

MINUTES OF THE TOWN COUNCIL BUDGET COMMITTEE MEETING HELD ON MONDAY, JUNE 15, 2015, AT 7:30 P.M. IN ROOM 207, TOWN HALL, 84 SOUTH MAIN STREET, CHESHIRE CT 06410.

Present

David Schrumm, Chairman; Committee Member Thomas Ruocco.

Staff: Michael A. Milone, Town Manager; James Jaskot, Finance Director; Louis Zullo, Personnel Director; Vincent Masciana, DOE - Director of Management Services

Guests: A.J. Wallinger and Bonnie Wallinger, A.J. Waste

1. ROLL CALL

The clerk called the roll and a quorum was determined to be present.

2. PLEDGE OF ALLEGIANCE

The group Pledged Allegiance to the Flag.

3. AMENDMENT TO TRASH COLLECTION CONTRACT.

Ms. Wallinger explained that A.J. Waste, the Town Hauler, is requesting a modification to the contract which affects trash pickup for condominiums, town and school buildings, with no affect on residential pickup. In the contract under "Disposal Site" there is language which allows for a change in fees, and Ms. Wallinger read the section into the record.

On March 26, 2015, A.J. Waste sent a letter to Town Manager Milone regarding the Covanta Wallingford increasing costs to haulers from \$70.30 per ton to \$79.75 per ton, and a 2nd increase from \$79.75 per ton to \$100 per ton. This is a total of a 43% increase in 55 days.

Mr. Schrumm stated that A.J. Waste is requesting an adjustment to the contract based on what Covanta has done

Town Manager Milone reviewed the history of the Covanta plant. The five-town Policy Board negotiated with Covanta to allow them to change from a burning facility to a transfer station. They are locked in with the residential rate, with commercial rates subject to the whims of the market.

Information on the "numbers" was distributed by Mr. Milone, which show the hauler's tip fee per ton going to \$79.75 with about 5 days notice, and 2 months later going to \$100 per ton with 5 days notice.

A Policy Board meeting was held with Covanta 2 weeks ago due to concerns expressed by the haulers. The five towns have no authority over what Covanta charges but the Board has a responsibility and concern because the situation affects people hauling waste in the community and businesses who must pay the additional fee. The bigger concern is whether there is a problem with Covanta; why did they have to spike the fee so soon after signing the contract; is something going wrong which is not known; or is

this a plan all along that was unknown. Covanta told the Board the 2nd increase would be for a temporary period due to some of the larger plants (Mid-Con and Bridgeport) which burn trash were down. As a result, the trash brought to Wallingford was being transferred to Massachusetts by truck. Due to the additional travel time and expense, the tip fees sky-rocketed.

DEEP was at the Policy Board meeting, and stated it is hoped to have Mid-Con facility back on line shortly, and CRRA thought it could be up and running as of last Friday. It appears that the first increase is permanent, and the second increase is an anomaly and will come back down. The Board expects Covanta back at their July meeting; is monitoring the situation; and expects a downward adjustment once the plant is back on line.

Based on information the Town received from Bonnie Wallinger, the estimated gross cost of the request for the Town would be: Condominiums \$2200; Town Buildings \$945; School Buildings (BOE responsibility) \$2736.

Regarding next year, Mr. Milone noted that A.J. Waste did not say anything about this, and he did not expect the tip fee would be rolled back to current cost. In looking at the monthly analysis for next year, it is assumed the prices would start with prices in the contract. Based on the amended request, in a letter from the Town to A.J. Waste, the variance by month and total annual cost is stated at \$40,725.

Different numbers were submitted by A.J. Waste at this meeting which would be higher with Council approval. Mr. Milone feels the April to June situation will not change. Regarding the other part of the increase, Mr. Milone thinks it is too soon to make an adjustment to the rate given what Covanta and CRRA have said. Once there is availability of other plants in the State, there will no longer be a need to transfer to Massachusetts. Should the rates remain where they are, the Town will challenge this.

DEEP is involved in the discussions; the seriousness of fooling around with rate increases is realized; they do not reflect the market; and without rolling back the rates Covanta will have a hard time defending it.

The A.J.Waste contract has 4 more years; renewal on July 1st has costs based on current rates for commercial service. The April to June calculation was based on going from \$70 to \$79, and then to \$100. In the May 26th letter from A.J. Waste page #2, the current rate for condominium complexes is \$7274 with requested pricing to \$7762; Town Buildings \$2975 to \$3175; School Buildings \$8610 to \$9188. This is a 6.72% increase. These are the costs for April and May.

For June the hauler's letter reflects the larger increase with fee at \$100 per ton. In his basis, Mr. Milone is using the Town's original basis, \$7274, because this is where we are, while A.J. Waste shows a base of \$7682 for the condominiums. It should be at \$7274 because it has not been changed, so the increase to \$8680 is a lot larger.

Mr. Schrumm said there is a chance for the rate changing from \$100 back down with the Mid-Con plant up and running. He asked about the rate dropping down at the end of June with trucks no longer going to Massachusetts. He also asked about the Bristol Plant.

According to Mr. Wallinger, the tip fee is now at \$100 per ton, and the hauler has taken a big hit on the fee over the last 3 months. At the Bristol plant, there is about a 3 hour wait for the driver and truck, and this is a cost to the hauler.

Mr. Milone explained that Cheshire waste goes to Bristol, and with Mid-Con closing there is more burden on the Bristol facility.

Mr. Schrumm would look at some adjustment for April, May and June at \$79.75 per ton.

It was noted by Mr. Milone that the percentage increase is not consistent with what was passed onto the Town.

Ms. Wallinger said the hauler passed onto the Town 50% of the total increase of 42.24%, or 6.72%, and the June rate is still at \$100 per ton. Mr. Wallinger said there is no guarantee rates will go back down. Following a brief discussion, Mr. Milone asked the Wallingers to provide "solid numbers" and provide tonnage for April, May and June for each of the three pickups. He stated that A.J. Waste changed the minimums so they are all at the base the Town used, but they also increased the maximums, with higher costs for condominiums, Town and School buildings.

Ms. Wallinger explained that the tonnage cannot be stated because the trucks do not pick up at these three places and go to the plant...there are other pickups for the truck. She commented on Covanta blaming the increases on the outages, and the fact that this plant may be closed and demolished.

In that regard, Mr. Milone said this plant has been the workhorse for the State, and they do not know what they will do with this plant.

At this time there is no sense in amending the contract as of July 1st forward, and Mr. Schrumm pointed out that the fee is unknown...it could be less than \$100.

The Policy Board meets July 16th, and Mr. Milone told Covanta and DEEP to come back and provide a progress report on whether Mid-Con is running and the impact. There will be information with some sense of where things are headed.

The rates were cited by Mr. Schrumm at \$79 per ton for April and May, and \$100 per ton for June. Two months were spent at \$79; 2weeks at \$100; and by the end of June we should know the reality. He recommends getting to June 30th, figure out the delta, and then look at additional changes.

The committee was told by Ms. Wallinger that the April and May bills are paid; Covanta switched their entire billing system; and now there are 10 days to pay bills.

As of July 1st. Mr. Wallinger said the hauler wants to bill the Town 6.72% paid over the last two months, recoup but not add it onto July. A.J. Waste has eaten this increase for two months, and hopes to increase rates as of July 1st with the new rates. At \$100 a ton the hauler will have to bill the Town the extra charges.

On July 1st, the rates increase based on the contract with A.J. Waste, and Mr. Milone said there is an escalation of 3% for each of the 3 pickup elements. In the contract there is provision about reopening and amending the contract.

Mr. Ruocco does not want A.J. Waste to eat this increase as it is not their fault it happened. He thinks this is an expense the Town has to incur.

Ms. Wallinger reiterated that the hauler is billing one-half of the increase or 6.72% to the Town.

It was stated by Mr. Milone that the residential fee was down \$5 per ton, and this was passed to commercial haulers. The fees will be higher in the next months, and Council will have to look at next year with an increase as of July 1st. The Town has a multi-year contract; amendments can be made; and finance staff will run the numbers based on the submission from A.J. Waste at this meeting. We will know what additional expense the Town is committed to and know what costs are.

For July 1st, Mr. Wallinger said they are billing at \$79.75 not \$100 per ton.

Mr. Schrumm wants to have the numbers from April 1st to June 30th based on the information that is known, and in future weeks will know about the \$100 tip fee and whether the Wallingford plant will shut down.

The Bristol plant fee is \$65 per ton, and Mr. Wallinger pointed out that the trucks wait up to 3 hours to dump a load, and he is paying the driver for this time. Over the last 3 months the company has eaten about \$50,000. Ms. Wallinger stated the Mid-Con situation is a maintenance issue with work usually done in the winter...this time they are doing the work in the summer.

Over time, multiple plants have been down, and Mr. Milone said DEEP does not control when a plant goes down for maintenance.

With regard to billings, Ms. Wallinger requested that the hauler bill Cheshire for the last 3 months.

Mr. Ruocco stated that he understands the situation for A.J. Waste...it is a cash flow problem. He said the contract can be amended for the amount.

There is a rate increase as of July 1st in each of the collection areas, and Mr. Milone adjustments to the contract can only be made with Council approval. He would need the Council to direct him to look at the April, May and June and the total cost for what A.J. Waste is requesting. The Finance staff will put together the numbers for Council review and consideration.

A question was raised by Ms. Wallinger about putting the numbers into July 1st. She commented on A. J. trying to recoup their increased costs, and the fact that A.J. is paying \$2000 per month for recycles.

4. MEDICAL INSURANCE ALLOCATION RATE

5. MEDICAL BENEFITS TRUST FUND POLICY

Mr. Masciana stated he is negotiating with 3 unions at one time, and can negotiate costs.

The Council was given information on FY 15-16 Allocation Rates for Medical, Dental and RX for the Dept. of Education, and Allocation Rates for All Plans. The HMO went down 30%; when rates were developed they were blended; rates went down as low as 6% and as high as 11% for individuals. Budget projections are based on the number of contracts in each group.

The annual rates for H.S.A. single are \$8454.48, and for fiscal year 15-16 the rate is \$8954 for single. The employee contribution rate is about 9% across the board.

On sheet #1, Mr. Schrumm cited the numbers, stating the actuary is seeing the total health costs going down based on the claims trend. Mr. Masciana said costs will be lower across the plans. The numbers were prepared by the consultant based on numbers from Anthem.

The allocation rates are actuarially based. Mr. Masciana said going from self insured to HMO BlueCare was requested to be adjusted across the board. The employee rates are based on allocated rates; HSA dropped about 5%; BlueCare 12.8%; Dental is down about 5%. Catamaran is the RX rate for the HMO and PPO, which is staying flat.

Mr. Schrumm looked at the decreased percentages in the budget book, questioned costs going up by \$200,000 in total. He noted the BOE is in a better position than a few months ago.

Mr. Masciana said there is \$500,000 in the BOE trust fund. There was an adjustment downward in the medical benefits line before finalizing the budget. The reduction was based on what the BlueCare reduction would be.

Once the Council passes the budget, Mr. Schrumm said the BOE goes back and redo things on various lines, and the medical benefits line was reduced by the BOE. The Town and BOE have gone out to employees on their new costs.

Regarding open enrollment, Mr. Zullo said this takes place in June. Big changes happen in December when there is open enrollment for the H.S.A. which operates on a calendar year, and people move into this plan. The only time an employee can get out of the H.S.A. plan is in November and December; and the only move in June for July is switching from Century Preferred to BlueCare, or BlueCare to Century Preferred. A change is also allowed if someone has lost coverage under a qualifying event and jump in at mid-year, or if someone had waived benefits and were then taking benefits.

The BOE open enrollment is still going on. Letters went out and open enrollment is limited to teachers and administrators right now, and Mr. Masciana noted the BOE is in negotiation with the other three groups. He does not expect much migration.

Sheet #3 - Allocation Rates for All Plans. There are 7 coverages and rates with comparisons FY 15 to FY 16. Mr. Milone referred to the Century Preferred H.S.A. with the single going down \$499.80; couple went down \$1008.96; family went down by \$1234.92. The highest percentage change is in the BlueCare for the Library. The Town's aggregate budget amount did not go down by that much because the Town had to absorb the VEBA, Police that had retired and get medical coverage. The CPD trust fund did not have the assets to continue to pay so it was absorbed into the General Fund. Otherwise FY 15 total to FY 16 total would have dropped more.

Mr. Milone stated the current position of the trust fund is in there which is healthy. Paid claims are less than expected claims.

The BOE put in \$625,000 into the trust fund for 3 months. Mr. Masciana said the trust fund is healthier than expected. The last 3 months were good, and the trust fund balance increased and claims dropped.

Total trust fund balance is \$2.529 million; Town Trust Fund Balance - \$1.960; BOE is \$569,644.

Trust Fund Policy - The committee discussed the policy, and the total fund at \$2.5 million.

Mr. Milone and Mr. Jaskot modeled the Town policy after the fund balance policy and debt policy in place. The trust fund policy must be rewritten now that there is full self insurance and revisions are needed. The issue is what to do when there is money in the trust fund...what do we hold as protection as insurance. If there is excess beyond that, what happens to it. They laid out options for the Council to decide how to treat money in excess of what is a reasonable amount to keep in this fund.

Mr. Masciana said it is not so much the trust fund balance, but when there is a surplus and decide to start under funding the claims run rate. This is cyclical...when you stop funding to your run rate because you are using the trust fund balance, trying to catch up in the years looks like a large budget increase, which it is.

Part of that is removing the temptation to get into that big swing, and Mr. Schrumm said part is trying to prevent the trust fund balance from getting too big. The Town and BOE should not be blowing their 110% of the amount put in.

Mr. Masciana clarified that the increase in the budget was to get the BOE claims run rate and operating run rate even. It was not to add to the trust fund. The trust fund should not be depleted any further based on the operating budget increase.

A comment was made by Mr. Schrumm on the public's view of the Town having a larger trust fund for medical, and BOE asking for more money for its trust fund, when all the money is in a combined fund.

The problem with this principle is that the \$1.9 million came through the Town Manager's operating budget.

The idea of making sure we budget expected claims is important, and Mr. Milone said now we use \$200,000 in the trust fund, and it is not a realistic number in the budget. He agrees if claims are \$2 million, the budget should be \$2 million. His suggestion for the trust fund, if there are excess funds to be used to mitigate large increases in medical benefits, it should be a revenue and not a reduction in expenses. That way we continue to preserve the integrity of the rates increasing 9% and the budget increasing 9%. The excess trust fund money is used as revenue; it will cushion the increase, but will not distort the numbers on the revenue side. The appropriation is not reduced and distort the actual amount to be budgeted for medical benefits. The \$200,000 used this year would have been increased on the appropriation side and used as revenue. The bottom line is the same but we have a realistic budgeted amount for the Town's medical benefit program.

With combined accounts, Mr. Ruocco said there could be a reserve amount, and claims budgeted at 100%. In a good year take what is left over the set amount and it can be used against other expenses.

According to Mr. Milone the other purpose of the trust fund is if the Town or BOE run over, it does not come out of the operating budget. The funding should come out of the trust fund. Mr. Milone and Mr. Masciana will put all of this in writing using FY 2016 numbers.

The A.J. Waste analysis will be forwarded to the Council. Mr. Milone would like all this behind us in July, but noted there cannot be reaction to something that did not happen.

6. ADJOURNMENT

MOTION by Mr. Ruocco; seconded by Mr. Schrumm.

MOVED to adjourn the meeting at 9:15 p.m.

VOTE The motion passed unanimously by those present.

Attest:

Marilyn W. Milton, Clerk