

Approved
February 14, 2008

BOARD OF FINANCE
Meeting of January 10, 2008
Town Hall, Meeting Room

Board Members Present: Chairman O'Brien, Messrs. Muller, Sargent, Atkinson, Carter and Ms. Melissa Koller. *Ms. Kopas was absent.*

Others Present: Brian Gioiele, Weston Forum; Natalie Welsh of Shipman & Goodwin, Town Administrator Tom Landry, Finance Director Rick Darling, Scott Bassett of McGladrey & Pullen and resident Margaret Wirtenberg of Wilson Rd. Donna M. Anastasia, Secretary.

Meeting called to order at 8:05 PM.

Discussion/Decision regarding selection of appropriate account type for GASB/OPEB fund accumulation.- Natalie Welsh, Shipman and Goodwin.

Ms. Welsh discussed the options available for the GASB/OPEB plan for Weston. Pay-As-You-Go, Reserve Fund accounts and Trust accounts were compared and discussed with the Trust Account the more favorable option. There are less restrictions and greater investment flexibility with Trust accounts.

The most commonly used trust vehicles are 401(h) which usually incorporates a pension, a VEBA (Voluntary employees' beneficiary Association) which would require IRS ruling and legal fees. The 115 Trust which is commonly used by governmental entities, also referred to as an Integral Part Trust is likely the best choice for Weston.

Some comments and questions were discussed. Ms. Welsh explained that once the 115 is established it may be amended and it may be terminated or reverted to a Reserve Fund should the Board decide to do this or legislation change. There was discussion regarding the over funding of the account; and although a surplus could not be used for any other purpose it would be allowed to pay for 'other' benefits such as life insurance premiums.

Ms. Welsh outlined the necessary steps to move forward and establish the Trust i.e. (1.) appointment of Trustee, (2.) OPEB Board members and (3.) lists of covered employees for both the Town and BOE and both union and non-union and a new Town ordinance adopted by the Board of Selectmen.

It was noted that the Board of Education has yet to submit the necessary information to complete the Milliman report.

Once Shipman & Goodwin reviews the account, (approximately one week) the ordinance which will be drafted by Shipman & Goodwin would be presented at a Public Hearing, voted upon and adopted.

There was discussion regarding the appointment of the Town Treasurer as Trustee of the account. The Trust Board however would have all of the investment, managerial and decision making power over the account. Indemnification and liability questions arose regarding the OPEB Board members. Mr. Landry suggested a fiduciary type coverage which can be researched further as the plan progresses.

In conclusion Ms. Welsh discussed the role of the Trustee and the responsibility of the 'OPEB' Board. She suggested the new board follow the same protocol and terms of office as the Board of Finance.

Mr. Muller made a motion to begin the initial steps in forming a 115 OPEB Trust for the Town of Weston. Mr. Sargent seconded with none opposed motion carries.

Shipman & Goodwin Memorandum

MEMORANDUM

TO: Tom Landry and Rick Darling, Town of Weston

FROM: Natalie Welsh, Shipman & Goodwin LLP

DATE: January 3, 2008

RE: Other Post-Employment Benefits Trust

You asked us to summarize the options that the Town of Weston (the "Town") has for funding its liability for post-employment benefits other than pension benefits ("OPEB"), specifically retiree medical benefits. In this memo, we address the alternative ways that the Town might fund such obligations: pay-as-you-go, a reserve fund, or a trust. We also analyze the different trust vehicles that the Town might consider. Finally, since each of our clients who has considered these options to date

has chosen to use a Code § 115 trust, we also list the information that we will need from the Town to draft such a trust agreement.

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I. Funding Alternatives

There are three general approaches to funding OPEB:

(a) Pay-As-You-Go: This is the way that most municipalities have historically financed OPEB. Using this method means that OPEB are not pre-funded, but rather each year an appropriation is made to fund the anticipated expenses for the upcoming fiscal year. In 2004, the Governmental Accounting Standards Board (“GASB”) issued Statements No. 43 and 45 which require municipal governments to account for OPEB on their financial statements and create incentives for them to pre-fund those benefits. However, there is no requirement that benefits be pre-funded and the Town may still choose to finance OPEB on a “pay-as-you-go” basis.

(b) Reserve fund: Connecticut General Statutes § 7-403a(a) allows a municipality to create a retiree benefits reserve fund, into which certain municipal funds may be transferred and invested to pay OPEB. The statutes restrict investment of the reserve fund to a maximum of 50% in equities. Furthermore, because such reserve funds may be tapped into for purposes other than OPEB, the GASB Statements require the use of a lower assumed rate of return (than may be used for a trust fund) when calculating OPEB liabilities.

(c) Trust fund: Connecticut General Statutes § 7-450 authorizes a municipality to establish an OPEB trust. The only restriction on the investment of trust assets is the statutes’ prudent investor rule. The GASB Statements permit an actuary calculating OPEB liabilities to use a long-term investment rate of return for such a trust, resulting in a lower current liability. All of the municipalities that we have worked with to date have chosen to use this alternative.

II. Trust Vehicles

The three most commonly used trust vehicles are:

(a) 401(h) Account: Under this option, a governmental entity would establish a separate account in its existing pension trust(s). Since the Town does not maintain its own pension plan(s), a 401(h) account is not an option for the Town. Even in communities that do maintain pension plans we have not found 401(h) accounts to be a viable option for a number of reasons including the Internal Revenue Code (the “Code”) limitation on the amount that can be contributed. (Specifically, OPEB contributions may not exceed 25% of the total actual pension contributions.

Furthermore, contributions to the account may only be made on behalf of participants in the pension plan; if the entity has multiple pension plans, it would require multiple 401(h) accounts.)

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(b) VEBA (voluntary employees' beneficiary association): With this option, the Town would set up a trust under Code § 501(c) (9). If a VEBA was established, the Town would have to make a submission to IRS to receive a ruling on the VEBA's tax-exempt status (and incur legal expenses and an IRS user fee).

(c) Code § 115 Trust: Code § 115 is applicable only to governmental entities. A Code § 115 trust is frequently referred to as an integral part trust. Although there is little guidance on the structure of these trusts, they do not require an application to the IRS, as VEBAs do, nor do they have a limit on contributions, like a 401(h) account. This is the trust vehicle that all of our municipal clients have selected, and, absent unique considerations, it is likely to be the choice of the Town.

III. Initial Decisions/Information for a Code § 115 Trust

If a governmental entity opts to establish a Code § 115 trust (II (c) above), the following decisions will need to be made/information gathered:

(a) Trustee: Who will be the trustee (i.e. the person with responsibility for the day-to-day, non-discretionary operation of the trust)? Many of our clients have named the individual holding the position that generally is responsible for the custody of other assets of the municipality under the municipality's governing documents.

(b) OPEB Board: Who will oversee investment of the trust's assets? Generally, our clients have established a board for this purpose and frequently they have used the members of an existing board that has responsibility for pension investments. Typically this board will retain an adviser and an investment manager(s), and adopt an investment policy.

(c) Covered Employees: We will need a list of the groups of employees to whom the Town and Board of Education have promised OPEB (both union and non-union groups).

(d) Ordinance: In addition to the preparation of the trust agreement itself, an ordinance must be adopted by the Town's legislative body. You have indicated that the Town's Board of Selectman has the authority to adopt ordinances. After further

discussion with respect to the issues, we will prepare a draft of such an ordinance for review by the Town Attorney. If we should use an existing ordinance as a model -- so that the format and style will be consistent -- please provide us with a copy of an appropriate ordinance.

We look forward to discussing these issues with you and the Board of Finance.

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1. Presentation of FY2006-2007 audit.- Scott Bassett, McGladrey & Pullen.

Mr. Bassett offered some comments regarding GASB/OPEB after Ms. Welsh's presentation. Mr. Bassett explained that once all of the data is in, actuaries will calculate the required contribution for the fund. Mr. Bassett also explained that any over payment would show as an asset while an under payment would appear as a liability. Currently there is no law that address the required contribution, the individual Town, Trust Board, ordinance and policy will determine the amount.

McGladrey & Pullen have completed the Town and School audit for fiscal year ending June 30th 2007. Included with the report is the Federal and State Compliance reports for the same period.

Mr. Bassett stated that the Town overall had a good financial year. Revenues were better than expected and the unreserved fund balance represents approximately 16.3% of total general fund expenditures. At the end of the current fiscal year \$9.5 million represented total unreserved fund balance and \$10.6 represented the total general fund amount.

Major Expense Factors included debt service, education services, medical and life insurance costs, legal expenses and capital and non-recurring transfers due to the school projects.

Major Capital Asset Events included major school construction and recreation fields (\$79.4 million), window replacement for Hurlbutt Elementary School, the re-allocation of Middle School Auditorium funds for the High School roof and renovation of the High School Auditorium approved by Town Meeting and the renovation of Valley Forge Bridge.

Mr. Bassett made some recommendations for possible controls regarding Student Activity funds and Capital leases both on the BOE side.

Although there were no abnormalities Mr. Bassett suggested payroll review by one other than the preparer.

Lastly, the purchasing policy could be improved by both the Town and BOE.

Generally the Town and BOE have strong controls in place.

** All Audits are available for inspection from the Town Clerk,*

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2. Discussion/Decision regarding supplemental appropriation request in the amount of \$ 325,000.00 for the purpose of design and reconstruction of Cartbridge.- Tom Landry

Mr. Landry explained the \$325,000.00 supplemental appropriation represents 25% of the total expected cost for Cartbridge Bridge. A FEMA grant is in the process of being approved but a contract can not be signed until all funds are available. It is Mr. Landry's intention to secure \$325,000.00 and upon the grant approval enter into a contract. If the grant should for whatever reason fail then the request for the supplemental would increase to repair the bridge.

The total cost of Cartbridge Bridge reconstruction, final overview, printing, misc. is about \$1,375,000.00. Due to Charter limitations on supplemental appropriations in a given fiscal year Mr. Landry feels a supplemental in the current fiscal year and possibly another for the 2008-2009 year may be the best way to proceed.

Motion: Mr. Carter made motion to approve a supplemental appropriation of \$325,000.00 for the purpose of design and reconstruction of Cartbridge Bridge. Melissa Koller seconded the motion, motion passes unanimously.

3. Discussion/decision regarding targeted General Fund Balance amount to be considered for re-appropriation.

Mr. Landry discussed the General Fund and factors that will effect future allocations. As a model Mr. Landry used 12% as a target amount. He recapped some upcoming expenditures such as OPEB, the Town Hall roof and the High School Auditorium renovations. One estimate for the Town Hall roof came in at \$502,000.00. In 6-8 weeks bids will be coming in.

There was some discussion regarding the Facilities Review Report which has just been completed. Mr. Landry suggested a meeting to discuss the Report in more detail possibly before budget meetings begin.

4. Approval of Meeting Minutes of December 13.

Motion: Mr. Muller made a motion to approve the minutes as submitted, Mr. Atkinson seconded. Minutes of December 13th 2007 are approved.

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5. Any other items of business to be brought up for Board consideration

Chairman O'Brien re-appointed Jerry Sargent to the Capital Advisory Committee and Mr. Sargent recommended Chm. O'Brien to serve on the committee.

Motion to adjourn

Chm. O'Brien made a motion to adjourn, Mr. Sargent seconded, meeting adjourned at **10:09 PM.**

Respectfully submitted
Donna M. Anastasia, Secretary