



BOARD OF ALDERMEN
SHELTON, CONNECTICUT
FINANCE COMMITTEE
SPECIAL MEETING MINUTES
TUESDAY, JANUARY 23, 2018

CALL TO ORDER/PLEDGE OF ALLEGIANCE

Chairman Kudej called the Special Finance Committee Meeting of the Board of Aldermen to order at approximately 7:50 p.m. All those present rose and pledged allegiance to the Flag of the United States of America.

ROLL CALL

Alderman John F. Anglace, Jr., President – present
Alderman Stanley Kudej – present
Alderman Anthony Simonetti – present

Also in Attendance:

David Cappelletti, Auditor

Raymond O'Leary, City Treasurer - present
Paul Hiller, Finance Director- present

PUBLIC PORTION

No session.

AGENDA ITEM

1. REPORT OF THE AUDITOR

David Cappelletti reports on the City of Shelton Audit.

David Cappelletti: We have an unmodified opinion. I will walk through the Financial Statements, giving you a brief discussion. Any questions, let me know and we can go to that specific page.

There are no qualifications or discrepancies that were found, that needed to be noted in the audit, financial statements and internal controls. What I would usually like to do is start on Page 10, Exhibit F. This is the budget to actual report per the General Fund. This just gives you an overall summary- it is in more detail in Schedule 1 & 2, but I will go over the summary with you to see how the year went.

- Your revenues came in at little bit under what was anticipated, but your expenditures came in significantly under.
- So this gave you a positive \$4.3 million to your assigned fund balance.
- From that, we are at a special appropriation for surplus, for \$570,000.
- From that, you also appropriated expenditures of \$1.6 million
- You also designated a portion of that amount to next year for 6.2

- So, that bottom number on the page is \$2,010,000. That is the unassigned fund balance. That is the balance that is remaining in your fund balance, which is available to be appropriated.

Alderman Anglace: This is what we normally refer to as “undesigned surplus”?

Dave Cappelletti: That is a portion of the surplus that is available for appropriation. This is the number that you need to keep in mind for further appropriation for Capital Improvement projects. If there are no question on the budget to actuary report –

Alderman Anglace: The \$2 million is only for the fiscal year that just concluded?

Dave Cappelletti: Yes, that is the unassigned fund balance. That is not the General Fund balance. You have a larger General Fund balance which I will go over in a little bit.

Alderman Anglace: Our expenses versus our revenues – this is the difference?

Dave Cappelletti: Your expenses, plus your revenues was \$4.3 million, so that is in your operations. Do not forget that you also put in \$6 million of savings into that.

- From that savings, you put in \$1.6 million in Capital Projects, so those were your appropriations during the year for Capital Projects, that were funded out of the General Fund.
- \$6.2 million you had appropriated to next year’s budget – what you tend to do for your budget for next year is your take your savings from last year and you carry it to the next year. That is the savings of \$6 million that you are carrying forward.

Dave Cappelletti: I am going to be moving forward on Page 7 & 8

The first column is the General Fund, and now I am going to add in the Capital Projects and other general governmental funds.

Your General Fund balance is on Page 7. You will see a number of \$9.4 million, so that is your General Fund balance.

- Remember that we put \$6.2 million to the current year budget, and you still have remaining \$560,000 for Capital Projects.
- Just so you know, the assigned number of \$500,000- that was a portion that was reserved for health insurance. That is still remaining there. Those are numbers with a motion, that could go back into the unassigned fund balance.
- Overall, you do overall still remain to have a healthy General Fund balance

Do not forget your Capital Projects- you are going to see a negative fund balance of \$5.7 million but that is your bond fund, so what you normally do with your bond fund is spend it first then you go out for the bond to pay for that deficit. That is normal to be in the deficit.

Alderman Anglace: Does that include the Board of Aldermen bonding?

Dave Cappelletti: It includes all bonding. Just so you know, the other governmental funds are a group of funds that are outlined –

Alderman Anglace: That does not make sense to me. Can you clarify that? The Board of Aldermen is only authorized to borrow 2%, so that is roughly \$2 million. This is \$5 million.

Dave Cappelletti: You have outstanding authorizations, because you have not fully bonded your authorizations. So they add up year after year. You also have a decently large Capital Improvements for the school construction, or at least a grant that is available.

Alderman Anglace: So this was all of the bonding that was done during that fiscal year?

Dave Cappelletti: No. So when you appropriate for Capital Projects, they do not technically need to happen in one year so you will have multiple capital projects happening at the same time. Your one year authorization can go from one year to the next. This could be a conglomeration of two to three authorizations.

Alderman Anglace: Does this contain all of the money, the bonds that we actually sold during this fiscal year?

Dave Cappelletti: No. The bonds that you sold, yes. Exhibit D, on Page 8 – Other Financing Sources, which is your bonding for \$4 million. It shows the activity for the capital projects. The \$4 million is the number that was bonded for that year.

- Over the years, you had appropriated for bonding but you have not sold bonds for those portions.
- Just so you know, whether you use them or not, your bonds authorized and unissued for the amount of \$13 million.
- No one expects to bond for that amount. You estimate the project to be \$100 and it ends up being \$80 and you never bond for the difference.
- You have also been matching your appropriations with General Fund transfers. We have authorized for the bond just in case you needed them, but you have also been using your General Fund Surplus to pay down the bonding from time to time.

Alderman Anglace: We have authorized the bonding, but at the same token we have also authorized the use of surplus money.

Dave Cappelletti: This is the basis of the fund accounting. The last Exhibits: A & B are in the front. This is for Agency-Wide Accounting, which the government treats it as accrual basis accounting; more of a business type of accounting. Either which way you have a surplus position. The difference between A & B, and C & D is the long term debt and the long term assets, to see what you look like as an entity. Overtime, you do want to see that steady or slowly grow. That is also the way the City of Shelton has been working.

If there are no questions, we can move to Page 11 & 12. We will have a quick discussion on Proprietary Funds. We have two types:

- **WPCA**
- **Internal Service Fund** – self-insurance funds for Worker’s Comp and your medical insurance. Your medical is a pay as you go, and your Worker’s Comp had some issues over the years that has been reported about. The City management has a plan to fund one-time events over a long period. What we like to see on these, the Internal Service Fund on Page 12, on the last column where it says Internal Service Fund: you are going to see a strong deficit of \$6.6 million. You can also see it is in a positive growth: \$242,000 net position. What we will hopefully see in the next few years is being paid down slowly over a long time. This is an insurance fund and it acts like an insurance company. When there is a large hit to the insurance company, we would like to accrue that for a number of years and pay that back slowly instead of all at once.

Any questions?

Alderman Simonett: Are all of our pensions up to date?

Dave Cappelletti: Yes, for the size of the City of Shelton it’s not gotten involved in pensions or other obligations, other than pension that you are hearing about on the news at the state level. The City of Shelton is one of the most healthiest cities in the state. You have a contribution plan, and your police officers carry under the state MERS plan. Both of those are mandated to pay as you go, so there are no outstanding liabilities for those. Other than the Teacher’s Retirement, which is maintained by the state and that liability may be brought up to you.

Alderman Simonetti: If I am looking at Page 23, is that the \$13 million that you are talking about?

Dave Cappelletti: That is the portion that the state pays in your behalf. The State Teacher’s Retirement Board has always maintained the plan, as they would pay a portion of the retirement and the municipality would pay a portion towards it. So, that number is the portion that the State paid on your behalf.

Alderman Simonetti: The City is paying \$1.6 million?

Dave Cappelletti: No. The only thing that contributes to that is \$13 million. So what we are required to do is require supplemental information which starts on Page 47. You do not have any pension plans yourselves, which is remarkable for a city your size. The police and the teachers pensions are at state level. Pages 47-8 lists information from the State's retirement and how they are running. They did restate this year to give you a positive, as if you overpaid your pension for the police. That will accrued over 28 years, so that will be healthy for the City but it will still be an expense.

On Page 49, you are going to see a three-year analysis of the State's portion. The State's portion share of the net pension liability, that is the amount of the teachers of the City need to pay for their pension plans. So we do not know fully on what the State will decide on these portions. However, you can see from 2015 it was at \$87 million to finalize the pension. Then, it moved up to \$95 million, and now it is at \$124 million. That is another thing that you hear about on the news. The State's increases have been noted on the news and on the state level. This is not the whole thing; this is just your portion. The increase on the teachers is a concern on the state level.

Alderman Simonetti: The City covered the employee payroll. That is the amount of payroll that we are covering?

Dave Cappelletti: Yes that is the certified teachers. Those are the teachers that are in the plan.

Alderman Simonetti: How does that compare to other cities?

Dave Cappelletti: They are all comparable. There is an audit and actuarial report on the state website that can give you a little more detail, but in general it has to do probably with the age of your teachers. Everyone pretty much contributed the same by law since its inception.

Alderman Simonetti: That just seems like such a big jump from \$90 million to \$124 million in three short years.

Dave Cappelletti: Yes, those are some big numbers. What just changed in our GASB rules, which is a little bit difficult for me. I compare it to a house and a mortgage. What they like to do now: when you buy a house, they are not recording the asset but just recording the liability. So that is the amount in full of what needs to pay off your house. This will be done in over a twenty-eight year period / thirty year period.

Alderman Anglace: Dave, would this statement be appropriate? *The teachers' pension liability annually as of now, 2017, \$124 million, which is the equivalent of what our budget is for the entire City?*

Dave Cappelletti: Yes, it is a little bit more, but the way it is moving 2018 we have not received the numbers yet.

Alderman Anglace: What impacts this if you increase the teachers' salary by 3%, when the cost of living is going by 1.5% you also increase the pension liability because their pension goes up as a result of it.

Dave Cappelletti: The salary increase is between 3.25% and 6.5%.

Alderman Anglace: I think you said earlier that it was proposed by the Governor, to shift \$3.2 million annually to the City of Shelton for teachers' pensions. The legislature did not follow through with that, but we are vulnerable and it could still happen.

Dave Cappelletti: Yes, this is only the second year that we are required to report these numbers at the investment level, that you feel that is important to put in the audit. It is the same with the police as well. Whatever the State asks you to pay, you are required to pay.

Alderman Simonetti: Before we get back to that conversation, John, you said 3.2 to 6.5. What were those numbers; percentages?

Dave Cappelletti: That would be the increase that the actuary used to determine the liabilities. That comes from an actuarial study; that is actually teachers' increases throughout the state.

Alderman Simonetti: These include all certified teachers. Does this also include administrators?

Dave Cappelletti: No.

Paul Hiller: Yes, the Superintendent of Schools.

Dave Cappelletti: Yes, you need to be certified for a teacher, and you need to work for an educational institution. I think that is it, unless there are any detailed questions that you may have...

Alderman Simonetti: Could you make a general statement of the financial health of the City?

Dave Cappelletti: The health of the City, compared to the State of Connecticut, is doing extremely well both with your Grand List growth, you lowered your General Fund management. It is not that you are losing money, but you are putting your money towards your bond costs. You are paying 9.7 this year, but after that it drops considerably. You are basically reducing your General Fund in order to reduce your bond / long-term costs, so you are investing in the future.

Alderman Simonetti: Thank you.

Alderman Anglace asked if there were any questions from the Board and from the Public...

Judson Crawford, 8 Jordan Avenue

On Page 3A- Net Business Type Activities - The City decreased by \$86,000.

Dave Cappelletti: The decrease on \$86,000 is net depreciation. We can take a look at Page 12- we have an \$86,000 net loss in the Water Pollution Control. There is also depreciation that is recorded in there for \$1.8 million. If we reduce that, they actually had an increase of almost \$1.8 million itself. You cannot make money off of the WPCA -it could only be used for the sewer assessment. They do have an aggressive capital plan in the future, so they are building up their assets for this capital plan.

If we look on the other side, Water Pollution Control, some of these numbers are inflated a little bit but they already have \$9 million built up. Of course, they have accruals and payables of \$9.4 million. If you go to the bottom, under the unrestricted: they have \$9.4 million available for this new project that they are trying to construct. They are still building away for this capital project to help upgrade their system.

Judson Crawford: Look on Page 34. If you look down it is being discussed right now: for the school buses. The City purchased 60 school buses, leased at \$5,473,806. My question: It is to be paid over 60 months. What is going to happen if the possibility of a new bus company comes in? That went out for a bid. Are they bringing in their buses? Or are they going to be using the City of Shelton's buses?

Dave Cappelletti: Historically what has happened was 3-4 years ago, Shelton bought their own buses and had an operating lease agreement for a company to run. The anticipation that we can pay them over five years and maybe use them from seven to ten years, so the final payments are coming up. At the end of the 60 months, you would decide if the buses was a good investment to go forward without paying for the buses, or would you need new buses? That is a decision that you will need to make over the next two years. Hopefully next year will show the savings portion.

Alderman Simonetti: It has already shown.

Judson Crawford: I have one more question: Per in the Charter, it states that no department is to over expend the amount of money, that you, the Board of Aldermen, give to that

department during the budget season. Under Page 51, there are two departments: Risk Management, that is overdrawn by \$122,787. Miscellaneous is overdrawn by \$2,227.

Dave Cappelletti: What the Charter says is that no one department can overspend in their line item. What we are looking at on Page 51 and 52, are actual line items. So one department will have multiple line items. What we look at is the general government did not over expend its money, however in some of its lines it did.

Alderman Anglace: General Government is the department, and under the Charter, the General Government did not over expend their department.

Dave Cappelletti: If they did, they would need to come back to the Board of Finance and ask for a budget amendment to cover their differences. That is Charter, and also State Law.

Alderman Anglace: Dave, thank you for your efforts, on behalf of the City, for auditing and coming here tonight to make a presentation. Answering the questions was very helpful, and we look forward to a prosperous remainder of 2018.

3. ADJOURNMENT

Alderman Kudej MOVED to adjourn at approximately 8:15pm.

SECONDED by Alderman Simonetti. A voice vote was taken and the motion passed unanimously.

Respectfully Submitted,

Brittany Gannon
Clerk, Board of Alderman