Town of Trumbull

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TOWN HALL
Trumbull

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Town Council
MINUTES
April 1, 2013

CALL TO ORDER: Chairman Carl A. Massaro, Jr. called the regular meeting to order at 8:19 p.m. at the Trumbull Town Hall. All present joined in a moment of silence and the Pledge of Allegiance. The Chair asked all those present to remember Angelina (Lee) Scarpetti who recently passed, she was member of the Town Council in the 1980's, a seven term State Senator representing Trumbull, Monroe and Bridgeport and a First Woman Chair of the Greater Bridgeport Transit District.

ROLL CALL: The clerk called the roll and recorded it as follows:

PRESENT:	Suzanne S. Testani	Ann Marie Evangelista	Jane Deyoe
	Debra A. Lamberti	Thomas Whitmoyer	David R. Pia
	Kristy Waizenegger	Martha A. Jankovic-Mark	Michael J. London
	James F. Meisner	Mark LeClair	Carl A. Massaro, Jr.
	Tony J. Scinto	Vicki Tesoro	Fred Palmieri, Jr.
	Jeffrey Donofrio	Chadwick Ciocci	Gregg Basbagill

ABSENT: Jeff S. Jenkins, James Blose and John A. DelVecchio, Jr.
ALSO PRESENT: Chief of Staff Elaine Wang, Director of Finance Maria Pires, Pension Board Chairman Michael Charland, Joseph Kask, CPA and Leslie Zoll, CPA of Blum Shapiro.

*The Chair reserved his right not to vote unless otherwise noted.

APPROVAL OF MINUTES:
Moved by Ms. Jankovic-Mark, seconded by Ms. Tesoro to amend the March 4, 2013 minutes by adding the word "not" to the last paragraph on page 4 last. The sentence should read as: "Ms. Jankovic-Mark stated what is not fair is doing the additional work that was ***not*** in the contract without getting approval for funding WPCA should have come to the BOF and the Town Council for approval first."
VOTE: Motion to amend CARRIED 16-1 (AGAINST: Scinto)
VOTE: Motion as amended CARRIED 15-1-1 (AGAINST: Scinto) (ABSTENTION: Pia)

The Chair called for a vote on the February 28, 2013 special meeting minutes.
VOTE: CARRIED 16-0-1 (ABSTENTION: Pia)

DISCUSSION ITEMS:
Town of Trumbull Audit - Blum Shapiro
Mr. Joseph A. Kask, CPA and Leslie A. Zoll, CPA of Blum Shapiro were present. Mr. Kask reviewed the reports issued, there were six different reports issued to the Town of Trumbull.

- EDO 01- School Year End Financial Report - The agreed upon procedures report was issued in time and they did not find any problems or recommendations as it relates to the filing of that year end report.
- Federal State Single Audit Report & State Single Audit Report - Blum Shapiro is required to test the Town's controls for compliance with federal laws and regulations as it relates on how the Town administers its federal program, under that report they have issued some opinions. Under the State Single Audit Report compliance is tested for laws and regulations as it relates on how the Town administers its State financial assistance, they have issued a clean opinion on the Town's compliance. There was one finding.
- There are two letters that Blum Shapiro issued. One letter from Bum Shapiro to the council that states that they have audited, and speaks to what it is they did as a result of the audit, whether there were any difficulties encountered during the audit, whether there were any significant audit findings, whether there were any disagreements with management. That they received representations from management, and if there are any other findings. This is a required letter under their accounting standards. The second letter is a Management Letter; this letter addresses no significant deficiencies and no material weaknesses in the control structure. These are things they find as a result of the audit that include best business practices.
- Financial Statements - The Independent Auditor's Report is not prepared by Blum Shapiro and is prepared in the Town Hall by the Finance team. The Internal Auditor's Report indicates that the financial statements are the responsibility of management. Mr. Kask explained it is Blum Shapiro's responsibility to perform and audit and to give an opinion on those financial statements. It is Blum Shapiro's opinion based on their audit work on the financial statements of the Town of Trumbull that nothing came to their attention that a material adjustment needed to be made to the Town's financial statement. They have rendered a clean and unqualified opinion which is what the Town strives for each and every year.
- The Fund Balance of June 30, 2012 was 11.1% of the appropriated expenditures and is well in excess of the recommended 10%. The expenditures of last year were $151 million. The debt increased by $22 million during the fiscal year and issued $26 million of new bonds. There were increases in the net pension obligations. The General Fund's balance is just over $20 million. The General Fund Balance has a net change of $1.8 million (a positive number). There was bond refunding of $28,862,000 million in that year and general obligation bonds were sold. This recognized cash flow savings.
- The Unassigned Fund Balance is $16,861,000.
- The Capital Project Funds for the BOE and the 5-Year Capital Plan appear as if they are in the negative but that is not so it is due to the way the bond anticipated notes are required to be reflected on the balance sheet.
- Page 17 of the report relates to the business activities, the WPCA & Golf Enterprise Funds and self insured activity.
- Page 20 of the report represents the fiduciary fund types- the pension trust fund has $58.7 million of assets held for pension benefits. The OPEB trust is $17,000 and the private trust is at $2.3 million.
- Pension and the other post employment benefits are increasing across the country. As the ARC (Annual Required Contributions) are not met each year it appears on the accrual balance sheet, the liability grows every year the ARC is missed. Those numbers are beginning to grow. It is not unusual to see this and is confronting many of the towns and cities across the country. Mr. Kask noted the Town and Police pensions ARC's that were made were somewhat less than recommended, leaving the Town with an increase in the unfunded obligation, the balance sheet at the end of the year picked up approximately $52 million where the ARC was missed. The In 2014-2015 the accrual sheet will be required to show the difference between the value of the Town's assets and its liability, those numbers will be highlighted.
- Mr. Kask explained to Mr. Palmieri that there are some Towns' pensions that are better funded than Trumbull and there are some that are not, this not unusual to see these kind of numbers in the CT municipal landscape as it relates to pensions. Blum Shapiro has no responsibility to give the

management letter comment under their standards; it is their responsibility to report material weaknesses and significant deficiencies as they find them. They were not concerned that a material misstatement would occur; there are none of those, although it was reported as a significant deficiency this was reported last year as well. As they completed the audit there were a significant amount of audit adjustments to the year end financial statements as they were presented in order to get them to report in this format. They did adjustments in the area of liabilities, inter-fund activities, the distinctions between and encumbrance or accounts payable and moving expenditures into a proper period. Under their standards they made audit adjustments and are required to report them. Management's response is included in the report.

- Mr. Kask confirmed for Mr. London that they have a responsibility to report to the council material weaknesses and significant deficiencies that come to their attention as a result of the audit procedures. What is embodied in an auditor's opinion is not an opinion on the internal control structure. They assess and understand the internal control structure in order to determine if they have to make a material adjustment to the financial statement so that they are presented fairly in accordance with Accounting Principles for Government, nothing came to their attention that required material adjustment to the financial statements. They did report a significant deficiency.
- Ms. Pires confirmed for Ms. Testani that the General Fund Balance has been consistently increasing every year. For the last few years it has been at 10-11% and that this year represents the best fund balance to date.
- Mr. Kask indicated for Mr. Donofrio that the rating agency would like to see a larger fund balance all of the time. The 11% number is being looked at by the rating agency as being a safe number, in the context of a rating, the agency looks at many other things as well, and they can be very broad, the general fund balance is only one indicator. The rating agencies would look at Trumbull's fund balance at 11% as a healthy fund balance.
- Ms. Pires indicated for Mr. Meisner that an evaluation of the pension fund is done every two years; it had just been finalized in July 2012. The pension fund is getting better. Mr. Kask indicated the pension funds are considered in the Blum Shapiro audit, they give opinions on major funds, they do audit the pension fund as part of their financial statement, when an opinion is given it is rolled into other funds. Whether the funds are being properly managed is outside the scope of the audit. The investment manager's report would show rate of returns. The implication of the discount rate, the rate of return and the liability is if the rate of return is going down than the difference between the assets and the liability is going up.
- Ms. Pires confirmed for Ms. Tesoro that the Town's Finance Department's accounting manager position had been vacant since August 2012 and was filled in December; there were other staffing issues due to health issues.

<u>*Town of Trumbull Pension Annual Report:*</u>
Mr. Michael Charland, Pension Board Chairman was present and indicated that he is reporting on the last actuarial date, July 2012. (Pension Board Update Attached). In 2007-2008 the Pension Board did a study on the pension. The Town pension had not been funded at the level it should have been, the advisor had changed several times over the years, they had the same actuarial firm and the same trustee firm. There were some accounting issues as they changed finance administrators over the years as well. In 2009 they went out to bid and McGladrey was brought in to do an audit.
<u>*Pension Investments:*</u> The last report was in 2011. Over the last few years the net cash flows have been doing very well, the board has been very conservative because they can not afford the risk of losing any of the assets. There is a conservative benchmark in place for returns at 7.5% returns. Since the board changed to a fiduciary advisor in 2008 they have been averaging 12% returns. In 2011 they lost .9%, this did not go down as far as the market did in 2011 and is due to the conservative approach taken with their advisors. The actuarial firm agrees 7.5% return is a reasonable assumption.

Actuarial Study: The plan is underfunded due the Town ignoring the actuarial funding recommendations. The Town's Pension Board has been looking at this, as well as the First Selectman and has been funding the pension more. Up to last year $4 million was being contributed and $5 million was being paid out in benefits. Even though more funding was being contributed than the previous year the Town was not putting enough in to cover the benefits. Last year for the first time in the last two quarters the trend has changed and they are seeing a positive contribution, the amount of money the employees are putting in and what the Town is putting in is exceeding the benefits. The actuarial report represents the funding ratio at 28%. There is approximately $21-$22 million in assets now. Since 2006 the number of participants in the program has increased significantly, primarily on the BOE side. The board has made recommendations to limit the pension program to full time employees only. Last year there were 835 participants and back as far as 2008 there were 800 participants. The increase in participants increases the Town's liability. The recommended contribution this year is $4.5 million and increase of 1.5% every year thereafter, this will allow the plan to heal over the next 25 years. If the Town puts in 3% more every year, in 10 years (2022) the pension would be 50% funded, (based on the recommendations worst case scenario the pension fund would be 33% funded and the best case scenario would be at 62%). The Town could get to 80% in the next 10-15 years. From a cash flow perspective there is no reason to go out and fund this with a $20-30 million tax raise, this can be slowly built into the budget.

Long Term Improvement Plan:

- Defined Contribution Plan - The Town started a 401a plan, (Defined Contribution Plan) last year. The Defined Contribution Plan requires the Town to fund. The recommendation is to get as many people onto the Defined Contribution Plan as possible, the regular pension plan would end and everyone would be on the 401a plan and it would be self sufficient. There are benefits to a Defined Contribution Plan they are as follows: it does not require someone staying in Town employment for 20-30 years, the people would not have to stay 10 years to be vested they could stay 5-6 years and roll it over to a 401k.
- Increase Employees' Contribution - The participant's contribution rate depends on the union; between 3%-5%. For this pension plan 3%-5% is. Low compared to others. Negotiating the rate to 5% or 6% is fair for the employees, the board encourages the Town to do so.
- Lower Interest Rate for Non-Vesting Period - The interest rate for the non-vesting period of employees' contribution is 5% per annum and is high; the interest rates for the past few years have been 0%. The benchmark rate could be Treasury Rate 1.6% or something similar.
- Limit Eligibility to Full Time Workers - Particularly on the BOE side, this is something the Town needs to decide on.

Mr. Charland confirmed for the Chair that the police and teacher's pensions are separate from the Town pension plan. The BOE side includes a substantial amount of employees, in 2008 the number of participants increased significantly it could have been due to recruitment by the school administrators. The unfunded pension plan is not due to bad investments or bad investment returns. The pension always had a good advisor and earned close to the benchmark, the current board's advisor has exceeded the benchmark at 12% over the last 4 years. The benchmark for that period was 11.5%. The liabilities increase just because it is a Defined Pension Plan, the longer someone stays the more money they get. The corporate sector has gotten out of Defined Pension Plans. The Town is not in any worse of a situation as any other Town or City, and is moving in the right direction to remedy this it will take time. Mr. Charland would like to see it move faster, once the Town gets over the 50% mark it will be in good shape. Having more people going to the Defined Contribution Plan will make a difference.

Mr. Charland indicated for Mr. London that the Fiduciary Investment Advisors are managing the funds (a mid-sized firm) and some XUBS. The target return is important; they discussed the risk with the advisor and picked the 7.5% benchmark because in the down cycles it did not go down as low as some of the other applications. They voted as a board for the 7.5% benchmark because the 8.5% target on the low side was very low; it went down 10-15% in 2011 v the .9% that the 7.5% benchmark went down to. The Pension Board's primary goal is not to risk the assets. The board has not introduced any type of social investing.

Mr. Charland explained for Ms. Jankovic-Mark that they are not underperforming, they have 45% invested in domestic equities with 5 different funds in that portfolio and are earning at that the benchmark for those types of stocks. They asked the pension advisor to meet or beat the benchmarks; they look at both the risk profile in the up cycle and the down cycle. In 2012 they made 12% and their blended benchmark was 12.2%. The 3-year number was 8.3% and the benchmark was 8.9%. This report is available every quarter. The actuarial evaluation is on-line. Ms. Jankovic-Mark asked that the quarterly report be e-mailed to her. Ms. Jankovic-Mark stated that it appears that the Town is not making enough of a contribution, she looked back to 2008 at the funded ratio at 33.3%, 2010 it is at 26.7% and now it is at 28.1% and noted the growing debt liability. Mr. Charland stated in 2008 they had liability of $57 million with 800 people, in 2012 there were 835 people in the plan, the liabilities were up to $67 million an increase in liabilities of $10 million and the assets were flat. In 2009 the Town's benefits v contributions lost approximately $600,000, in 2010 they lost $800,000, $300,000 in 2011 and last year they were net positive at $300,000. In 2010 it was the peak; the Town and employee contributions were at $3 million and were paying out $4 million. The Town needed $800,000 in investment income just to keep it where it was. The police have their own pension board. Ms. Jankovic-Mark requested 2007-2008 be included in the Investment Performance Table, Ms Pires stated that she would forward that information to Ms. Jankovic-Mark.

Mr. Charland indicated for Mr. Scinto that if the Town stopped funding the pension plan the plan would be bankrupt in 2027. If the Town was to continue to put in more than the actuarial recommendation for the next 10 years the pension plan would be 50% funded. If the Town were to stop then that would put the 2027 out another 15 years. The Town has gone from 288 people receiving benefits in 2008 325 in 2012 and is steadily increasing, there is another 74 with deferred vested benefits bringing the number to 400; there are 436 people active. If the Town employment goes down 20-30% in the next 4-5 years they will not have those people investing in the plan and the pension assets will decrease quicker. If the Town stays the course it will be ok, there will be legislation in the future which will require towns to fund the pension plans. If the Town stops new people coming onto the pension plan then the number of people on the plan will freeze, the Town will then really know what the Town's liability will be in ten years.

Mr. Meisner complimented Mr. Charland and the board for a job well done, they are working with a plan that has been underfunded for years and spoke in favor that the Town is bringing the Town's contribution up to 100% of the actuarial recommendation. Mr. Meisner stated the Town should not count on equities doing as well as they have for the past 4 years. Mr. Charland stated the board debated leaving the benchmark at 7.5% at their last meeting. The board brought in a new actuarial firm last year and that was one of the assumptions they tested. The police pension's benchmark is 8%. We are in unchartered economic times. They are focused on their investments returns at the benchmark and having the right allocations. The Pension Board's primary goal is preservation of assets.

The Chair noted that there were no representatives present for the other discussion items on the agenda.

BUSINESS:

1. RESOLUTION TC24-120: HELD IN COMMITTEE

2. RESOLUTION TC24-121: HELD IN COMMITTEE

3. RESOLUTION TC24-122: Moved by Ms. Deyoe, seconded by Mr. Palmieri.
   BE IT RESOLVED, That $5,067 is hereby appropriated from the General Fund to Buildings Department - Salaries-PT-#01023200-501102.

   Committee Report: The Legislation & Administration Committee met on March 27, 2013 and voted unanimously.

   Ms. Wang explained for Mr. Meisner that there is no variability to part-time positions, they are defined as 19.5 hours per week.

   VOTE: ADOPTED unanimously.

4. RESOLUTION TC24-123: Moved by Mr. Palmieri, seconded by Mr. London.
   BE IT RESOLVED, That $11,201 is hereby appropriated from the General Fund to Town Clerk – Services and Fees-contr-01013600-522204 and Town Clerk –Program Expenses-01013600-522205.

   Committee Report: The Legislation & Administration Committee met on March 27, 2013 and voted unanimously.

   Ms. Jankovic-Mark stated that over $10,000 of this cost is for Charter Revision to update the Municipal Code and requested all of the costs associated with Charter Revision to date from the Finance Director.

   VOTE: ADOPTED 15-2 (AGAINST: Jankovic-Mark and Tesoro).

   There being no further business to discuss and upon motion made by Mr. London, seconded by Ms. Testani the Town Council adjourned by unanimous consent at 9:49 p.m.

   Respectfully Submitted,

   ____
   Margaret D. Mastroni, Town Council Clerk

ATTACHMENT

TOWN OF

Trumbull CONNECTICUT

Date: March 15, 2013
To: Mr. Timothy Herbst, First Selectman
Town Council

Re: **Pension Board Update**

Below is a brief update of our performance, activities and initiatives since our last update in March of 2011.

Executive Summary

- **The long term improvement plans put together in 2009 are starting to have a positive impact.**
  - Net Cash Flows were positive in 2012 and thanks to great work by the Council and Town, we expect this trend to continue.
  - The recently completed actuarial study show an increase in the funded ratio, to 28.1% from 26.7% in 2010.
- **The pension investments are performing well and we are satisfied with our advisor, Fiduciary Investment Advisors.**
- **The town finance team continues to make improvements in the plan administration.**

Pension Investments

Our investments continued to perform at our targeted benchmarks. 2011 was a very tough year but 2012 recovered very nicely. This is our 4th full year with Fiduciary Investment Advisors and we are very satisfied with their service and performance. Over this term we earned, on average, 11.9% per year, significantly beating our targeted return of 7.5%.

Calendar Year	2009	2010	2011	2012
Investment Performance	21.9%	14.0%	-0.9%	12.5%
Plan Assets (millions)	$ 16.8	$ 18.3	$ 17.8	$ 20.5
Net Cash Flows (thousands) (Exluding Investment Income)	$ (571)	$ (781)	$ (292)	$ 264

Our Assets are growing again and for the first time in recent history our Net Cash Flows are POSITIVE. Due to the towns continued commitment to increase contributions, our net cash flows have turned positive and we are starting to solve the longer term funding problem. We applaud these efforts, which occurred in a very difficult economic and budget environment.

Feb 19th, 2013 Actuarial Study

The town, with the Board's support, hired a new actuarial firm to get a fresh perspective in 2012. This was done on a competitive basis and BPS&M (a Wells Fargo Company) was selected.

Valuation Results			
	July 1, 2012	July 1, 2010	July 1, 2008
Participants			
Active	436	453	433
Deferred Vested	74	69	79
Receiving Benefits	325	320	288
Total	**835**	**842**	**800**
Total Liabilities	**$ 67,905,000**	**$ 62,863,043**	**$ 57,704,539**
Actuarial Value of Assets	**$ 19,096,003**	**$ 16,807,159**	**$ 19,572,031**
Funded Status (unfunded)	**$ (48,808,997)**	**$ (46,055,884)**	**$ (38,132,508)**
Funded Ratio	28.1%	26.7%	33.9%

These results were in line with the Board's expectations, based on the funding levels and the increased number of participants receiving benefits. As explained above, the Net Cash Flows in the fund was positive in 2012 and this trend is consistent with our long term plan to improve these results.

Recommended Contributions				
Year	Recommended Contribution	% Increase	Increase Amount	Estimated Funded Ratio
2012	$ 4,576,000			28.1%
2013	$ 4,581,000	0.1%	$ 5,000	31.1%
2014	$ 4,662,000	1.8%	$ 81,000	32.8%
2015	$ 4,706,000	0.9%	$ 44,000	35.0%
2016	$ 4,753,000	1.0%	$ 47,000	37.1%
2017	$ 4,803,000	1.1%	$ 50,000	39.1%
2018	$ 4,859,000	1.2%	$ 56,000	40.9%
2019	$ 4,920,000	1.3%	$ 61,000	42.6%
2020	$ 4,984,000	1.3%	$ 64,000	44.3%
2021	$ 5,054,000	1.4%	$ 70,000	46.0%
2022	$ 5,126,000	1.4%	$ 72,000	47.6%
	2022 Economic Scenarios		Worst Case	33.4%
			Best Case	61.7%

Recommended contributions are only minimum requirements and will not result in meeting our goal of 80% funded in the next 10 years.

Please take away from the above exhibit, two very important observations.

1. The above recommended contributions are very reasonable and less than a 2% increase every year.
2. In the worst case scenario, the funded % will rise to 33.4% from 28.1% today.

This gives us the opportunity to significantly beat these results with a modest 3% to 4% increase to our annual contributions … Lets beat the Best Case and get to our 80% goal by 2022!

Process Improvements / Operations

The conversion to a new trustee (Wells Fargo), which was started in 2010, is fully completed and all recommendations from the RSM McGladrey audit have been fully implemented by the town Finance Department. The collections of overpayments, discovered in the audit, are still in process and as of this letter the town has a plan in place for every one of these accounts. The collection process, in some cases, will carried out over the next few years.

The town completed a review of all terminated employees in the plan, but who have not vested and are in the process of returning their contributions, with the required 5% per annum interest. A new process has been implemented to complete this promptly after termination. This will save the town the 5% interest payment and reduce the administrative burden of having non-vested, terminated employees in the plan.

With the hiring of a new actuarial firm (BPS&M), we have completed our plan, started in 2009, to put out to bid our three partners (Trustee, Administrator and Actuary) in assisting us in the management of this pension plan. We are satisfied that we have hired the right partners to help us continue to improve the long term results and administration of this pension plan.

Long Term Improvement Plan

The Board fully supported the initiative to move to a 401a plan and believes this is an excellent long term solution. We remain committed to encourage and help the town convert as many employees as possible during future union negotiations.

We also recommend that the Town consider the following changes in the current plan, as negotiations continue:

- Increase participant contributions, currently at 3% to 5%, which is very low compared to similar plans around the state.
- The interest rate used for the non-vesting period of employee contributions is 5% per annum. We feel this is too high, in this recent environment and should be changed to a benchmark that will change with the times. Such a benchmark could be the 10 year Treasury rate (1.6%) or similar benchmark.
- Limit eligibility to only full-time workers (1,200 to 1,400 annual hours), especially on the Board of Education side.
- Continue to fund the pension plan at the actuarial recommended rate, or slightly higher at a 3% to 4% increase annually.

Your Board has a talented, diverse and engaged team that is very satisfied with the progress we have been able to make, with you and our town staff, in putting in place a long term solution to our unfunded liability. We believe that we are heading in the right direction and look forward to supporting you on our continued progress. We would welcome the opportunity to meet with you and explain this report and our recommendations in more detail, at your convenience.

Respectfully the Pension Board,

Michael Charland Chairman	John Ponzio	Maria Pires	Donna Pellitteri
James Lavin Secretary	Michael Knight		