

**COMBINED BOARD OF SELECTMAN AND BOARD OF FINANCE
PUBLIC BUDGET HEARING
MINUTES OF MEETING
MARCH 11, 2014**

Pursuant to the call and written notice, the Public Budget Hearing of the Board of Selectman and the Board of Finance was held on Tuesday, March 11, 2014 at 7:30 pm in the Library of Fairfield Woods Middle School, 1115 Fairfield Woods Road, Fairfield, Connecticut.

MEMBERS PRESENT

David Becker, Ken Brachfeld, Christopher DeWitt, Thomas Flynn, Mary LeClerc, Robert Stone, James Walsh

MEMBERS ABSENT

Catherine Albin, James Brown

ALSO PRESENT

Michael Tetreau, First Selectman, Town of Fairfield
Cristin McCarthy Vahey, Board of Selectmen, Town of Fairfield
Kevin Kiley, Board of Selectmen, Town of Fairfield
Robert Mayer, Chief Fiscal Officer, Town of Fairfield
Caitlin Bosse, Controller, Town of Fairfield and Clerk of the Board of Finance
Linda Gardiner, Budget Director, Town of Fairfield
Mary Carroll-Mirylees, Director of Human Resources, Town of Fairfield
Twig Holland, Director of Purchasing, Town of Fairfield
Stanton Lesser, Town Attorney, Town of Fairfield
Doreen Munsell, Assistant Superintendent of Schools for Finance, Board of Education
Erik Fiedler, Vice President, AON
Carlton Lindgren, Vice President, AON
Rob O'Connor, Peoples United Insurance

Chairman Flynn called the meeting to order at 7:30 p.m.

Mrs. Carroll-Mirylees led the Pledge of Allegiance.

Chairman Flynn asked for a moment of silence for the passing of former Board of Finance member, Fire Commissioner and State Representative Susan Barrett's father and for the tragic passing of Katie O'Neill and her mother in a fire at their home in Fairfield this week.

The following budgets were heard by the Boards:

1270 Legal Services

Mr. Walsh recused himself from this discussion and left the room.

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Mr. Lesser presented this item to the Boards and reviewed the handout.

Mr. Lesser informed the Boards that this budget is based on experience from this past year and the largest items are labor contracts and tax appeals.

In response to a question from Mr. Brachfeld concerning the reason for the rise in litigation costs, Mr. Lesser explained that actual cases determine the increase based on past experiences. Mr. Tetreau informed the Boards that contract negotiations with various unions including THEA, Police and Fire, are currently in progress and there are also employee grievances being reviewed.

Mr. Flynn expressed his concern that this budget appears to have been inputted to arrive at the \$500K figure compared to the actual and projected figures in the handout.

Mr. Brachfeld moved and Mr. DeWitt seconded to go into Private Executive Session to discuss Risk Management and Contingency matters. Motion carried unanimously.

Mr. Brachfeld moved and Mr. Walsh seconded to return to Public Session. Motion carried unanimously.

1330 Internal Service Fund/Human Resources Administration

Mr. Mayer and Mrs. Carroll-Mirylees presented these items to the Boards.

Mr. Mayer reviewed the contents of the handouts with the Boards. During his review of the Insurance Fund Analysis Report, Mr. Mayer noted that AON will be providing updated information regarding the B.O,E, Medical column of the report in a few weeks so that information will be updated at that time.

Mr. Flynn asked Mr. Mayer to check the projected Fund Balance estimate from June 30, 2013 and report that information to the Boards in an effort to determine the accuracy of that estimate made last year.

Mr. Mayer noted that there has been a significant deterioration in the BOE medical account from the numbers they originally used to develop their budget and the January 2014 numbers that have been reported. Mr. Mayer further noted that, had the BOE numbers not deteriorated, they would have broken even for the year.

Mrs. Munsell, Mr. Lindgren and Mr. Fiedler reviewed the BOE report handout detailing the BOE medical experience, including the February 2014 claims experience, with the Boards.

In response to a question from Mr. Brachfeld regarding the manner in which claims experience is projected, Mr. Lindgren stated that, if our district was smaller, the actuaries might decide to use a 24 month period for the projections but, for our size, the best historic period to use for projections is 12 months. Mr. Lindgren further stated that it is pretty standard industry practice to use 12 months for a group of this size. In response to a question from Mr. Flynn, Mr. Lindgren noted that the claims have not actually deteriorated at a face pace but, rather, have actually deteriorated at about 1% a month. Mr. Lindgren also informed the Boards that AON is trying to project the utilization pattern and demographics of this group of people. Mr. Lindgren also reported that he has just received new trends which will be used going forward. Mr. Lindgren stated that currently, the trend used for the BOE is 7.5% and the trend being used for the Town is 9.0% but, going forward, both the BOE and the Town will be using a trend of 8.6%.

In response to a question from Mr. Walsh, Mrs. Munsell stated that, in FY2014, the BOE planned to use \$650K of the excess reserve balance by budgeting 1X the IBNR in their calculations as was agreed with the Town. Mr. Walsh suggested that, due to the BOE using the lower trend rate of 7.5% and thereby using some of the excess Fund Balance reserve by budgeting at 1xIBNR which resulted in the BOE spending down their reserve balance, the Town is now at the point of going negative in the Fund Balance reserve Mr. Lindgren stated that the lower trend rate was recommended for use because when AON started doing the 2014 projections, the surplus reserve

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balance had continually grown for 3 years and using the lower trend rate would result in requiring the BOE to spend some of the excess reserve thereby reducing the excess reserves to a more reasonable level.

Mr. Flynn noted, to provide some context, that a number of years ago this Board had discovered that the Town had been underfunding their medical costs for a period of years and had used the BOE overfunding to compensate for that underfunding on the Town side. Mr. Flynn further noted that the Town side was actually in a negative IBNR position but when you looked at it the Town was okay in the Internal Service Fund because the BOE was so far in the black for overfunding what they needed to fund. Mr. Flynn also noted that the Town problem was caused by Risk Management related to Workers Compensation and the Town not funding medical so the BOF agreed to take the following measures:

1. appropriately fund Workers Compensation and instruct the Town to start a program to lower Workers Compensation issues
2. The Town had to adequately fund the IBNR and bring the IBNR numbers up
3. the BOE, in fairness for bearing the load while the Town was not funding the IBNR properly, would be allowed to bring down their IBNR as the Town brought up their IBNR

Mr. Flynn also noted that, at this time, the BOE is projected to be at \$1.6M and the IBNR is \$1.5M as of June 30, 2014. Mr. Flynn noted that trending is still an issue and bad experience levels could wipe out the IBNR so this needs to be addressed immediately.

Mr. Lindgren reported, in response to a question from Mr. Walsh regarding when the trend was set at 7.5 for the BOE, that in FY 9-10, 10-11, and 11-12, the trend was set at 9.0, in FY 12-13 the trend was set at 7.5 because the balance in the Insurance Fund was at 2x IBNR, FY 13-14 was set at 9.2, and FY 14-15 is set at 7.5 with the assumption of a 1.86x IBNR which would have been enough to warrant the trend decrease

Mr. Kiley asked AON, if there was a directive and the Town was committed to having 1x IBNR available at the end of next year, using the best available data which at this point is the January data, could AON go back and recalculate what the trend rate should be for the Town to get back to that 1x number and turn that into an increase, on a dollar contributed basis, to get back to that 1x number?

Mr. Lindgren said the recalculation could be done and Mr. Flynn offered his quick calculation as follows:

it now appears that we will be \$1.484M in the hole; change 1% of annual claims of \$28M gives a delta of \$500K; so FY14-15 budget, as it presently stands, is about \$2M short.

Mr. Flynn noted that the Town is currently over their IBNR which is a good thing to remember.

Mr. Mayer noted that the rating agencies only look at the total in the Internal Service Fund and that is what shows up in the CAFIR, not the individual components of what constitutes the Fund. Mr. Mayer reported that the new rating agency strategies are not interested in the parts of what the Town owes but rather in the entire debt service including Pension funding, which is well funded by the Town at this time, so the solution to this problem could be remedied over a couple of years without making a difference to the rating agencies.

Mr. Walsh asked why the BOE and the Town should have different trend numbers and it is his recommendation that the trends be the same for the BOE and the Town in the future. Mr. Walsh also asked Mr. Mayer to monitor this situation with the BOE and the Town to make sure everyone understand what needs to be done.

Mrs. Carroll-Miryrees reported that Workers Compensation is running less than it has in the past; the property insurance premiums will be going up 30% next year after a 3 year rate stabilization program with no increases. Mrs. Carroll-Miryrees stated that this program has saved the Town significantly considering the bad weather we have had over the last 3 years.

In response to a question from Mr. DeWitt about the Interscholastic Sports Insurance, Mrs. Carroll-Miryrees informed the Boards that this is insurance for injuries to students playing sports for our school programs. Mr.

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Tetreau reported that any groups that rent out space in our schools after school and on weekends must sign a liability waiver before being granted permission to use any of the Town facilities.

Mr. O'Connor, in response to Mr. Walsh's question regarding concussion injury claims now and possibly years later, explained that this would be considered a liability type claim that would be covered under the general liability policy for the Town. Mr. O'Connor also noted that the policy the Town currently has would cover this type of claim and the carrier under contract at the time of the injury would be responsible.

Mr. Walsh asked why the Educational Memberships line went up 40%. Mrs. Carroll-Mirylees reported that there have been a number of occasions when there have been issues with employees and the Town needs to have training available that these employees can take in an effort to make them better employees so this training has been added to the budget.

PUBLIC COMMENT

None

3030 Purchasing

Ms. Holland presented this item to the Boards. Ms. Holland reported that all of the lines in her budget which are under her control are down. Ms. Holland informed the Boards that the new purchasing policy is working well for some of the following reasons:

- allows the employees to stop doing busy work and redundant tasks
- there are currently 5 building committees in place
- advertising is down by \$1500 due to ability to advertise on Town website instead of in papers, etc.

In response to a question on the increase in Life Insurance, Mrs. Gardiner responded that the increase is there to correct an error that was made in prior years regarding the managerial staff life insurance assumptions.

Ms. Holland, in response to a question from Mrs. LeClerc regarding fuel bidding, informed the Boards that she has obtained competitive rates for vehicles for the rest of this year and part of 2014-2015, natural gas is done at a food rate for 2014-2015, electricity has been purchased through December 2014.

Mr. Becker expressed his opinion that some of the elected Boards should be included in the decisions for the contracts for the department heads.

PUBLIC COMMENT

None

1050 Administrative Services

Ms. Holland presented this item to the Boards. Ms. Holland reported that this budget is down 1.7%.

PUBLIC COMMENT

None

3130 Board of Finance

Mr. Flynn presented this item. Mr. Mayer was asked to check on what is covered by Education & Memberships line and Travel line.

PUBLIC COMMENT

None

3150 Unemployment Compensation

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Mr. Mayer presented this item to the Boards. Mr. Mayer noted that the food services department is being outsourced so there will be at least 2 employees who will not be offered positions therefore he has included some extra funding in this budget to cover that experience.

Mrs. McCarthy-Vahey asked when those employees would be informed of this situation. Mr. Tetreau stated that this is actually a BOE decision and should be addressed by the BOE.

Mr. Mayer, in response to a question from the Boards, reported that the Professional Services line is a monitoring fee.

PUBLIC COMMENT

None

10030 Debt Service

Mr. Mayer presented this item to the Boards. Mr. Mayer noted that ½ of the Bond Premium has been used and there is still \$1.127M remaining.

In response to a question from Mr. Flynn concerning the possibility of using the remaining bond premium to cover the BOE shortfall, Mr. Mayer stated that it could be used for that purpose as it would not be illegal according to IRS regulations.

In response to a question from Mr. Walsh, Mr. Mayer informed the Boards that he would be sure to check with Bond Counsel about using the remaining Bond Premium to cover the BOE shortfall.

PUBLIC COMMENT

None

On a motion made by Mr. DeWitt and seconded by Mr. Becker, the meeting was adjourned at 10:57 p.m.

Respectfully submitted,

Deborah J. Garavel
Recording Secretary