

**Board of Finance
Special Meeting
Tuesday, February 19, 2019
MINUTES**

Present: Chairman Regina Wexler, Members Dan Charest, Reggie Smith, Steve Tuxbury, Ben Witte; Alternate Members Bart Baxter; Lourena Helt; First Selectman Dan Jerram; Town Treasurer Gordon Ross, Members of the Public: Linda Goff, Laura Garay, John Burdick, David Rosengren, Bob Howson, Bob Nilsson; Administrative Assistant Christine Hayward;

Invited Guests: Chris King, Debbie Franklin; Auditors (King & King CPAs)

Call To Order:

Chairman Wexler called the meeting to order at 7:00 PM. She welcomed board members, Elected Officials and members of the public to the meeting. She reviewed her expectations of conduct for all meetings; stating that as Chairman of the Board, she expected this Board to move forward and requested that everyone conduct themselves in a respectful manner. She stated that 'everyone will be heard' and noted that there may be disagreements, however, she would expect that individuals 'agree to disagree' and she will not tolerate any arguing. She further stated that she will not allow meetings to evolve into unpleasantness.

Seating of Alternates:

Ms. Wexler seated Alternate Bart Baxter for absent member Kerry Guilfoyle. Ms. Wexler noted that Ms. Guilfoyle is a Republican and Mr. Baxter is a Democrat, however there was no Republican Alternate available to seat for Ms. Guilfoyle. Mrs. Lourena Helt, present at the meeting, has been selected by the Republican Town Committee to fill the alternate vacancy created by Ms. Guilfoyle's appointment as a regular member but she has not yet been officially sworn in and therefore cannot take an active role in the meeting at this point in time. She welcomed Ms. Helt to the Board.

Adoption of Agenda:

Agenda to remain as is as it is a Special Meeting and no changes can be made.

Approval of Minutes – January 8, 2019 meeting:

MOTION: by Charest to approve the minutes as submitted; seconded by Smith.

Ms. Wexler asked if there were any changes or revisions to be considered. No comments submitted, therefore Chairman Wexler declared the minutes approved as submitted.

(it was noted that it is the Chairman's discretion to call a vote on the motion or declare the motion as approved without a vote if it is clear that there is no objection)

Communications and Other Items presented to the Board:

Chairman Wexler informed the Board members that there were 3 opinion letters included in their meeting packet that are related to process for Line Item Transfers. These opinions have had an impact on the report that will be given by the Auditors later in the meeting. She noted that there is also email correspondence from former Board of Selectmen member Tom Klebart sent to former First Selectman MacInnes with questions Mr. Klebart had regarding transfers. The opinion letters include the 2009 opinion written by Attorney Roraback in response to the aforementioned email, a February 4 opinion letter written by Attorney Roraback regarding intra departmental line item transfers and a follow up February 12 opinion letter written by Attorney Roraback expanding his February 4, 2019, opinion regarding intra –departmental transfers.

Member Smith commented that the most recent opinion letters of February 4 and February 12 are a departure from the past and he questioned what happens at the end of the year – will line item transfers come before the Board for approval? Ms. Wexler replied that essentially the opinion states that Board of Finance has no authority to vote on the transfers, but they do have the right to be kept informed of the expenses. Smith asked, “Do you feel that we have lost our fiscal oversight?” Member Tuxbury commented, “Taxpayers should be made aware that the Board of Finance no longer has oversight over a large portion of the budget.” Member Baxter questioned the difference between “intra versus inter departmental.” Intra is within a department whereas inter is between departments. Ms. Wexler stated that both she and BOF member Witte attended a meeting with Town Counsel Roraback and First Selectman Jerram to review the legal opinion. She explained that in accordance with this written opinion, the Board of Finance does not have the responsibility to provide control on intradepartmental transfers but they are still required to decide whether or not to amend the budget at the end of the fiscal year.

Member Witte reminded all that any additional appropriation in excess of \$20,000 needs town meeting approval. That \$20,000 limit “is a line in the sand not to exceed.” The Board of Finance can still request reports on expenditures.

Mr. Tuxbury stated, “what difference does it make now – there is no control over any line items.”

Chairman Wexler told the Board that she and former Board of Finance Member/Chairman Fitzgerald had spoken with a number of different attorneys when they began investigating line item transfer powers. She stated that all of them were in agreement that the Statutes are subject to interpretation and that there is no case law to guide this process. There is no legal precedence in this state to determine a “right” way to address this issue. She stated that this is not the first time that there is a lack of clarity in the Statutes. Tuxbury stated that he thought this issue should be challenged and asked that this discussion be tabled to reserve the right to re-address the topic following the presentation by the Auditors.

Opportunity for Public Comment:

No comments

Action on Vacancy:

Chairman Wexler reiterated her earlier commentary that she had received correspondence from the Chairman of the Republican Town Committee stating that Lourena (Lou) Helt is their choice to fill the vacancy of alternate on the Board of Finance for the remainder of the unexpired term.

MOTION: by Smith to nominate Lourena Helt to fill the vacancy of alternate on the Board of Finance; seconded by Witte.

Hearing no other nominations, Chairman Wexler called for a vote.

Unanimous.

Reports:

Auditor:

Chairman Wexler introduced the Auditors from King and King, CPAS – Chris King and Debbie Franklin. Mr. King presented highlights of the draft audit document; identifying different parts of the audit. He pointed out the Transmittal Letter and the Management Discussion and Analysis (MD&A). He stated that the MD&A is a high level summary of the finances of the town. Mr. King explained that ‘fiduciary funds’ are funds that are not used for town business purposes; examples of such funds include the Pension fund, the Student Activities fund and Neighbor to Neighbor fund.

Mr. King noted that the Pension fund contribution is calculated by actuaries and the funding of the plan has increased since 2014. It is recommended to be in the mid-70% funding level and that is about where it stands. Jerram added that the plan is closed and no new participants can be added to the plan which decreases the overall liability to the town. First Selectman Jerram pointed out, for the record, that the pension fund has increased considerably due to good management and is just under \$4 million, an all-time high.

Another area of decreased future liability is the compensated absences. The town has made changes to what can be accrued and new employees not subject to past accruals have decreased the overall liability. A retirement and the resignations of a few senior employees have also decreased the liability. It was noted that the audit includes a section on Teachers Retirement and although the town does not currently have to fund this post employment benefit, it may change in the future. Mr. King also stated that there is the potential to also have to fund a portion of the health care benefits afforded to retired teachers.

First Selectman Jerram asked the Auditors to explain why the salaries listed in the report do not match the town’s payroll reports for the budgeted year. Jerram was concerned that this is misleading to the public. Mr. King explained that this is due to the way the audit handles “accruals” – wages earned in one fiscal year, but paid out in another. Due to a change in accounting procedures, this will take a couple of years of adjustments before the audit figures and payroll reports match. It was agreed that there should be a footnote at the bottom of the page indicating that these figures are not the actual wages earned due to accounting procedures.

A brief discussion occurred regarding the way Education 'pass through grants' are handled in the budget. Mr. King stated that many towns are choosing to move these revenues "off budget" and address them as wash accounts rather than expenditures and revenues. He stated that the formula grants are given to Boards of Education to use within a two year cycle. The funds need to be expended within 24 months of receipt or they must be returned to the State. The Board of Finance agreed that there should be a discussion with the Board of Ed regarding the best way to proceed with the accounting of these pass through grants.

It was noted that overall debt service is shown to decrease by 20% over the next ten years. Member Charest asked the auditor what his experience has been with respect to the average debt for most towns. Mr. King replied that it varies. He has seen it as low as less than 1% and as high as 7%. Mr. King pointed out that the Tax Collection rate for New Hartford is 98.5% in year one, but shows almost full collection three years out; commenting that this is very good.

Mr. King completed his review of the Comprehensive Annual Financial Report and moved on to the State Single Audit.

He stated that there was one "finding" and this is a repeat from the last fiscal year. The Recreation program account (a wash account that receives revenues from recreation programs and uses those funds to pay expenses) is not periodically reconciled to the general ledger; the Small Cities Housing Rehabilitation Revolving Loan Fund (grant funds that were given to the Town to be used as loans to residents who are financially qualified) has some discrepancy in outstanding balances; and Town Hill Cemetery Fund investment fund is not recorded in accounting records (this fund is an investment account and monitored by a financial advisor). Mr. King stated that this finding is not a material weakness, however, it is his belief that the systemic cause of these differences is that some of the bookkeeping/accounting is too diversified. There seems to be several different individuals involved in oversight of various funds; making it difficult to reconcile the different systems. Mr. King stated that the town has grown and there may be a need to consider additional resources and a central financial office. He referred to the potential of having a financial officer/director. Having such a position in place would allow for the Town and Board of Education to have a combined business department where one system could tie everything together. Many towns are moving toward the consolidation of the business office. King noted that the town and the BOE use the same software, but the systems are not integrated. If there were a business manager, it would be advised to integrate. This business manager would be responsible for oversight and control of all town finances. He commented that when duties are fragmented, there is no one position that has knowledge of all the various systems.

First Selectman Jerram rebutted this commentary, stating that the suggestion of a business manager position, while well intended, implies that there is not keen awareness of the financials of the town. He stated that there are revenue and expenditure reports issued every month. Variances are reported on a month by month basis.

Chairman Wexler commented that she had asked Mr. King for his opinion regarding the recent decision made by the Selectmen to seek approval of an Ordinance that addressed changing the position of Tax Collector from an elected official to an appointed position. She noted that Mr. King supported this

change due to it being a method to ‘professionalize the Tax Collector position.’ Ms. Wexler commented that hiring a budget director is a way to professionalize the finance department. She noted that she was not implying that current staff is not competent or incapable and suggested that through attrition some changes in direction could occur in the future.

Ms. Wexler added that the most important change to be made at this time is to keep a dialogue open between the Board of Selectmen and Board of Finance. This led to the discussion returning back to the issue of authority of control over line item transfers; with Mr. King stating that budgetary oversight is a well-intended process that is not clearly statutorily defined. He noted that many towns adopt Charters to guide their town due to the fact that Statutes are often vague in providing direction on many matters. First Selectman Jerram replied that budgetary oversight is occurring. He noted that the line item transfers that were recommended last fiscal year were at a record low. This is a sign that budgetary oversight and controls are in place and also shows that line items are being funded appropriately to meet anticipated expenses. Jerram explained that there are overages in some lines but these overages are intentional because they show actual spending. It is his belief that expenses need to be charged to the line where they belong and not in another line that “may fit” – a practice that existed during past administrations. Member Tuxbury commented that the problem is that the Board of Finance is not informed of these expenses prior to the expenditure; therefore the Board has no control over the expense. There is no opportunity to limit spending, which he views as a function of the Board of Finance.

Member Witte interjected that this topic of line item control caused the working relationship between the Board of Finance and the Board of Selectmen to become toxic. Witte remarked that it seems clear that there is awareness of when line items are over-expended. It is his opinion that the Board of Finance still has the ability to provide oversight of spending of the budget as a whole, but that it does not have control over internal departmental spending.

Ms. Wexler ended discussion on the topic by stating that the most recent opinion letters are, in her opinion, a clear change of direction with respect to budgetary control, but that is the opinion of town counsel and therefore is to be followed. She added that it is her hope and vision that the Boards will work together in budget matters.

Bookkeeper reports:

Ms. Wexler informed the Board members that current revenue and expenditure reports were included in their packets and asked if there were any questions. Commentary was made that the expense reports ‘no longer mattered since nothing could be done about them anyway’. Ms. Wexler requested that she would ask that the reports be sent to Board of Finance members at the end of the month prior to their Board meeting, rather than a few days before the meeting date. She noted that this would allow for time to review the reports so that if there were any questions, members would be prepared to ask them at the meeting. It was noted that the summary sheet provided by the bookkeeper entitled “bookkeepers” report was helpful information as it was nice summary of activity.

First Selectman's report:

First Selectman Jerram gave a brief operational update to the Board

*budget requests have been issued to departments requesting them to limit expenses and look for cost savings within their department

*Council of Small Towns have issued notice to towns that it appears that the Governor is looking to have Municipalities pick up costs toward teacher pensions; motor vehicle tax revenue may to the State rather than towns; tolls are being strongly considered

*Highway department has had considerable overtime within the past two weeks; but 'winter is winter'

*The highway department is having good success with its new mechanic; he does a good job with equipment repair

*Fuel tanks at town hall and town garage may be in need of evaluation –nearing the 20 year mark.

Discussion and Action on FY 2019-2020 Budget Timeline:

Chairman Wexler announced that the Regional Board of Ed will be holding a budget meeting on March 6 at 7:00 PM at Regional and members of the Board of Finance are invited to attend.

Ms. Wexler mentioned that it will be necessary to keep an eye on how the State budget process moves along before making any changes to the local budget timeline. Member Smith agreed that it should be status quo for now.

MOTION: by Smith to adjourn at 9:04 PM; seconded by Charest.

Unanimous.

Respectfully Submitted,

Christine Hayward, Administrative Assistant (substitute for Penny Miller, Recording Secretary)

Attachments filed with Town Clerk (available upon request)

Correspondence from Roraback and Roraback dated February 4, 2019

Correspondence from Roraback and Roraback dated February 12, 2019

E-mail correspondence from Thomas Klebart to earl@town.new-hartford.ct.us dated October 7, 2009

Correspondence from Charles E. Roraback (unsigned) dated October 9, 2009

Management Response Letter

Town of New Hartford State Single Audit Corrective Action Plan

Bookkeepers Report dated February 19, 2019

The following documents are not filed as attachments, but electronic copies are available upon request from the Office of the First Selectman:

DRAFT Comprehensive Annual Financial Report for Fiscal Year Ended June 30, 2018

(final Audit will be filed with Town Clerk when available)

DRAFT State Single Audit dated June 30, 2018

(final Audit will be filed with Town Clerk when available)

Revenue and Expense reports dated January 1/31/2019