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CITY COUNCIL AD HOC COMMITTEE
AUDIT COMMITTEE
WEDNESDAY, JANUARY 30, 2013

The City Council Ad Hoc Audit Committee met in the 2nd Floor Finance Conference Room of City Hall on Wednesday, January 30, 2013. **Chairman Fred Visconti called the meeting to order at 3:05 p.m.**

Present

Audit Committee Members: Fred Visconti, Phil Curran and Warren Levy.
Also in attendance: David St. Hilaire, Director of Finance, Sue Kaminski, Acting Assistant Director of Finance, McGladrey & Pullen (independent auditors) Scott Bassett, Partner.

Mr. Visconti asked everyone to introduce themselves. He then turned the meeting over to Mr. St. Hilaire. Mr. St. Hilaire explained that the June 30, 2012 audit was later than usual, and the City requested an extension to file from the State of Connecticut and GFOA. This was due to the fact that the City and the auditors did not receive timely responses to the confirmations that they requested from various entities. This did not allow the City to have enough time to review everything before the end of the year. Another mitigating factor is the absence of Assistant Director of Finance Dan Garrick, who is on extended medical leave. The items that Mr. Garrick had been preparing needed to be disbursed to existing staff for completion.

Mr. St. Hilaire indicated that this was an excellent audit. The City ended up "in the black" with additional funds being added to the Fund Balance, which is now at 10%. All of the funds did very well. There was only one minor audit finding. Mr. St. Hilaire said that he would be happy to answer any questions the committee had after they have had a chance to read through the CAFR. The extension of time granted provided the City the opportunity to provide additional information in the document which will be beneficial for future bond referendums.

Mr. Bassett stated that his firm gave the City a clean, unqualified opinion on the CAFR as well as on the Federal and State programs. One control deficiency was found for an activity fund at one of the schools but it was not significant. The City had a strong year. Its tax collection rate stayed very strong. Contributions were made to the pension plans, which is very important because there is now a new standard being introduced to measure assets and liabilities within the pension plans. The City's assets have offset its liabilities because the City has done a good job. McGladrey experienced no difficulties conducting its audit. City staff was receptive in assisting the auditors with their requests. Mr. Basset pointed out to the committee several of the important highlights of the audit i.e., $285.8 Million net assets in infrastructure and investments, unrestricted Fund Balance in the General Fund, and component units were not audited by McGladrey but by independent auditors who provided the financials to McGladrey Mr. Bassett pointed out that pages 18 and 19 are the key pages of the audit. General Fund had a total Fund Balance of $28,292,000, with $22,140,000 unassigned Fund Balance. In the Statement of Revenue and Expenses, there was a slight increase in the General Fund Fund Balance of $99,000. Miscellaneous Revenue shows a deficit, which is due to the fact that the City did not receive reimbursement from FEMA in a timely manner, and therefore, this could not be reported in this CAFR. FEMA funds should be received by the City within the next month or two. Enterprise Funds net assets totaled $143M. General Fund property tax collection had a very strong rate of 98.7%.

Mr. St. Hilarie indicated that the strong collection rate is due to the constant monitoring efforts of the Tax Collector and his staff.

Mr. Levy inquired about tax collections for Water and Sewer. Mr. St. Hilaire indicated they are doing okay but not nearly at the level of General Fund tax collections. This is due to the fact that the process for these collections has many mitigating factors and is very different than the General Fund collections. The City continually works to improve tax collection rates in all areas.

.Mr. Bassett referred to pages 24 and 25 with regard to the pension plan trust fund assets and activities that took place during the year. The June 30 audit reports $217M at the end of the year from $234M from the previous year. This is due to market conditions and the payment of $17M in benefits. Mr. Curran inquired as to how many years it will take for the City to see the results of the new contracts signed by the labor unions. Mr. St. Hilaire said that the ARC schedule has smoothed out and will be seen in this year's budget. The City has adjusted its rate of return from 8% to a more realistic position of 7.25%. Three of the plans were revised last year; the other three revised this year will be reflected in the 6/30/13 audit. It is important to have a realistic rate of return when reporting to the rating agencies.

Mr. Bassett asked the committee to review pages 73 through 78. Page 73 shows the funding progress for pension and OPEB and indicates they are well funded. July 1, 2011 the discount rate was changed to reflect changes made through labor contract negotiations. We can absorb our additional liabilities and control the ARC payments. The plan has been stabilized as a result of more realistic expectations. Mr. Basset pointed out that Page 75 shows the required contributions were made by the City at 100%. It takes financial discipline to do this and will be favorably viewed by the rating agencies.

Mr. Levy inquired about 5 year projections. Mr. St. Hilaire responded that he should have that information very soon. At present the revised projections have been available for three of the plans because the valuations are done on a biennial basis. Will probably peak out around $13M for FY 16-17. Mr. Curran asked about teachers' pensions. Mr. Bassett indicated that the teachers' pension plan is State governed and does not have an impact on the City System. Mr. St. Hilaire indicated that the non-certified employees of the Board of Education make up about 40% of the General Employees Pension Plan. He referred to Page 75 and said that of the $2.6M contributed by the City, approximately $1.2M is for the Board of Education employees. Mr. Bassett indicated that the benchmarks will be favorable when Mr. St. Hilaire reports to the rating agencies.

Mr. St. Hilaire pointed out the challenges that the City faced during this audit year. There was $2.9M budgeted for the sale of 13 acres of City land which did not occur but the City was able to cover the gap. Also, $2.4M of appropriated fund balance was not used. There were a significant amount of settled tax appeals. On the positive side, building permits were $600,000 higher, mainly due to work at the hospital. State Revenue Sharing was $300,000 higher than expected. Mr. Curran inquired as to if the receipt of back taxes is a plus for the current budget. Mr. St. Hiliare stated that it usually offsets the current year taxes because the previous years have already been paid. We don't have significant large reductions. We have a reserve set up for approximately $750,000, but we only draw upon this if we absolutely have to. Mr. St. Hilaire answered in the affirmative to Mr. Curran's questions as to whether the City has cases where there is an appeal and no taxes are being paid.

Mr. St. Hilaire pointed out $17M of refunding bonds in December 2011 which gave the City a savings of $3M for the fiscal year. There is a total of $800,000 seen in the current budget. Change in health care providers produced a savings of $900,000. Almost all expense functions came under budget. The cost of two major storms amounted to $4.9M; actual out-of-pockets expense was $4.4M; net cost about $500,000. Last year's warm winter allowed the Public Works department to absorb the cost of the storms. We are working with FEMA to recoup our costs.

Mr. Levy asked if City is on solid ground with our rating from Moody's. Mr. St. Hilaire stated that they are concerned with our OPEB numbers, but most communities have not dealt with it this year. We are funding our ARC payments at 100%; we are at approximately 50% with our annual ARC for OPEB. We need to increase this percentage to show our commitment. The OPEB amounts are related to health insurance costs which continue to escalate. We can control this by containing the hiring of new employees. We are very solid compared to most communities.

Mr. Levy asked Mr. St. Hilaire if he was pleased with the City's current debt level. Mr. St. Hilaire said that Danbury is on the low side (about 7%) compared to other triple A communities in the State. We will issue bonds over the next few years. He indicated that he is comfortable with the current debt level. The City is working on a long term plan looking at debt service and capital planning.
Mr. St. Hilarie indicated that the Board of Education did well. The City was able to set up a reserve for them for about $350,000 for technology purposes.

Motion was made by Mr. Curran to accept the June 30, 2012 audit from McGladrey. Seconded by Mr. Levy. Motion passed unanimously.

Meeting was adjourned at 4:15 p.m.

Respectfully Submitted,

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Fred Visconti

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Phil Curran

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Warren Levy