result in the property tax bill remaining the same.

Mr. Hamilton said that the tax sales increase the revenues. He then went on to speak about the Governor's proposal to reduce the property tax on vehicles under a certain value. For Norwalk, this would impact revenues by almost 17 million dollars. While the Governor has given a local option for municipalities to participate in this proposal for this year but the following year, it would be mandatory for all municipalities.

Mr. Hamilton said that the revenue assumption that the State aid would remain flat had changed when the Governor proposed some dramatic changes to State grants. He then distributed a document with the various State grant amounts listed on it. There was an announcement that the ECS grant would be increased, but the funds will go directly to the BOE. He listed a number of grants that would be reduced by 1.3 million dollars to the general fund. This has not yet become law. Discussion followed about how the ECS budget funding can be used.

Mr. Watts said that it was his understanding that the ECS money could not be used for any old or existing programs. Mr. Hamilton said that he had not seen all the documentation. He then went on to speak on the information that he had seen in news articles. Mr. Hamilton said that he was concerned with the re-shuffling of the State grant allocations because while the added income is welcomed, it may also force the elimination of other long standing items due to the fact that the money is designated for certain items. Discussion followed.

Mr. Hempstead asked Mr. Hamilton to explain the PILOT program, which is being eliminated. Mr. Hamilton said that the State gives a payment in lieu of taxes for certain items, such as Norwalk Hospital, NCC and other State properties, such as the Courthouse. The Governor is proposing the elimination of the PILOT program for state owned properties but not for hospitals and colleges that serve a region.

Mr. Hempstead asked what would happen if the Council set a cap, but the State gave the City a sum that was 1.3 million less than before. Mr. Hamilton said that his budget has assumed flat governmental funding. If the City lost 1.3 million dollars in State aid, they would have to make deeper budget cuts or the BET would have to come back to the Council and request that they approve raising a cap. Discussion followed.

The recommended budget will use \$1,744 million dollars from the fund balance.

Mr. Peña then asked what the BOE reductions were. Mr. Hamilton listed the various line items. He also suggested that perhaps the question should be held to Thursday night when the BOE

would be present. He reminded everyone that once the BOE receives their funding, they decide what their priorities are.

Mr. Kimmel asked about Public Works budget. Mr. Hamilton said that their budget had been reduced because of the mild winter last year. When the cap was set, one of the reductions that was made was \$400,000 for the salt/sand line item. This year, those funds for sand and salt needed to be restored.

Mr. Hamilton then reviewed the pie chart that indicated 52.6%, but reminded everyone that the City carries a number of BOE costs. With those City side BOE costs added in, the percentage of the BOE spending moves up to 60%.

Mr. Miklave asked about the Public Works budget and the impact that the outsourcing of the garbage collection services. Mr. Hamilton then reviewed the figures. A discussion regarding the Public Works budget details followed.

Mr. Miklave had several detailed questions about the Significant Expenditure Changes graph. Mr. Hamilton reviewed each of the line items with him.

90% of the revenue comes from property taxes. Mr. Hamilton then reviewed the significant Revenue Changes and Significant Expenditure Changes charts. The Board of Education is the biggest expenditure driver with pension contributions following as the second largest expense.

Other noteworthy issues include the fact that the State aid remains highly uncertain, the Governor's proposal to exempt the first \$20,000 of the assessed value on motor vehicles; Tax appeals from 2008 continue to erode the collectible tax levy, and the recommended use of fund balance will leave the City with a fund balance at 7.9%. This will have an effect on the City's bond rating.

Mr. Peña asked why last year it was not prudent to take out 1.8 million from the Fund Balance for the BOE shortfall, but this year, the budget will be utilizing 1.7 million from the Fund balance. Mr. Hamilton said that there was a deficit and that pensions were rising. Mr. Peña said that last year, he had stated that reducing the Fund Balance would not affect the City's bond rating. Mr. Hamilton said that the City had come up with a solution that addressed the BOE shortfall problem that did not involve using the Fund Balance. Mr. Peña said that it was unusual how the priorities changed. He said that in three years, the BOE would have their major deficit "forgiven".

Mr. Kimmel asked about last year's projections for the fund balance. Mr. Hamilton replied that he had not projected using it last year. Mr. Kimmel asked if the reason for the use of the fund balance would be a factor. Mr. Hamilton said that this was so and the rating agencies would factor in the fact that there was the BOE deficit and some other circumstances that would warrant the use of the fund balance.

In summary, Mr. Hamilton said that the budget was balanced. The BOE would receive funding to allow them to fund all current services and some new initiatives. City expenditures growth is driven by required pension contributions and employee health benefits. Recommended budget eliminated 50% of accrued deficit in Insurance fund. The budget funds three new Police Officers.

Mr. Miklave asked about the format of the budget. Mr. Hamilton said that this year, the budget book included the line items. The budget book is broken out by department.

Mr. Miklave asked several detailed questions about the various line items. He questioned the performance indicators listed in the City Clerk's Office, the IT Department and the Police Department. Mr. Hamilton said that he believed these figures indicated the work load the department handled..

*Ms. Maggio left the meeting at 10:20 p.m.*

Mr. Miklave asked why the number of crimes and the number of violent crimes committed was not included in the performance indicators. Mr. Hamilton said that the number of crimes or violent crimes was not a budget factor. When Mr. Miklave asked about the Fire Department Performance Indicators being the same over a period of years, Mr. Hamilton said that he would have to speak to Fire Chief McCarthy about that issue as those performance indicators were compiled by the individual departments.

Ms. Mann asked Mr. Hamilton if she could email her budget questions to him. Mr. Hamilton said that he would be pleased to receive Council Members questions by email.

### **ADJOURNMENT**

**\*\* MR. MCCARTHY MOVED TO ADJOURN.**

**\*\* MR. HEMPSTEAD SECONDED.**

**\*\* THE MOTION PASSED UNANIMOUSLY.**

The meeting adjourned at 10:30 p.m.

Respectfully submitted,

Sharon L. Soltes  
Telesco Secretarial Services