

Susan Marcinek

From: Kortze, John [john.kortze@wellsfargoadvisors.com]
Sent: Wednesday, May 05, 2010 12:19 PM
To: Bob Tait (finance.director@newtown-ct.gov); Harrison Waterbury (harrison.waterbury@sbcglobal.net); James Gaston (OKJT@aol.com); jkearney19@aol.com; Martin Gersten (mjglaw@aol.com); Michael Portnoy (mike@trustadvisors.net); Susan Marcinek
Subject: FW: Special Appropriation Request

FYI...See Mike's comments below

From: Portnoy, Michael [mailto:Michael.Portnoy@hatterasfunds.com]
Sent: Wednesday, May 05, 2010 12:02 PM
To: 'Kortze, John'
Subject: RE: Special Appropriation Request

John:

The only issue that I have is one of utilization of facilities. After the enrollment study by Dr. Chung, one might conclude that the school we shut down, if any, would be the Middle School. Would that change our opinion on how we replace or repair the roof? A long term solution might be to use the building for other purposes such as police, fire, senior center, etc. We might possibly have to do some extensive renovation at some point which may color our thinking on what type of fix we do to the roof at this time.

I pass this along to you...but certainly I would share with others if you feel the time is right.

Mike

Michael E. Portnoy
Vice President of Public Investments

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RELATIONSHIPS • ALTERNATIVES • RESULTS

From: Kortze, John [mailto:john.kortze@wellsfargoadvisors.com]
Sent: Wednesday, May 05, 2010 11:53 AM
To: Bob Tait (finance.director@newtown-ct.gov); Harrison Waterbury (harrison.waterbury@sbcglobal.net); James Gaston (OKJT@aol.com); jkearney19@aol.com; Martin Gersten (mjglaw@aol.com); Portnoy, Michael; Susan Marcinek; Janet Robinson; Lillian Bittman; Jeffrey Capeci
Subject: Special Appropriation Request

All,

I am in receipt of your special appropriation request, from the BOE, dated May 5 for the Middle School Roof. It will be on our agenda for our regularly scheduled meeting at the end of the month as I have cancelled next Monday's meeting. After speaking with Bob Tait, this does not represent a problem and the town should move forward with expediting the process in anticipation of the meeting. This would be consistent with the BOE CIP recommendation to the Council, which was in turn adopted, of expediting all projects to derive any savings possible.

5/5/2010

Susan Marcinek

From: jkearney19@aol.com

Sent: Wednesday, May 05, 2010 12:45 PM

To: john.kortze@wellsfargoadvisors.com; finance.director@newtown-ct.gov;
harrison.waterbury@sbcglobal.net; OKJT@aol.com; mjglaw@aol.com; mike@trustadvisors.net;
susan.marcinek@newtown-ct.gov

Subject: Re: Special Appropriation Request

Unless we take the building down, the roof will need to be repaired. However, to Mike's point, if it unlikely to be used in its current fashion, or a portion taken down and rebuilt as a senior center, etc., then it might be a waste of money for a comprehensive repair at this time as opposed to a shorter term (and less costly) fix. Personally, I think that the middle school is the most likely candidate for closure if the enrollment study turns out to indicate a severe and somewhat permanent (10 years or so) decline in student population.

Newtown Board of Education

*3 Primrose Street
Newtown, CT 06470*

April 9, 2010

Board of Finance Members:

Per its minutes, the Board of Education discussed your February 25 request regarding the 2009-2010 budget at its March 2 and March 16 meetings. At its subsequent meeting April 6, the following motion was made and passed unanimously:

Mr. Hart moved to direct the Superintendent of Schools for the balance of the 2009-2010 fiscal year to limit spending on discretionary items only to those that are absolutely necessary. Secondly, after the final Special Education Excess Cost Grant payments are received, the Board further directs the Superintendent to identify any nonperishable essential items, such as paper or fuel, that can be purchased this year for next year at a lower price than next year, thus saving the Board and the Town money, and bring these recommended purchases to the Board for case by case approval.

Mrs. Fetchick seconded. Vote: 7 ayes

Sincerely,

Lillian D. Bittman
Chairperson, Board of Education

The Calculation of the Estimated Contribution to a Self Insured Medical Benefit Plan:

- The estimated contribution is comprised of the expected paid claims for the period 7/1/2010 – 6/30/2011 plus the administrative fee plus the stop loss insurance premium plus the BC/BS network access fee.
- 90+% of the estimated contribution is the expected paid claims amount. It is this part of the contribution that is an estimate.
- To get the expected claims amount:
 - Use a 12 month claims experience period. We used 4/1/2009 – 3/31/2010.
 - Subtract claims in excess of the individual stop loss (claims insurance paid for)
 - Apply an inflation rate for the next 15 months (3 months till the end of the fiscal year + the next fiscal year)
 - Anthem used 12.5% for medical; 9.6% for drug.
 - Aon used 10.9% for medical; 9.4% for drug.
 - These inflation factors are similar yet a percent here and a percent there affect the contribution amount differently. No one knows what the inflation rate will be exactly.
- Education estimated contribution arrived at:
 - Anthem \$9,729,951
 - Aon \$9,679,110
 - Anthem I \$9,860,801
 - The difference between the basic Anthem and Aon estimates is \$50,841 which is less than half of one percent of the total recommended contribution. The Anthem I cost estimate is based on projected plan enrollment for BoE employees.
- Today, May 14, Schools Superintendent Janet Robinson, First Selectman Patricia Llodra, and Financial Director Robert Tait met to discuss and analyze the different insurance estimates and agreed to recommend the basic Anthem quote of \$9,729,951. We feel that the basic Anthem estimate is a fair and reasonable compromise in our relative assessments of cost.
- Further, any over or under estimates of the contribution amount will be taken into account when the medical benefit consultant calculates the next budget years contribution. The contribution amounts given by the consultants will always be above or below the actual amounts. The goal is to get it as close to the actual amount as is possible.
- We are working together for the selection of one insurance consultant for the Town in order to better focus and clarify all costs. In addition, we are preparing for implementation of the self-funded insurance program.

Janet Robinson, Superintendent of Schools
Patricia Llodra, First Selectman

TO: Lillian Bittman, Chair, Newtown Board of Education
 FROM: E. Patricia Llodra, First Selectman, Town of Newtown
 DATE: May 10, 2010

SUBJ: LETTER OF MEMORANDUM REGARDING MEDICAL SELF INSURANCE:

.....
 The text below describes conditions and expectations related to the development of a medical self-insurance fund for the Newtown Board of Education and the Town of Newtown. These items have been developed and agreed to by the Town Financial Director, Mr. Robert Tait, and the Board of Education Business Manager, Ms. Diane Raymo.

The fifth bullet point identifies a Board to provide oversight for the medical self-insurance fund. I strongly recommend this approach and suggest that its structure and role be similar to the Town's Pension Board. Further, I recommend that the Medical Self-Insurance Board be established through ordinance. And, that our Town Financial Director and the Board of Education Business Manager participate in drafting the ordinance language so that the final code protects both parties and the Town of Newtown.

I am pleased that our collaboration has taken us to this point and am confident in the future of our work together. I plan to take this document forward for Board of Selectmen review and action. Please let me know how your Board receives this proposal. I am hopeful that our respective Boards will support the proposal and that we may together move the request to the Legislative Council.

- Medical self insurance fund (MSIF) will be maintained by Town finance director. Fund will account for Town and Education transactions separately. Interest earned by the fund will be distributed proportionally to Town and Education (in the medical self insurance fund).
- Even though the MSIF will account for Town and Education separately, it will still be considered one fund. Accumulated excess funds (as determined by the consultant) will help even out the annual contributions to the MSIF by the Town and Education.
- Detail on medical claims and other pertinent information will be provided to the Town and to Education. The Town finance director shall receive the summary information in order to record the transactions into the MSIF.
- Contributions to the MISF for fiscal year 2010-2011 will be the amounts in the respective budgets (after the April 29 LC adjustment reflecting the latest Aon projection).
- A MSIF Board will be created to monitor and guide the MSIF.
- Contributions to the MISF for subsequent fiscal years will be determined by the medical benefit consultant (using claims experience and MSIF fund balance) who will inform the MSIF Board.
- Regulations pertaining to the operation and control of the MSIF will be created by ordinance by the LC.



Research & Information Survey

THE VOICE OF LOCAL GOVERNMENT

Pension Fund Advisor Selection

Municipality	How do they select pension fund advisors?	Est. Population
Bethel	Bethel's Pension and Insurance Commission chooses advisors.	18,438
Cheshire	Cheshire hires an outside investment consulting firm to find advisors.	29,066
Darien	Darien bids out, but they have not done so recently.	20,177
New Canaan	New Canaan bids out	19,912
New Milford	New Milford bids out	28,338
Ridgefield	Ridgefield's Pension Committee chooses pension advisors	24,011
Torrington	Torrington bids out	35,312
Westport	Westport bids out	26,592

Board of Finance Questions

1. What is the total compensation of our advisors based on? i.e., percent of funds invested, fee plus, etc.+ ?

The compensation is based on the total assets under management

The rate is First \$8,000,000 @ .60% per annum paid quarterly

Balance of account @ .50% per annum paid quarterly in arrears.

	<u>2006</u>	<u>2007</u>	<u>2008</u>
Avg Assets Mgd*	\$ 22,648,780	\$ 25,347,729	\$ 23,534,561
Mgmt Fees	\$120,867	\$135,247	\$126,277
Brokerage Comm	<u>\$38,971</u>	<u>\$12,635</u>	<u>\$13,475</u>
Total	\$ 159,838	\$ 147,882	\$ 139,752

2. How does this compare to pensions of like size?

Ridgefield and Easton invest in mutual funds. Costs are unknown.

Below are the results of various similar town pension returns over the past 4 years.

TOWN OF NEWTOWN PENSION PLAN				
<i>Comparison of pension trust account yields</i>				
<u>FYE</u>	<u>Newtown</u>	<u>Ridgefield</u>	<u>Easton</u>	<u>City of Port Orange, FL*</u>
06/30/2006	6.7%	9.0%	11.6%	6.8%
06/30/2007	10.8%	16.2%	15.6%	12.8%
06/30/2008	3.4%	-6.9%	-4.7%	-12.0%
06/30/2009	-9.8%	-16.1%	-21.0%	-16.2%
Four Year Yield (Simple Total Return Net)	10.26%	-1.07%	-2.87% (45 mos.)	-6.70%

* City of Port Orange, FL is a 9/30 fiscal year end.
The value shown for 6/30/09 is a valid 12 month figure for 7/08-6/09.

3. How do other towns select pension fund advisors? (i.e., RFP, RFQ, other?)

Don't know

4. What criteria / standard have been used to employ the pension administrator companies?

The administrator is TR Paul

We interviewed about 5 advisors. (3 interviews were conducted with Westport Resources with tough fee negotiations)

Looked for length of time in business

Consistency of returns of assets under management

Compensation

Proof of the ability to produce returns

5. What annual review process has been employed to review the success of the pension administrator companies, i.e., comparisons to whom or what?

The pension advisor provides a comparison of a comparable custom benchmark which consists of indices of comparable proportion to the committee's assets under management as stated in the town's current Investment Policy Statement.

6. Does the Board of Selectmen implement such standard and / or reviews, the pension committee, or both?

The Board of Selectmen review monthly, quarterly and annual reports which show the value of the pension fund versus the funds blended benchmark and the 8% targeted return.

7. Are any conflict checks included for any town Board or Committee members (i.e., is the name of the coordinator publicized in any manner other Boards or committee members to make sure there are no conflicts, etc?)

No.

8. Your investment assumption is 8% annually, yet the actual annualized return over the last ten years is approximately 4.5%. How can you continue to use an 8% investment assumption based on the ten year record?

The annualized return from inception to 12/31/07 was 8.42% compounded annually.

During 2008 the markets deteriorated, actually the drop was the worst since the Great depression and the committee does not react to short term market movements. The advisor is authorized to adjust the mix of Cash, Bonds, or Equities according to market conditions.

In November 2008, at the Pension Committee meeting, the advisor was asked if 8% was still achievable given the current market downturn. The answer was yes; the return 09/30/99 thru 06/30/08 was 7.75% (IRR).

The committee asked the Actuary to provide a table of town contributions if the town lowered the rate of return several years ago (July 1, 2006). The recommended June 30, 2008 contribution @ 8% was \$757,564. If the return was changed to 7% the town contribution would be \$1,367,941 an 81% increase.

9. What changes to your investment approach might increase your return?

We have chosen a mix of approximately 60% equities and 40% fixed income. Changing the mix to favor equities will increase the risk of the portfolio and possibly the return.

10. How often do you review your investment policy statement?

*When necessary or when the advisor suggests making changes.
The IPS statement was prepared 09/30/99 and amended on:*

04/23/02

05/05/03

11/25/03

10/18/05

11/03/08

11. Are your investment options too limited to reach your desired return?

No.

12. Have you considered hiring firms that specialize in various asset categories (equity, bonds, international Vs. Westport Resources that handles the entire fund?)

No, and we do not recommend considering multiple advisors.

Westport Resources' Global Tactical Asset Allocation Strategy moves assets among asset categories to utilize the best performing managers at any given time. This strategy eliminates the need for a consultant, (+ fees) delays in decision making by our volunteer committee, and puts the responsibility of a dynamic asset allocation in the hands of our professional asset manager who is highly ranked by the third party analysts (i.e. Morningstar, Thompson Reuters, Nelsons).

RESOLUTION PROVIDING FOR A SPECIAL APPROPRIATION
IN THE AMOUNT OF \$4,257,690 FOR ROOF REPLACEMENT
AT NEWTOWN MIDDLE SCHOOL AND AUTHORIZING THE
ISSUANCE OF \$4,257,690 BONDS OF THE TOWN TO MEET
SAID APPROPRIATION AND PENDING THE ISSUANCE
THEREOF THE MAKING OF TEMPORARY BORROWINGS
FOR SUCH PURPOSE

RESOLVED:

Section 1. The sum of \$4,257,690 is a special appropriation made pursuant to Chapter 6, Section 6-30 (a), (b) and (c) of the Town Charter of the Town of Newtown for the design and construction of the roof replacement at Newtown Middle School as authorized in the capital improvement program for the fiscal year ending June 30, 2011, and for administrative, financing, legal and costs of issuance related thereto (collectively, the "Project"), said appropriation to be inclusive of any and all State and Federal grants-in-aid thereof.

Section 2. To meet said appropriation, \$4,257,690 bonds of the Town, or so much thereof as shall be necessary for such purpose, shall be issued, maturing not later than the maximum maturity permitted by the General Statutes of the State of Connecticut, as amended from time to time (the "Connecticut General Statutes"). The bonds may be issued in one or more series as determined by the Financial Director, and the amount of bonds of each series to be issued shall be fixed by the Financial Director, in the amount necessary to meet the Town's share of the cost of the Project determined after considering the estimated amount of State and Federal grants-in-aid of the Project, or the actual amount thereof if this be ascertainable, and the anticipated times of the receipt of the proceeds thereof, provided that the total amount of bonds to be issued shall not be less than an amount which will provide funds sufficient with other funds available for such purpose to pay the principal of and the interest on all temporary borrowings in anticipation of the receipt of the proceeds of the bonds outstanding at the time of the issuance thereof, and to pay for the costs of issuance of such bonds. The bonds shall be in the denomination of \$1,000 or a whole multiple thereof, be issued in fully registered form, be executed in the name and on behalf of the Town by the facsimile or manual signatures of the First Selectman and the Financial Director, bear the Town seal or a facsimile thereof, be certified by a bank or trust company, which bank or trust company may be designated the registrar and transfer agent, be payable at a bank or trust company, and be approved as to their legality by Robinson & Cole LLP, Attorneys-at-Law, of Hartford. The bonds shall be general obligations of the Town and each of the bonds shall recite that every requirement of law relating to its issue has been duly complied with, that such bond is within every debt and other limit prescribed by law, and that the full faith and credit of the Town are pledged to the payment of the principal thereof and interest thereon. The aggregate principal amount of the bonds of each series to be issued, the annual installments of principal, redemption provisions, if any, the date, time of issue and sale and other terms, details and particulars of such bonds including approval of the rate or rates of interest shall be determined by the First Selectman and the Financial Director, in accordance with the Connecticut General Statutes.

Section 3. Said bonds shall be sold by the First Selectman and the Financial Director in a competitive offering and the bonds shall be sold at not less than par and accrued interest on the basis

of the lowest net or true interest cost to the Town. To the extent required by the Charter of the Town of Newtown, bids shall be solicited from at least three lending institutions. A notice of sale or a summary thereof describing the bonds and setting forth the terms and conditions of the sale shall be published at least five days in advance of the sale in a recognized publication carrying municipal bond notices and devoted primarily to financial news and the subject of state and municipal bonds.

Section 4. The First Selectman and the Financial Director are authorized to make temporary borrowings in anticipation of the receipt of the proceeds of said bonds. Notes evidencing such borrowings shall be signed by the First Selectman and the Financial Director, have the seal of the Town affixed, be payable at a bank or trust company designated by the First Selectman, be approved as to their legality by Robinson & Cole LLP, Attorneys-at-Law, of Hartford, and be certified by a bank or trust company designated by the First Selectman pursuant to Section 7-373 of the Connecticut General Statutes. They shall be issued with maturity dates which comply with the provisions of the Connecticut General Statutes governing the issuance of such notes, as the same may be amended from time to time. The notes shall be general obligations of the Town and each of the notes shall recite that every requirement of law relating to its issue has been duly complied with, that such note is within every debt and other limit prescribed by law, and that the full faith and credit of the Town are pledged to the payment of the principal thereof and the interest thereon. The net interest cost on such notes, including renewals thereof, and the expense of preparing, issuing and marketing them, to the extent paid from the proceeds of such renewals or said bonds, shall be included as a cost of the Project. Upon the sale of the bonds, the proceeds thereof, to the extent required, shall be applied forthwith to the payment of the principal of and the interest on any such notes then outstanding or shall be deposited with a bank or trust company in trust for such purpose.

Section 5. The Town hereby expresses its official intent pursuant to Section 1.150-2 of the Federal Income Tax Regulations, Title 26 (the "Regulations"), to reimburse expenditures paid sixty days prior to and anytime after the date of passage of this resolution in the maximum amount and for the Project with the proceeds of bonds or bond anticipation notes or other obligations ("Bonds") authorized to be issued by the Town. The Bonds shall be issued to reimburse such expenditures not later than 18 months after the later of the date of the expenditure or the substantial completion of the Project, or such later date the Regulations may authorize. The Issuer hereby certifies that the intention to reimburse as expressed herein is based upon its reasonable expectations as of this date. The Financial Director or his designee is authorized to pay Project expenses in accordance herewith pending the issuance of reimbursement bonds, and to amend this declaration.

Section 6. The First Selectman or the Financial Director are hereby authorized, on behalf of the Town, to enter into agreements or otherwise covenant for the benefit of bondholders to provide information on an annual or other periodic basis to nationally recognized municipal securities information repositories or state based information repositories (the "Repositories") and to provide notices to the Repositories of material events as enumerated in Securities and Exchange Commission Exchange Act Rule 15c2-12, as amended, as may be necessary, appropriate or desirable to effect the sale of the bonds and notes authorized by this resolution. Any agreements or representations to provide information to Repositories made prior hereto are hereby confirmed, ratified and approved.

Section 7. The First Selectman is hereby authorized, on behalf of the Town, to enter into

any other agreements, instruments, documents and certificates, including tax and investment agreements, for the consummation of the transactions contemplated by this resolution.

Section 8. The Board of Education is authorized in the name and on behalf of the Town to apply to the Connecticut Commissioner of Education for any and all State grants-in-aid of the Project.

Excerpt for Minutes of Board of Finance Meeting
May 27, 2010

A meeting of the Board of Finance of the Town of Newtown was held in the Council Chambers of the Newtown Municipal Center, 3 Primrose Street on May 27, 2010, at 7:30 P.M. (E.D.T.).

* * *

Members present and absent were as follows:

<u>Present</u>	<u>Absent</u>
John Kortze	
James Gaston	
Martin Gersten	
Joseph Kearney	
Harry Waterbury	
Michael Portnoy	

* * *

Mr. Kortze introduced and read the following resolution:

RESOLVED: That the resolution entitled "Resolution Providing For A Special Appropriation In The Amount Of \$4,257,690 For Roof Replacement At Newtown Middle School And Authorizing The Issuance Of \$4,257,690 Bonds Of The Town To Meet Said Appropriation And Pending The Issuance Thereof The Making Of Temporary Borrowings For Such Purpose", a copy of which is attached hereto, is hereby adopted and recommended to the Legislative Council for consideration and action, said special appropriation was requested in a letter dated May 5, 2010 from Janet M. Robinson, Ph.D., Superintendent of Schools, a copy of which is attached hereto, in accordance with Chapter 6, Section 6-30 (a), (b) & (c) of the Town Charter.

Mr. Kearney moved that said resolution be adopted as introduced and read and the motion was seconded by Mr. Gaston. Upon roll call vote the ayes and nays were as follows:

<u>AYES</u>	<u>NAYS</u>
Joseph Kearney	Martin Gersten
James Gaston	Michael Portnoy
Harry Waterbury	
John Kortze	

Mr. Kortze thereupon declared the motion carried and the resolution adopted.

* * *