BOARD OF FINANCE
TOWN OF BRANFORD, BRANFORD, CONNECTICUT 06405

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BOARD OF FINANCE MEETING MINUTES
February 28, 2017

Chairman Mooney called the regular meeting of the Board of Finance to order at 7:30 p.m. Board members present were Victor Cassella, Charles Shelton, Lorraine Young and Jeffrey Vailette. Kenneth Kaminsky was absent.

Also present were First Selectman Jamie Cosgrove, Second Selectman Jack Ahern, Finance Director Jim Finch, Town Clerk Lisa Arpin; RTM reps Tricia Anderson, Peter Black, John Carter, Don Conklin, Bob Imperato, John Leonard, Marc Riccio, Robin Sandler, Jim Stepanek, Clare Torelli (arrived during item #5), Frank Twohill, Jim Walker and Jennifer Zambrano. In addition, Board of Education attendees Hamlet Hernandez and Michael Krause, Recreation Director Alex Palluzzi and Senator Ted Kennedy, State Reps Lonnie Reed and Sean Scanlon.

1. Mr. Cassella made the motion to approve the minutes of the January 30, 2017 meeting, seconded by Mr. Shelton. Vote unanimous.

2. Citizens Communication – RTM Rep Peter Black addressed the legislators with concern about the Governer's prospect of shifting the teacher's retirement liability burden onto taxpayers.

3. The Board of Finance heard an overview presentation of the Town's volunteer fire pension fund and police pension fund by GYL Financial Synergies and Hightower Advisors for the quarter ended December 31, 2016. Charles Andriole, Michael LePore and Robert DeLucca touched on highlights:

   Police Pension Statistics:
   - 12/31/16 ending market value of $22,102,484
   - Since calendar year-end, the markets have continued to move in a positive direction, and have seen a net of contributions and withdrawals of approximately a 3% increase or $615,000 in net earnings.

- The performance of the police pension is slightly negative for the quarter, with a return of -14 basis points. It is lagging behind its benchmark, due to excess position in cash. The cash allocation has been depleted and it is recommended, based on the increase in equities, to rebalance away from equities a small percentage to increase the cash position in the overall portfolio which has been depleted. There is $73,000 in cash vs a recommended target policy of $450,000 in cash.

Chairman Mooney asked for a motion to approve $569,669 to rebalance the Police Pension fund. Mr. Cassella made the motion, seconded by Mr. Shelton. The vote was unanimous.

Fire Pension:

- The fire pension had a similar performance.
- The value for the quarter $
- The recommendation is to add $9,500 to the cash account and $19,000 to the fixed income account. The net effect would be about $27,000 coming out of equities and into the cash account.

Mr. Cassella made the motion to approve the rebalance, seconded by Mr. Shelton. The vote was unanimous.

4. The Board of Finance also heard an overview presentation of the Town's Other Post-employment Benefits (OPEB) by GYL Financial Synergies and Hightower Advisors for the quarter ended December 31, 2016.
    - The value at the end of the year was $12,696,000
    - Returned 75 basis points for the quarter, 8.4% return for the year
    - Since the end of the year, the value of the OPEB has continued to increase net of contributions and withdrawals, by $398,000 or 3.5%.
    - There is no recommendation to rebalance at this point, although the fund is slightly overweight in cash.

5. The Board heard an update presentation by State Reps Lonnie Reed and Sean Scanlon and Senator Ted Kennedy relative to the impact of the legislative session on Branford with a focus on the Governor's changes in municipal aid and the State's funding commitment for the Walsh Intermediate School project, and any other changes impacting the FY2018 budget.

    Finance Director Jim Finch gave a presentation on the attached handout entitled "Impact of State Budget Outline for BOF Meeting 2/27." Jamie Cosgrove thanked the delegation for their participation and emphasized the challenges of the requirement to have the Town's budget finalized prior to the legislative session finalizing the State budget.

    Rep. Reed indicated 138 towns would have reduced State funding under the Governor's proposed budget. Rep. Scanlon indicated that Wednesday is the first funding hearing in Hartford regarding the Walsh project reimbursement.

Senator Kennedy thanked the BOF for their hard work, and thanked Jamie for the job he's done. He shared that he is fortunate to live in a town that is very well run. We should pride ourselves in that, but need to rebut some of the presumptions of the financial situation of Branford based solely on our ability to pay. The Board had an extensive Q & A open forum with the delegation.

6. Adjournment: Mr. Vailette made the motion to adjourn, seconded by Ms. Young. Vote unanimous to adjourn the meeting at 9:06 p.m.

Dated this 16th day of March, 2017

Lisa Arpin

Lisa Arpin, Clerk
Board of Finance

Impact of State Budget Outline for BOF Meeting 2/27

How does the State budget impact Branford's mill rate?

Branford receives state aid for a variety of programs which flow into various funds. (General, Special, Capital, BOE etc.) Grants which we anticipate receiving in the General Fund along with departmental receipts and fund balance make up the non-tax revenues. These revenues offset the tax requirements needed to fund the operating budget. As a result, changes in non-tax revenue can either have a positive impact or negative impact on the mill rate. Arguably reductions in non-general fund areas can create a burden in the General Fund if the community wishes to support those activities previously funded through grants (LOCIP & Municipal Projects).

If the State reduces aid to Branford doesn't that translate into higher local taxes?

The short answer is yes. It is important to note that both the Governor and lawmakers are aware of this relationship, however, the state budget has severe financial challenges due to increased pension costs for school teachers; pensions for state employees; other postemployment benefits (OPEB), and debt service payments for bonded projects.

How will local communities be impacted by these fiscal challenges?

I think all of us must recognize that despite best intentions the state's current financial condition makes it difficult for the state to honor previous commitments. As an example, during FY 2016 Branford lost approximately $170k in the General Fund as a result of adjustments by the Governor to balance the budget. In FY 2017 our ECS funding was cut by 8% and LOCIP allotments will not be available in March. Fortunately, in concert with RTM reductions last year May, the Board of Finance "dialed back" the ECS estimate when setting the final mill rate for FY 2017.

What is the outlook for 2018?

FY 2018 is an unprecedented year with the Governor proposing to reallocate municipal aid reflecting his desire to provide a progressive approach in which aid is tied to a community's needs and their ability to fund municipal services. In addition education grant formulas were redesigned in response to the CCJEF court case. Finally, the Governor is making a case for municipalities to share in the burden of providing teacher pensions by requiring local governments to contribute one third of the required contribution or approximately 10% of teacher and administrator payroll toward their pensions.

Is the recently approved middle school project impacted by these changes?

While we are genuinely concerned that the state will make changes to the school construction program we remain hopeful that any changes will impact future applications. However, we remain cautious as we acknowledge that school construction reform is an approach for reducing the states bonding commitments.

What is the impact on Branford?

See attached

How do the various mill rate scenarios compare to previous years?

See spreadsheet.

What can Branford do to cushion the impact of these changes?

Branford has a variety of options each of which provides opportunities and drawbacks as outlined below:

Pursue street lighting purchase:

Advantages	Disadvantages
Future cost savings	None

Pursue energy performance savings opportunities:

Advantages	Disadvantages
Future cost savings	None

Rescind the middle school appropriation:

Advantages	Disadvantages
Lower Debt Service Costs	Cost of Construction will rise in the future
	Construction grants are likely to be lower in the future
	Interest rates are expected to be higher in future years

Ask the BOE to absorb the teacher pension costs:

Advantages	Disadvantages
Offsets the tax requirements	Maximum class sizes

	Severe program reductions and reduced course offerings
	Violate State's Minimum Budget Requirement (MBR) as the TRB payment does not count toward meeting the MBR

Defer any action on the JBL Library renovation:

Advantages	Disadvantages
Lower Debt Service Costs	Cost of Construction will rise in the future
	Library grants may be unavailable in the future
	Interest rates are expected to be higher in future years

Defer public works garage and rescind community center appropriation:

Advantages	Disadvantages
Lower Debt Service Costs	Cost of Construction will rise in the future
Annual Rent for DPW is manageable	Interest rates are expected to be higher in future years
	Operational needs remain unfulfilled

Have the rating agencies commented on the Governor's proposal?

Standard and Poors Global Ratings published a report on February 16th, 2017, titled: *Connecticut's Proposed State Budget Could Lead to Significant Local Government Budget Uncertainty.*

Included below are excerpts from the report:

- "S&P Global Ratings believes that communities lacking the reserves or budgetary flexibility to cushion outsized budget gaps will feel the greatest effects of the proposed budget"

- "We believe those local governments that would be most affected are wealthier and higher rated communities. We believe these governments have traditionally displayed strong management practices and maintained strong reserves."
- "Communities that are able to pass tax increases or reduce expenditures could shield their balance sheet from state aid reductions."
- "Moreover, some communities may find it difficult or have limited capacity to make the needed expenditure adjustments. Without corresponding tax increases or expenditure reductions, we would likely see structural imbalances with resulting draws on fund balances, which could result in downward rating action"

What are some of the considerations moving ahead?

- A prudent approach is to budget the worst case scenario while continually monitoring the state budget through Branford's legislative delegation and municipal advocacy groups. Below is a table of key dates and underscores the challenge of reconciling the state budget process with the local budget process:

Board of Finance Public Hearings	March 20-23rd
Board of Finance Recommended Budget & Mill Rate	March 27th
State Appropriations Committee	April 27th
State Finance Committee	April 28th
RTM Adopted Budget	May 9th
Board of Finance Final Mill Rate	May 22nd *(Charter allows this to be delayed to June 1)*
Session Ending Date	June 7th

- The proposed changes regarding teacher's pensions are perhaps the most troubling of all the Governor's proposals as Branford would be tethered to the state's growing liabilities. As an example the CT Mirror citing OPM sources projects the gross pension requirement for Branford to be $8,243,351 in FY 2018 up from $6,232,061 in 2016. Additionally, these contributions are based on an 8% return assumption which is arguably an aggressive approach and requires a greater risk exposure. Unfortunately, if investment results underperform these annual costs will rise dramatically. (I encourage folks to review the Boston College Center for Retirement Research Report on Connecticut's pensions)
- While it is tempting to significantly reduce Branford's long term legacy costs obligations (Pension and OPEB) any reduction in these areas would need to be offset in future years so as to

avoid adverse rating decisions and more importantly to avoid placing Branford in the precarious position the state currently finds itself in.

Branford

DEMOGRAPHIC STATISTICS

Population	28,145	2017 Mill Rate	27
2016 Moody's Bond Rating		2015 Equalized Mill Rate	19
Land Area (Sq. Miles)	21.84	2014 Net Grand List	3,485,684,401
Total General Fund Balance	24,760,187	2014 Equalized Net Grand List Per Capita	176,727
Total General Fund Expenditures	105,369,094	Tax Exempt Property as % of 2014 Grand List	7.00%
		Ratio of Debt (excl. Pensions) to ENGL (2013)	0.90%

Source: OPM Municipal Fiscal Indicators

EDUCATION STATISTICS

Enrollment 2011-12	Enrollment 2012-13	Enrollment 2013-14	Enrollment 2014-15	Enrollment 2015-16	Enrollment Change 2011-16	FTE
3,341	3,282	3,245	3,108	3,066	-8.23%	680

Instructional Staff and Services	Instructional Supplies and Equipment	Improvement of Instruct. Media Svcs	Student Support Services	Admin. and Supprt Services	Plant Operation and Maint.	Transport.	Students Tuitioned Out	Other	Total Expenditures
$30,307,538	$1,008,278	$2,459,872	$3,580,773	$5,552,487	$4,423,188	$2,883,326	$2,788,469	$1,159,209	$54,163,140

Source: SDE EdSight

ESTIMATED STATUTORY FORMULA AID	FY 2017	FY 2018	FY 2019
PILOT: State-Owned Real Property	0	38,695	38,695
PILOT: Colleges & Hospitals	0	109,478	109,478
Mashantucket Pequot And Mohegan Fund	53,780	54,187	54,187
Town Aid Road Grant	400,004	400,004	400,004
Local Capital Improvement (LOCIP)	0	285,085	181,417
Adult Education	21,033	21,252	21,252
Education Cost Sharing	2,211,848	0	0
Special Education *	586,090	1,514,029	1,514,029
Grants for Municipal Projects	374,850	0	0
MRSF: Municipal Revenue Sharing Grant	570,402	821,080	821,080
TOTAL STATUTORY FORMULA AID	4,218,007	3,243,809	3,140,141
Reimbursement from Towns for Teachers' Retirement	0	-2,747,784	-2,837,087
CUMULATIVE TOTAL	4,218,007	496,025	303,054

* For FY 2017, Special Education amount reflects the 5-year average of the Excess Cost Grant

Impact of proposed State changes as applied to the current year

Expenditures	Budget 2017	Budget 2017
BOE	105,891,217	105,891,217
Grants for Municipal Projects (1)		374,850
Teachers Pension		2,747,784
Special Education (2)		586,090
	105,891,217	109,599,941
% Increase		3.50%

Revenues	Budget 2017	Budget 2017
Interest Penalties Back Taxes	1,444,525	1,444,525
ECS	2,110,402	0
Revenue Sharing (3)	300,402	551,080
PILOT State Property	0	38,695
PILOT Colleges & Hospitals		109,478
PILOT Pequot	53,780	54,187
Special Education		1,514,029
Other Grants	465,894	465,894
Departmental Receipts	5,245,923	5,245,923
F/B	2,825,000	2,825,000
Non Tax Revenue	12,445,926	12,248,811
Total Tax Requirements	93,445,291	97,351,130
Less State Reimbursements	270,800	270,800
Less Elderly Tax Relief	386,899	386,899
Less Allowance for Uncollectible	1,541,847	1,586,590
Total Tax Levy	95,681,739	99,653,105
Collection rate	0.98350	0.98350
Grand List (estimated)	3,491,148,779	3,491,148,779
Mill Rate	27.41	28.54
Mill Rate W/O changes		27.41
Impact of Changes		1.14
% change		4.15%

	FY 2016	FY 2017	Increase	%
Mill Rate Comparision	26.93	27.41	0.48	1.78%
Mill Rate Comparision w/changes		28.54	1.61	6.00%

(1) Offsets reduction in road paving by tax funded appropriation
(2) Previously the BOE budgeted net expenditures
(3) Maintains current R/S holdback

FY	Mill Rate	Change	%
1998	22.56		
1999	23.53	0.97	4.30%
2000	24.89	1.36	5.78%
2001	26.19	1.3	5.22%
2002	27.92	1.73	6.61%
2003	29.14	1.22	4.37%
2004	22.79	-6.35	-21.79%
2005	23.94	1.15	5.05%
2006	20.97	-2.97	-12.41%
2007	21.76	0.79	3.77%
2008	22.33	0.57	2.62%
2009	23.22	0.89	3.99%
2010	23.58	0.36	1.55%
2011	23.57	-0.01	-0.04%
2012	24.27	0.7	2.97%
2013	24.95	0.68	2.80%
2014	25.59	0.64	2.57%
2015	26.24	0.65	2.54%
2016	26.93	0.69	2.63%
2017	27.41	0.48	1.78%

Negative changes are a result of revaluations

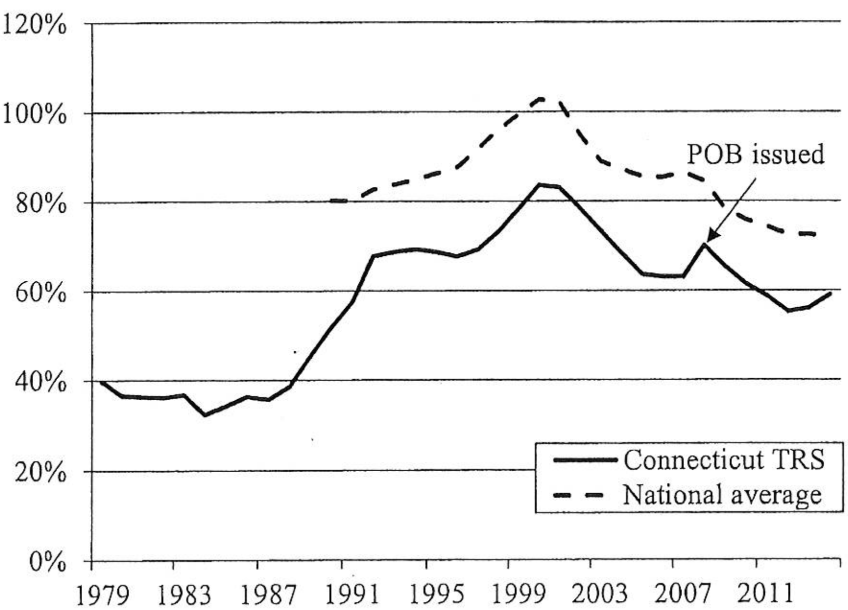
III. Connecticut Teachers' Retirement System (TRS)

A. A Brief History of TRS' Funding

Like SERS, TRS has been providing retirement benefits to its members since at least 1939 – longer than most state and local retirement systems in the United States. And, also like SERS, for much of TRS' history, benefits were paid as they came due, through annual appropriations by the State.

In 1979, the Legislature established an actuarial funding program (Public Act 79-436). Figure 24 shows the funded status for TRS from its first actuarial valuation performed as of July 1, 1979 through 2014 and provides, for comparison purposes, the national average funded ratio for state and local plans since 1990 (data prior to 1990 were not available).

Figure 24. *Funded Ratio of Connecticut TRS Compared to the National Average, 1979-2014*



Note: Beginning in 1992, TRS valuations have been performed biennially in even-numbered years (e.g., 1992, 1994, 1996). Data for odd-numbered years are estimated by taking the average of the year before and after.
Sources: Various actuarial valuations for Connecticut TRS; PENDAT (1990-2000); and *Public Plans Database* (2001-2014).

At the outset, TRS was 40-percent funded (due in large part to the accumulation of employee contributions) and had a $1.5 billion unfunded liability (equaling 234 percent of TRS' payroll). After about 10 years of pre-funding by the State, TRS entered the 1990s with a funded ratio of only about 50 percent – well below the national average. And its UAAL was still 238 percent of payroll (compared to a national average of 56 percent). While TRS' funded ratio has remained below the national average since 1990, it shares a similar pattern, rising due to strong market performance from 1990-2000, and then declining as a result of two financial downturns since

2000. Today, the unfunded liability of TRS stands at $11 billion, equaling 282 percent of TRS' payroll compared to the national average of 185 percent.

B. Factors Driving Current Unfunded Liabilities in TRS

Three factors are behind the current unfunded liability of TRS: 1) legacy costs due to benefits promised before TRS was pre-funded; 2) a history of inadequate contributions once the State decided to pre-fund; and 3) investment returns less than expectations since 2000. Each factor will be discussed in detail below. Dollar amounts have not been adjusted for inflation.

Legacy Costs

A large portion of TRS' current unfunded liability stems from the many years of benefits promised without pre-funding. Retirement benefits earned by employees prior to 1979 were completely unfunded by the State (although partially pre-funded through employee contributions). When the State decided to pre-fund benefits, it was immediately presented with a $1.5 billion unfunded liability for benefits earned by employees during the pay-go years. The burden of those unfunded benefits still lingers in the current finances of TRS, accounting for $4.1 billion, or about 38 percent, of TRS' $10.8-billion unfunded liability.

In addition to the initial legacy costs, other factors have also played a role in today's unfunded liability. Because detailed data on TRS' unfunded liability are not available from 1979-1982, this assessment of TRS' underfunding focuses primarily on the change in the unfunded liability from 1983-present (see Figure 25).[7]

[7] See the Appendix for a detailed account of the annual changes to the UAAL since 1985.