

SECOND TAXING DISTRICT ELECTORS
ANNUAL BUDGET MEETING
March 15, 2011

Electors Present: Mary E. Burgess
Robert E. Burgess
Sonya Merrill
Al Ayme
Stephen A. Ayme
Cesar A. Ramirez
Mary A. Geake
Michael K. Geake
Douglas C. Sprenkle
Brandy Rose [Warda] Sprenkle
Ian A. Soltes
Sharon L. Soltes
Joe B. Newell
Mary Mann
Maria A. Borges-Lopez
Sharon Stewart

Also Present: John M. Hiscock General Manager
Kevin Barber SNEW Director of Admin & Cust. Service
Candace Fox District Clerk
Gwendolyn Gonzalez Assistant Clerk

Call to Order:

Mary E. Burgess called the Second Taxing District Electors' Meeting to order at 8:00 p.m. on Tuesday, March 15, 2011. The meeting was held at SNEW, One State Street, South Norwalk, Connecticut.

Legal Call:

Mrs. Burgess: "Good evening. I am Mimi Burgess, Chairman of the Commission, and I will call the annual budget meeting of the electors of the Second Taxing District to order Tuesday, March 15, 2011 at 8:00 p.m. And I need a... can you read the legal call for me [directed to Ms. Fox]?"

Ms. Fox: "Sure."

Ms. Fox read the following legal notice for the record:

The legal voters of the Second Taxing District for the City of Norwalk are hereby notified and warned that the Annual Budget Meeting of the Electors of the Second

Taxing District will be held at the South Norwalk Electric and Water, 1 State Street, South Norwalk, Connecticut, on Tuesday, March 15, 2011 beginning at 8:00 p.m. for the following purpose:

1. To Approve the Proposed 2011-2012 Budget of the Second Taxing District, City of Norwalk, as received and recommended by the District Commissioners.
2. To Receive and Ratify the Choice of Auditors of the District Commissioners for a firm to perform Auditing Services for the Second Taxing District, City of Norwalk, for Fiscal Year Ending June 30, 2011.

In accordance with Section 1-81 of the District Charter, you are hereby notified that copies of the entire District Budget of the Second Taxing District of the City of Norwalk are available for inspection by the public effective March 7, 2011. A copy may be obtained from the District Clerk at the office of the Second Taxing District, 164 Water Street, Norwalk, Connecticut.

Dated this 4th day of March 2011

Attest:

Candace Fox
District Clerk

Mrs. Burgess: "Thank you. Now I need a motion to accept the legal call."

Mr. Newell: "So moved."

Mr. Ramirez: "Second."

Mrs. Burgess: "All in favor?"

Electors simultaneously: "Aye."

Mrs. Burgess: "Opposed?"

[No opposed]

Mrs. Burgess: "Abstentions?"

[No abstentions]

Mrs. Burgess: "Okay, and I need... well it was seconded, and I need to... I need to say one thing before we continue. The only items that we will be discussing are the two items that were in the

legal notice. Anything else electors have should properly be presented at a Commission meeting. Now I need a motion to place the proposed budget item on the floor.”

Mr. Geake: “So moved.”

Mrs. Burgess: “Is there a second?”

Mr. Newell: “Second.”

Mr. Ayme: “Second.”

To Approve the Proposed 2011-2012 Budget of the Second Taxing District, City of Norwalk, as received and recommended by the District Commissioners

Mrs. Burgess: “Now you’re on [directed to Mr. Hiscock].”

Mr. Hiscock: “Okay, I believe you’ve probably all received a copy of the proposed budget on the way in. I’m only going to focus on the highlights of the budget, and not really into the details, but I will answer any question anybody has about any of the detail. If we start off on page one you can see that the District is organized into three separate funds. We have the General Fund, which is the general government. It’s very small. It has very little function. It is simply the government form that holds, operates, maintains, and runs the two utilities. The other two funds are the Water Fund and the Electric Fund. Based on our Charter, which was changed in 1995, this is the appropriate budget process that we use. Page one and two are the general, consolidated budget, and just to give you some quick ideas about the budget itself, how it operates, on page one you can see that we have a revenue section, and I’m not going to go over each of the individual lines, but an important thing to note is the General Fund has no revenue. That’s because we don’t tax. That’s because funds of the Water utility and funds of the Electric utility are transferred at a different place in the budget to take care of the expenses of the General Fund. You move down to the section called ‘Other Revenue’ for the General Fund and you’ll see the interest income of \$3,600 per year. The interest used to be significantly higher for two reasons. We had a fund balance that was about \$2.4 million at one point several years ago and we spent a significant amount of money on the South Norwalk Library improvements, so the actual fund is slightly under \$1 million as opposed to \$2.4 million previously; and interest rates declined rapidly. If you move over to the second page you will see that the total operating expenses for the District is \$188,000. There’s one line called ‘Operations’. None of those other functions occur in the General Fund, although there is detail further on in the budget that we’ll talk about, explaining what the \$188,000 covers, the \$128,000 for operations, and the \$60,000 for community service, giving us essentially a total expense of \$188,000, a net revenue of minus \$184,000, so obviously the District by itself loses money. It could be made up by taxation, but the Commission has never elected to do that, and as far as I know the District has never issued District tax. You move down to the next highlighted line, ‘Change in Cash Position’, a negative \$184,000. The opening balance in the reserve fund is \$948,000. The next item is ‘Returned to the Reserve Fund’ of \$29,000. That’s the unspent funds from the prior fiscal year return to the budget process, returned to the fund. Adjusted opening balance, \$978,000; and this is where the operating expenses are covered for the District. You’ll see a transfer from the Water Fund of

\$93,000, a transfer from the Electric Fund of \$93,000, a total of \$186,000 coming from the two utilities to run the District's business, and a closing balance of... estimated at \$979,000. For those of you who have never been to a budget meeting in recent years, we always try to maintain the fund balance fairly close to the opening and the ending by transferring money from the two utilities. If we have a major project we might do something different from that. The only major project we've done, as I've said, is the library. If you move to page three, you'll see the detail for the general fund budget. Under expenses you'll see for operations we have Commissioners' Salary, Clerk's Salary, Treasurer's Salary, Meetings and Printing, Legal, Auditors, Insurance -for the total of the \$128,000. If you look at the prior two years you can see that the expenses for operations are almost identical year to year to year. They don't change much, because we don't do things much different in the general fund. Then you have community service projects, total community service projects of \$60,400. They are mostly in kind services performed by the two utilities that are billed to the general fund. The Community Beautification - Peter's Art Park, Madison Avenue, Heritage Wall, West Avenue, Miscellaneous Projects are areas around South Norwalk that we clean up, cut the grass, maintain the bushes, do pest control... herbicide control; not walking pests, growing pests."

[Laughter]

Mr. Hiscock: "Holiday Lighting – we light the Heritage Wall and the District Office on Water Street with holiday lighting. And then the other items are 'Assist Clean and Green', occasionally they will need some assistance. That's generally in kind services. It's not generally in cash donation. And we have the SoNo Arts Celebration. That's been a line item in our community service budget for a long time of \$1,500 to cover the set up of the electric and some of the energy for the SoNo Arts Festival. If it goes over \$1,500 they pay the balance, if it's under \$1,500 we pay the entire project. The Summer Youth Employment Program we've been doing for quite a few years. This year we're budgeting \$1,500... excuse me, \$15,500 for the City Summer Youth Employment Program, as a contribution, and then Miscellaneous Community Service Projects of \$7,500. Those are for projects that come up during the year. These are usually cash outlays, and the money is expended from this fund only by vote of the Commission at a regular Commission meeting. So if there was a project related to the community that the Commission supported, there would be a resolution, a vote. If it passed the money would be allocated. Any questions on the General Fund budget?"

Mr. Burgess: "Do you ever get an accounting from the recipients that receive the money on how the money was spent?"

Mr. Hiscock: "Generally, no. Generally these are specific cash grants. One of the community service projects is actually run through David Shockley's office at the City, and we rely on David Shockley to account for the funds in that particular situation. The others are simply cash."

Mr. Burgess: "Okay, one other question. Why did the auditing cost go down from last year to this year?"

Mr. Hiscock: "Why did we..."

Mr. Burgess: "It went down instead of going up."

Mr. Barber: "John [Mr. Hiscock], I believe it was because we are not having a single state audit (inaudible)."

Mr. Hiscock: "Okay. The... Kevin Barber just indicated that the auditing process when we built the filtration plant was a little bit more complex. The plant is done, on line, in operation. Anything else?"

[No remarks]

Mr. Hiscock: "Okay, and if you would like to know... if I can find it. Okay, on page five for the last fiscal year is the reconciliation of the Second Taxing District budget versus actual, and you can see that we budgeted \$184,900, and spent \$135,507. So we certainly met the test of coming in under budget, and since it's an authorization budget that's normally the way it's handled. The next column, the Water Department column on page one, Operating Revenue, \$6.6 million. Other Revenue, we have other revenue sources coming to \$225,000, for a total revenue of \$6,843,984. Below that are the expenses, summarized and then accumulated on the top of page two of \$5.632 million. There are no other expenses. And then we have a net projected revenue... now this is cash, we're not dealing with depreciation, because this is the budget, so this is cash; so that we have a revenue in excess of expenses of \$1.211 million. And we move into the debt section, and we move into the interest payments - interest on debt on the New Canaan project, and principal on the New Canaan project, \$331,125. The good news is next year that project, that bond, has been paid off, and so that will come back to the cash flow side, and that's going to be helpful to us. Right now one of our biggest expenses is the principal on debt for the filtration plant, and the interest on debt, of \$1.5 million, a very, very large amount of money. The next item is the capital appropriations for the year, \$380,000, and it's substantially lower than we have in the past, and that has to do with cash and expenses, leaving us in a position of a negative change in cash position, in other words, \$992,000 in the hole. We have an opening balance in the reserve fund of \$1.2 million. We have a return to the reserve fund, unexpended funds from the prior year, of \$406,000. We cancelled prior year capital projects of \$235,000 for an adjusted opening balance of \$642,000, and then we have the transfer out of the Water. So we have a closing fund reserve balance of a negative \$1.7 million. That's obviously a large negative number, and we are in the process of addressing that issue so that we can bring that back to the positive side. Any questions about the Water fund?"

[No remarks]

Mr. Hiscock: "If you want a comparison of the prior year's Water fund budget you can look at page six and page seven. One of the interesting things that is giving us a significant problem - if you look at page six, the projected operating revenue for the Water utility is declining, and that's a difficulty for us. We have a lot of conservation. We have significant savings by our customers in Water, so our revenues are down, and that's one of the issues for why we have negative balances in the Water fund. There will need to be a revenue enhancement, and I think that's sort of a code word for 'we need to change rates in the Water utility', and while nothing has been

approved, therefore nothing in the budget, that's an issue that the Commission will be wrestling with late this Spring and early Summer. Any more questions?"

[No remarks]

Mr. Hiscock: "Okay, we'll move to the Electric utility. Total operating revenue from the Electric utility is \$15.5 million, other revenue of \$212,000, for a total revenue of \$15.7 million. Move over to the operating expenses, and there's one item that I really want to point out to you that's very important for you really all to understand. On page one, purchased water and electricity, eight lines up from the bottom. We spend \$11.1 million to purchase the electricity that we turn around and provide to you, that you pay for. That number is kind of interesting because if you compare the \$11 million to the total revenue of \$15.7 you can see there's not a lot of money to operate the Electric Department. That is a temporary situation related to electric pricing and other issues, and the spot market for electricity has dropped dramatically, but for those of us who buy electricity on a levelized basis over a long time frame, our purchase cost for electricity right now is actually higher than the investor owned companies, CL&P and UI, and it really has to do with the fact that we try to levelize the cost over time so you don't have rate shock up and down like you do at either CL&P or UI. Right now we're on the bad side of that, unfortunately. If we flip to the next page we have a total operating expense of \$16.9 million, and then we move down to the total operating expenses of \$16.97 [million] for a net revenue of negative \$1.2 million. That's also a very difficult number to deal with. We're going to address that in two ways. The utility has hired a cost of service rate analyst. We haven't changed our rate structure since 1992, and there are some inequities in that rate structure that we're trying to correct, and we believe it will change the revenue. But again, can't reflect that revenue change in this document because none of it's been approved, even though it will occur about the same time this budget goes into effect. We have capital appropriations of \$1.7 million for replacing facilities and building new facilities. We have a change in cash position of \$3 million, which means we're projecting to spend \$3 million more than our income. We have an opening balance in that fund of \$5.6 million. We're returning to that fund \$551,000 from projects from the prior year's budget. And then we have an item, 'Previous Years Cancelled Projects', \$2.1 million. We have cancelled \$2.1 million worth of projects that appeared on our prior budgets because of changes in focus in the Department, and projects that we had originally anticipated doing, we're no longer doing. The net result of that is the adjusted opening balance of the reserve fund is \$8.3 million, so the Electric utility has significant cash even though its projecting a deficit in cash for the upcoming fiscal year. We move down..."

Mr. Newell: "John [Mr. Hiscock]?"

Mr. Hiscock: "Yes [acknowledging Mr. Newell]?"

Mr. Newell: "What is... give us an idea of some of the cancelled projects, just a couple."

Mr. Hiscock: "We went back and looked at the amount that we were budgeting for emergency repairs of facilities. An example – we would put several hundred thousand dollars in for an item called 'Replacement of Devices and Conductors, Wires, Switches', and we put those things in the budget previously because we didn't want to come back to the electors and go through a

budget modification every time we had a failure of equipment. So these items were put into the budget with some fairly large numbers in them. We've decided to consolidate some of the items and make those reserves smaller, primarily because we really never ran into emergencies as large as we were budgeting for. So that's one example, okay. Because of our new plan, or because of our plans to build a new substation, some of the projects that were included in the prior year's budget - an example is \$500,000 to change the switching and control system at the existing substation to eliminate the blinks that you get. You know how occasionally your lights will dim and blink? When we would have a failure of one of the incoming lines from CL&P, even though there was a backup line, we would get a dip or a blink, and we decided that that was inappropriate, so we came up with a \$500,000 scheme to resolve that problem, and also to resolve a CL&P imposed constraint, because the amount of power coming into the District - 9 percent of it comes off of one line, and 10 percent of it comes off of the other. They wanted us to balance it. I don't want to get into the technical issue, but this scheme also would have solved that problem, okay. Since we're going to build a new substation we weren't willing to spend \$500,000 to solve that problem for 30 months, because the new substation will resolve that problem. So that's another example of something that we cut out."

Mr. Newell: "That's what I hoping to (inaudible), because these online things coming, why do you need all this?"

Mr. Hiscock: "Right. And I think there's a section in here that shows those cancelled projects."

Mr. Barber: "Not in the one that..."

Mr. Hiscock: "No, this is the short form budget. We have a long list in the big fat budget that looks like that, but that wouldn't be appropriate to deal with here. And then we have the \$93,000, you know, as I mentioned, so we're going to end up with a closing balance of \$5.2 million in the Electric fund, and that's after we spent probably about \$1.2 a ready on the substation. We acquired land. We got consultants working on it, and that number will eventually go into the total cost of the substation, but we've spent the money already for that portion. And if you want a comparison of the Electric budget from year to year, you can go to page 15 I believe. Yes... no, that's the budget to actual showing that we were inside the budget."

Mr. Barber: "I believe it's [page] 12."

Mr. Hiscock: "Page 12 Kevin [Mr. Barber] says, and Kevin's right, page 12 and 13. Any questions about the Electric budget?"

[No remarks]

Mr. Hiscock: "Alright, and the last column over is just a combination of the three funds for, you know, the entire District; just informational purposes, but let's you know that we have about \$4.5 million in cash at the end of the upcoming fiscal year if we spend everything that's authorized, and we do all of the projects that are in the budget, and spend as much as indicated. That is something that doesn't happen. Like any authorization budget, you want to make sure you don't

go over the budget, so there's always money that comes back, because we do a good job of coming in under budget. Any questions about the budget, the process, the projects? Anything?"

[No remarks]

Mrs. Burgess: "No. May I have motion to approve the proposed budget."

Mr. Ayme: "Move to approve."

Mr. Geake: "I second it."

Mrs. Burgess: "Second. All in favor?"

Electors simultaneously: "Aye."

Mrs. Burgess: "Do you want us to use these [referring to the voter's card]?"

Mr. Hiscock: "Please raise your cards, sorry."

[Mr. Hiscock counted the voter's cards]

Mr. Hiscock: "That's easy, it's unanimous."

Mr. Ayme made a motion to approve the proposed 2011-2012 budget of the Second Taxing District, City of Norwalk, as presented. Mr. Geake seconded and the motion passed with all 16 electors present voting in favor and none opposed. There were no abstentions.

To Receive and Ratify the Choice of Auditors of the District Commissioners for a firm to perform Auditing Services for the Second Taxing District, City of Norwalk, for Fiscal Year Ending June 30, 2011

Mrs. Burgess: "Okay, I need a motion to place on the agenda to receive and ratify the choice of auditors."

Mr. Geake: "So moved."

Mrs. Burgess: "Second?"

Mr. Burgess: "Second."

Mrs. Burgess: "All in favor?"

Electors simultaneously: "Aye."

Mrs. Burgess: "Opposed?"

[No opposed]

Mrs. Burgess: "Okay, now the presentation by staff."

Mr. Hiscock: "The..."

Mrs. Burgess: "I would like to add one thing. If anyone has any questions of Kevin Barber, who is also staff, they're certainly welcome to ask him."

Mr. Hiscock: "Okay, for those of you who don't know, Kevin Barber is the Department Head for Customer Service and Administration, or Administration and Customer Service? One or the other, I don't quite know the order of that."

Mr. Barber: "Both, Admin and Customer Service [responding to Mr. Hiscock]/"

Mr. Hiscock: "Yes, but I didn't know the order, which comes first. Okay, under the Charter, the way the Charter deals with the auditors; and this was something that's also changed in the Charter in 1995, the choice of auditors is the District Commissioners. They make the choice. However, the Charter also says that the electors need to ratify that choice. So if the electors do not like the Commissioners' choice of auditors they can say no forcing the Commissioners to then pick a different set of auditors. Okay. That was added as a safeguard so that if somebody was concerned about the choice of auditors by the Commission, maybe, you know, friends, or... and I don't mean that in an inappropriate way, the electors have some methodology for eliminating that problem. Okay. So what's before you this evening is to ratify the choice of auditors for the current fiscal year, chosen by the District Commissioners, and they've chosen the firm of Hope and Hernandez. Hope and Hernandez has done our audits for many, many, many years, a decade or more... probably more than a decade, right in that range. The way we choose auditors, so you understand the process, once every three years we get a list of auditors who do auditing of municipal government forms, of which we are one. We then send out a request for proposal, or a request for interest. We then, for those who are interested, we send out the formal request for proposal document which spells out what we need and what the process is. The auditors then submit letters. We probably send out 20 or so, or more letters to auditing firms that solicit their interest. Half a dozen or so kind of say 'Yes, we're interest', take out the proposal documents, they review them, and we get two, three, four, somewhere in that range, that actually submit proposals. The document also says that the engagement is for one year, and for one year only, because that's what the Charter says, it can only be for one year at a time. But we also indicate that it's the District's intention to go out for proposals only once every three years, so that if the Commission is happy with the auditors, and the auditors want to continue, and they're willing to do it at a similar, appropriately similar price, we do not solicit bids for the next two years. Okay. This is the last year of that three-year cycle. Next year we will have to go out and solicit bids for the audit. Hope and Hernandez wishes to continue. The Commission wishes to re-engage Hope and Hernandez. The price this year is... I had that information at the Commission meeting, but it's \$300 or \$400 more..."

Ms. Mann: "Three."

Mr. Hiscock: "I don't remember exactly what it is, but it's in line. Okay. So at the Commission meeting of..."

Ms. Fox: "March 8th [responding to Mr. Hiscock]."

Mr. Hiscock: "March 7th?"

Ms. Fox: "8th."

Mr. Hiscock: "8th, I'm sorry. March 8th. The Commissioners chose the firm of Hope and Hernandez, and at this point the electors have the choice of ratifying that or not. If you ratify it, it's the firm; if you don't, the Commission will then step back and try to find an alternate auditor. Any questions about the process or the firm?"

Mr. Burgess: "So moved to ratify the Commissioners' recommendation."

Mr. Hiscock: "The Commissioners' choice [responding to Mr. Burgess]."

Mr. Burgess: "Right."

Mr. Newell: "Second."

Mr. Hiscock: "Okay, motioned, seconded."

Mrs. Burgess: "Okay, there's a motion and it was seconded."

Ms. Fox: "Yes [responding to Mrs. Burgess]."

Mrs. Burgess: "Alright, all in favor of receiving and ratifying the choice of auditors?"

[Electors raised their voter's cards]

Mr. Hiscock: "It's also unanimous."

Mr. Burgess made a motion to ratify the choice of the District Commissioners for the firm of Hope and Hernandez to perform auditing services for the Second Taxing District, City of Norwalk, for the fiscal year ending June 30, 2011. Mr. Newell seconded and the motion passed unanimously with all 16 electors present voting in favor and none opposed. There were no abstentions.

Mrs. Burgess: "That's it."

Mr. Hiscock: "That's it."

Mrs. Burgess: "Adjournment. Al [Mr. Ayme], you're good at that."

Mr. Ayme: "Move to adjourn."

[Laughter]

Mr. Ramirez: "I second."

Mrs. Burgess: "Is there a second? Vote of the electors to adjourn. Aye."

Electors simultaneously: "Aye."

Mrs. Burgess: "We're through."

Mr. Hiscock: "Motion for adjournment."

Mrs. Burgess: "Motion to adjourn?"

Electors simultaneously: "So moved."

Adjournment

The meeting adjourned at 8:33 p.m.

Attest:

Candace Fox
District Clerk