The **Board of Finance** held a regular meeting on Thursday, January 26, 2012 at Town Hall South, 3 Main Street, Newtown, CT. John Kotze called the meeting to order at 7:00p.m.

PRESENT: John Kortze, Joseph Kearney, Harry Waterbury, James Gaston, Jr., Richard Oparowski and Carol Walsh.

ALSO PRESENT: First Selectman E. Patricia Llodra, Finance Director Robert Tait, Hook and Ladder members Rob Manna, Rick Camejo, Mark DeWolfe, Board of Fire Commissioner Chairman Kevin Cragin, Town Attorney David Grogins, Councilmen Robert Merola and George Ferguson, no members of the public and one member of the press.

VOTER COMMENTS: none.

COMMUNICATIONS: none.

MINUTES: Mr. Kearney moved the acceptance of the minutes of January 9, 2012. Mr. Waterbury seconded. All in favor.

FIRST SELECTMAN REPORT: The Board of Selectman completed their recommended budget and it will be on the web tomorrow. The budget, including debt service, is a 1.85% increase over the existing budget; not including debt service it is .95% over the existing budget. Unresolved issues with the budget will be clarified in the weeks to come. Fred Hurley anticipates an increase in the cost of diesel. A possible offset to that could be a possible savings that could come from the RFP for the self insurance fund. The board will hear more about the vehicle replacement plan; if all goes well cost will not be added to the operating budget. First Selectman Llodra spoke about the upcoming ratings meeting. Mr. Kortze asked about the owner operator liability relative to the complaint with the Department of Labor. First Selectman Llodra said that there are tax attorneys and auditors that can spend time explaining the financial consequences if the owner operators are determined to be employees. There is difficulty with the topic of executive session because the only people able to take part in executive session are those who have something to contribute to the information base. The First Selectman stated the she can call a meeting because the litigation involves the town and the Board of Education and the Board of Selectmen is at the town level. She prefers the conversation be held publicly. Mr. Kearney is not comfortable having the conversation and doesn't feel the need to be briefed. The Blum Shapiro meeting will be held on Feb. 17, there will be no conversations until after that meeting. Mr. Kortze questioned the difference in electricity between the town and the schools. The unit cost is almost exactly the same but the schools don't use electricity during peak times as the town does. Per pupil spending has dropped dramatically. Mr. Kortze asked if this was reflected in debt service. First Selectman Llodra said there has not been an analysis yet but they will look into it.

FINANCE DIRECTOR REPORT: none.

UNFINISHED BUSINESS:
Discussion and possible action:
1. **Policy on depositing unexpended funds to the Capital/Non-Recurring fund:** waiting to hear from the council on this.
2. **Board of Education Reserve Fund Statute:** waiting to hear from the council on this.

NEW BUSINESS
Discussion and possible action:

1. **Hook & Ladder presentation:** Rob Manna, 100 Glen Road, is a 20+ year fire fighter from Hook & Ladder who is also on the Board of Fire Commissioners, the Chief Engineer at Hook & Ladder and on the building committee. While presenting the concept plan for a newly constructed fire house at the lower lot of Edmond Town Hall he explained other sites are financially unachievable. Hook & Ladder had earmarked $750,000 for construction but spent $100,000 on the Rte. 302 efforts. The old fire house at the Edmond Town Hall would be demolished. Phase II would include the parking lot. First Selectman Llodra is concerned about the loss of parking; an engineered concept may be able to recapture the lost spaces. She did add that if we are able to achieve this the town will gain the benefit of having invested in the town asset of the Edmond Town Hall parking area. Mr. Manna stated that lenders have been receptive to the town paying the principle payments toward the mortgage and also suggested the alternative of having the town finance the entire project and Hook & Ladder would make the payments to the town. Mr. Kearney asked how owning the building outright would affect our ratios in terms of bond ratings. Mr. Tait said the increased debt service would be offset by the payments. First Selectman Llodra believes it is the right thing for Hook and Ladder to have responsibility for their own fire house. She questions if this is the right site; it will cost the town $2 million instead of $1.5 million. Mr. Kortze explained that the board has had many discussions about the commitment of money to this project for four years. The town attorney spoke at a meeting about the public funds, the towns responsibility and if it would be publicly bid. The board and the council will need to understand the financial where with all of Hook & Ladder. Attorney Grogins asked what the entire cost would be. Mr. Manna explained that the cost is the real issue, should they be sinking the money into the Edmond Town Hall site or should they be looking at the potential of purchasing a piece of property at a better site; if they spend money for land acquisition it leaves less money for the building construction. Most of the building estimates are $180 - $200 a square foot at 14,000 square feet, which makes them about $600,000 short before the parking lot. Mr. Waterbury stated Hook &Ladder does not want to spend money like they did relative to the Rte. 302 site. Fairfield Hills is not an option because it is the end of the district and leaves an unrecognized area of town for fire protection. A substation has not been discussed because it involves purchase of land. The ambulance site is not large enough and there are wetlands. First Selectman Llodra stated that the committed $1.5 million is insufficient to meet the need. The Board of Selectman will need to decide if they want to recommend an additional $500,000 investment in improving the site of the Edmond Town Hall when they aren't convinced that is the best location but the town will get the benefit of a new parking lot or if they believe that the right location is the primary driver to the decision. Mr. Kearney wants to know what the borrowing costs will be. First Selectman Llodra suggested getting Public Building and Site involved.
2. **Resolution:** RESOLUTION PROVIDING FOR A SPECIAL APPROPRIATION IN THE AMOUNT OF $1,500,000 FOR THE PLANNING, DESIGN, ACQUISITION AND CONSTRUCTION OF A NEW FIRE HOUSE AS AUTHORIZED IN THE CAPITAL IMPROVEMENT PROGRAM (2011-2012 TO 2015-2016, INCLUSIVE) AND AUTHORIZING THE ISSUANCE OF $1,500,000 BONDS OF THE TOWN TO MEET SAID APPROPRIATION AND PENDING THE ISSUANCE THEREOF THE MAKING OF TEMPORARY BORROWINGS FOR SUCH PURPOSE: no action taken.
3. **Transfer:** Mr. Kearney moved the $16,000 transfer from 01570-2000 Contingency to 01320-2029 Fire Hose. Mr. Waterbury seconded. All in favor.
4. **Discussion on bond rating agencies:** The phone call with the bonding companies is February 2; the bond sale is February 15. Mr. Tait went over the upcoming ratings meeting (Att. A, B, C) and answered the concerns of Mr. Kearney. Mr. Tait will go back, look at the present and what is being planned for the future; he is comfortable knowing what the town is doing is positive. First Selectman

Llodra, Mr. Tait and the Director of Economic and Community Development Elizabeth Stocker will all be involved in the phone call.

5. **Discussion and possible action on resolution and/or policy regarding Capital Non Recurring account:** Mr. Waterbury resolved the Board of Finance establish a policy of 2% of the Town budget to "Pay as you Go" funding for capital items. Mr. Kearney seconded. All in favor.
6. **Discussion and possible action on resolution and/or policy on plans to reduce overall borrowing as it compares to overall expenditures:** Mr. Waterbury resolved the Board of Finance establish a policy to budget for and transfer to the Capital Non Recurring account no less than .3% of the Town's annual budget. Mr. Kearney seconded. All in favor.
7. **Discussion and possible action on resolution and/or policy regarding dedicating refunding savings:** Mr. Waterbury resolved to establish a policy to dedicate no less than 20% of any refunding savings of outstanding municipal bonds of the Town of Newtown to pay down existing debt or retain in the General Fund of the Town of Newtown. Mr. Kearney seconded. All in favor.
8. **Discussion and possible action on resolution and /or policy regarding growth and grand list:** Mr. Waterbury resolved the Board of Finance establish a policy to dedicate no less than 20% of any grand list increase revenue to the General Fund of the Town of Newtown. Mr. Oparowski seconded. All in favor.

ANNOUNCEMENTS: none.

ADJOURNMENT: Having no further business, the Board of Finance adjourned their regular meeting at 9:18pm.

Susan Marcinek

Susan Marcinek, Clerk

Att. A: Moody's Investors Service document, 3 pages
Att. B: Document on Municipal bonds
Att. C: Notes on Rating Agency Meeting, Feb. 2, 2012, 3 pages

Att. A

Moody's Investors Service

Global Credit Research
New Issue
11 FEB 2011

New Issue: Newtown (Town of) CT

MOODY'S ASSIGNS Aa1 RATING TO NEWTOWN'S (CT) $14 MILLION G.O. BONDS AND MIG 1 RATING TO $10.5 MILLION G.O. BOND ANTICIPATION NOTES

Aa1 RATING APPLIES TO $92.2 MILLION OF PARITY DEBT, INCLUDING THE CURRENT ISSUE

Newtown (Town of) CT
Municipality
CT

Moody's Rating

ISSUE		RATING
General Obligation Bonds, Issue of 2011		Aa1
Sale Amount	$14,020,000	
Expected Sale Date	02/15/11	
Rating Description	General Obligation	
Bond Anticipation Notes		MIG 1
Sale Amount	$11,000,000	
Expected Sale Date	02/15/11	
Rating Description	Bond Anticipation Notes	

Opinion

NEW YORK, Feb 11, 2011 -- Moody's Investors Service has assigned a Aa1 rating to the Town of Newtown's (CT) $14 million General Obligation Bonds, Issue of 2011 and a MIG 1 rating to the town's $10.5 million Bond Anticipation Notes (BANs), dated February 23, 2011 and due February 22, 2012. At this time, Moody's has also affirmed the Aa1 rating on the town's $77.4 million in outstanding general obligation bonds. The bonds are secured by the town's general obligation, unlimited tax pledge.

RATINGS RATIONALE

The Aa1 rating reflects the town's sizeable equalized net grand list with above average wealth characteristics and manageable debt position. The rating also factors the town's well managed financial position which has experienced reserve reductions over the past two fiscal year. Assignment of the MIG 1 rating reflects our expectation that the town will be able to refinance the notes at their February 22, 2012 maturity, given the town's strong underlying credit quality and history of favorable market access.

Proceeds from bond sale will fund various municipal capital improvements including $10 million for high school renovations. The notes will also finance school improvement projects, including $10 million for the high school.

SHORT-TERM RATING REFLECTS EXPECTATION OF MARKET ACCESS AT MATURITY

Newtown demonstrates a favorable history of access to the capital markets. The town received 7 bids on its most recent note sale in February 2010. All bids were received from regional and national financial institutions. Moody's expects the town will continue to experience favorable market access and successfully refinance the notes, if necessary, at their February 2012 maturity.

STRENGTHS

- Stable tax base and strong demographic profile

- Financial position guided by formal policies

- Well funded pension plans and pro-active OPEB funding.

CHALLENGES

- Recent General Fund balance draws has reduced reserve position to levels below similarly rated municipalities

DETAILED CREDIT DISCUSSION

RESERVE POSITION WEAKENS FOLLOW FUND BALANCE DRAWDOWNS; RESERVES REMAIN WITHIN FORMAL POLICY GUIDELINES

Newtown's financial position is down from historical levels following budgeted General Fund balance reductions in fiscal years 2009 and 2010. The town fully utilized its budgeted $2 million fund balance appropriation in fiscal 2010 reducing its unreserved General Fund balance to 8% of revenues. This represents a recent low for the town which had maintained an available reserve position as high as 14% in fiscal 2006. The town's reserve position remains in compliance with its formal policy which calls for unreserved General Fund balance to be maintained between 5% and 16% of budget however it trails the 11% Aa1 median for Connecticut municipalities. The town's ability to stabilize its reserve position at levels consistent with its current rating category will be an important consideration in future rating reviews.

The adopted fiscal 2011 budget reflects a 1.3% increase over the prior year's budget. The budget is balanced primarily with a 2.44% tax rate increase and incorporates a $1 million General Fund balance appropriation. Positively, the level of fund balance applied as a revenue source is down from over $3 million in 2008 and the town expects to eliminate the use of fund balance in the fiscal 2012 budget. Slightly more than halfway through the fiscal year the town expects another reserve reduction as positive variances are projected to fall short of fully replenishing the fund balance appropriation. The town expects to remain in compliance with its fund balance policy.

As of July 1, 2010, the town's police pension system was 89% funded and the combined selectman and board of education pension plan was funded at 97%. While still strong the funded ratio's are down from 98% and 107% in 2008 due to market losses. The town continues to fund 100% of its annual required pension contributions (ARC). The town's other post retirement benefits (OPEB) actuarial liability is a relatively modest $3.7 million with a $430,000 ARC. The town has established a trust to pre-fund the liability and funded 113% of the ARC in fiscal 2010.

TAX BASE EXPECTED TO REMAIN; HEALTHY WEALTH INDICATORS

Moody's believes growth in Newtown's sizeable $5.0 billion equalized net grand list (ENGL) will continue to lag historic levels reflecting the slow pace of economic recovery in the region. The town, located in Fairfield County along Interstate 84, is in close proximity to major employment centers including New York City (rated Aa2/stable outlook), Stamford, CT (rated Aa1), and Norwalk, CT (rated Aaa). The primarily residential tax base (81% of assessed value) expanded at a five-year average annual rate of 1.6%.This rate of growth is down from 6.6% in 2009 reflecting slower building activity due to economic conditions. Assessed values experienced a modest 0.1% reduction between fiscal years 2010 and 2011, reflecting reclassified land values and lower motor vehicle assessments. The town anticipates assessed values to remain stable over the near term as residential home value declines are offset by the value of new property. Future grand list and employment growth is expected to be supported, in part, by renovations to a former Pitney Bowes facility by Advanced Fusion Systems, expected to be completed this spring. The project is expected to include a 30,800 sq. ft. addition and the town expects the company to add over 200 research and development jobs over the near-term. Additionally, looking ahead, the town has approved the construction of 132 age restricted homes and 45 independent living condominiums for the Woods and Newtown project as well as several other new mixed use and office buildings.

Notably, the town has a non-taxable 600 inmate correctional facility within its boundaries. Even when including the inmate population, the town's per capita (PCI) income is a strong of $37,786 (175% of the U.S.). Further, though slightly skewed downward by the presence of the tax-exempt correctional facility, the ENGL per capita of $187,688 still exceeds the median for similarly-rated communities.

MANAGEABLE DEBT BURDEN

Moody's believes the town's moderate debt position will remain manageable given the town's above-average amortization of principal, state school building assistance, and prudent debt policy. Incorporating this issue, the town's direct debt position is an above average 2.0% of equalized net grand list, compared to the 1.0% national average. However, the town's rate of principal amortization remains favorable with 75% retired within 10 years and the town expects to remain in line with its debt policy which calls for debt service not to exceed 10% of budget. Debt service represented 9.6% of expenditure in 2010. The town maintains a comprehensive five-year, $34.9 million capital improvement plan of which $26.6 million is expected to be funded through borrowing and $7 million through pay-as-you-go funding. The plan calls for $1.6 million of bond funded projects in fiscal 2012 followed by $5.2 million the subsequent fiscal year. All outstanding debt is fixed rate and the town is not party to any derivative agreements.

What could make the rating change - UP

-- Improvement to the town's financial position

improved fund balance

-- Strengthening of tax base and demographic profile

What could make the rating change - DOWN

-- Protracted structural budget imbalance

use of fund balance

-- Depletion of General Fund balance

-- Deterioration of the town's tax base and demographic profile

* Show a positive development in fund balance and the use of fund balance. Discuss other fund balances (capital nonrecurring and medical self insurance)
* Illustrate that prudent debt management is still in place (CIP plan with debt forecast schedule).
* discuss economic development (strengthening the tax base).
*Show a continued commitment to "pay as you go" financing and general fund transfers to the capital nonrecurring fund.
*Discuss our approved (written) financial policies. The new fund balance policy.
*Budget performance/new budget format/ pension fund/etc

KEY STATISTICS:

2000 Census Population: 25,031

2010 Equalized net grand list: $5.0 billion

2010 Equalized net grand list per capita: $187,688

1999 Per Capita Income: $37,786 (131% of the state, 175% of the U.S.)

1999 Median Family Income: $99,192 (151% of the state, 198% of the U.S.)

2010 General Fund Balance: $9.2 million (9.3% of General Fund revenues)

2010 Undesignated General Fund Balance: $6.9 million (7% of General Fund

Direct Debt Ratio: 2.0% of equalized net grand list

Adjusted Debt Ratio: 1.8% of equalized net grand list

Payout of Principal in 10 Years: 75%

Post-closing Parity Debt Outstanding: $92.2 million

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments, published in October 2009.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, and public information.

- MUNICIPAL BONDS ARE RATED BY A RATING AGENCY (MOODY'S; STANDARD & POOR'S; FITCH RATING'S)
- RATINGS ARE CREDIT RATINGS (JUST LIKE YOUR PERSONAL CREDIT RATINGS); THEY AFFECT THE COST OF BORROWING.
- SEVERAL FACTORS AFFECT RATINGS:
    - DEBT
    - FINANCES
    - DEBT LEGAL SECURITY
    - ECONOMY/DEMOGRAPHICS
    - MANAGEMENT STRATEGIES
        - CONSERVATIVE BUDGETING TECHNIQUES
        - FUND BALANCE POLICIES
        - DEBT PLANNING
        - SUCCESSION AND CONTINGENCY PLANNING
        - STRATEGIC PLANNING FOR ECONOMIC DEVELOPMENT
        - TIMELY DISCLOSURE

Att. C

RATING AGENCY MEETING, FEBRUARY 2, 2012

2010 – 2011 Financial Statement Highlights

- P. 26 Unassigned fund balance (general fund):
  - Unassigned fund balance increased over prior year

    2010-11 $7,408,816

    2009-10 $6,903,051

- P.31 Budget & Actual:
  - Short fall in property taxes related to the prior year taxes. The actual tax collection rate was 99.1%.
  - Intergovernmental revenues did not have a shortfall (as it looks). An education grant had to be pulled out. This was offset by corresponding education expenditures that were pulled out. So the short fall in intergovernmental revenues were offset by the savings in educational expenditures.
  - Only half of the budgeted use of fund balance was used. This was the last year of the use of fund balance.
- P.32 Sewer / Water (enterprise fund):
  - Working capital = $2,084,371
- P.32 Internal service fund:
  - First year of being self insured for medical. Ended up with a fund balance of $1,936,013 (= 18% of total claims)
- P.35 Pension trust fund:
  - Pension assets:

6/30/08	6/30/09	6/30/10	6/30/11
25,394,477	22,652,202	24,719,052	28,660,927

  - Town plan = 97.3% funded; Police plan = 89.0% funded.
- P. 3 Timely disclosure:
  - Date of report = November10, 2011 (would have been October except for the storm). 06/30/2010 report = November 9, 2010.
- P.86 Capital nonrecurring fund balance = 1,663,838 (prior yr 824k)

2011 – 2012 Budget Highlights

- No budgeted use of fund balance.
- Grand list increased 0.7%
- Two referendums
- Revenues – See attached
    - Revenues are estimated to be short around $125,000 (mainly due to prior year tax collections). This may change due to tax sales.
    - With new governor, state revenues have become predictable.
- Expenditures – See attached
    - Expenditures are estimated to have a favorable budget to actual balance of around $580,000. This is mainly due to insurance savings, vacant positions and debt service savings due to refunding.
- Budget surplus is around $450,000 of which a majority will be used to increase unassigned fund balance (some will be used for capital expenditures)
- $225,000 budgeted to be transferred to capital nonrecurring fund.
- $1,800,000 budgeted "pay as you go" capital expenditures.

2012-2013 Budget Highlights

- Up to the Board of Selectmen proposed budget.
    - No use of fund balance
    - $250,000 budgeted to be transferred to capital nonrecurring fund.
    - $1,800,000 budgeted "pay as you go" capital expenditures.
    - Prior year tax budget amount reduced to estimated prior year actual.
    - Reasonable negotiated wage increases with increased employee cost share on medical benefit plan (see attached).
- Using a new budget book format. Gives a lot of detail and explanations on assumptions. Available on line in PDF format and with book marks is real easy to move through.
- Initial taxable grand list has increased 0.7%.

DEBT PLANNING

- See attached.

POLICIES

- New fund balance policy. Increases lower limit from 7% to 8% of total budget. Instructs the BOF to issue a plan of action to increase the fund balance if it falls below 8%.
- Debt policy. Has a cap of 10% debt service to total budget. BOF has issued a policy statement making it a goal to get the debt cap to 9% (actual).
- Investment policy.
- Policy statement on general fund contributions to capital nonrecurring fund.