

SECOND TAXING DISTRICT COMMISSIONERS

Regular Meeting

April 20, 2010

Present: Mary E. Burgess Chairperson
Al Ayme Vice Chairperson
Maria Borges-Lopez
Mary A. Geake
Sherelle Harris
Mary Mann
Cesar A. Ramirez

Also Present: John M. Hiscock General Manager
Candace Pampoukidis District Clerk

Public Present: Michael K. Geake

Call To Order

Chairperson Mary E. Burgess called the Regular Meeting of the Second Taxing District Commissioners to order at 7:01 p.m. on Tuesday, April 20, 2010. The meeting was held at South Norwalk Electric and Water, One State Street, South Norwalk, Connecticut.

Acceptance of the Minutes

Commissioner Burgess: "I'll call this meeting to order, the regular meeting of the District Commissioners, Tuesday, April 20, 2010, at 7:01 p.m. And the first order of business is acceptance of the minutes of March 9th and April 9th. I need a motion for that."

Commissioner Mann: "I make a motion that the minutes be accepted."

Commissioner Geake: "I second them."

Commissioner Burgess: "Are there any corrections or discussion of the minutes?"

[No remarks]

Commissioner Burgess: "Okay, all in favor? Aye."

Commissioners simultaneously: "Aye."

Commissioner Burgess: "Opposed?"

[No opposed]

Commissioner Burgess: "Abstentions?"

Commissioner Harris: "I abstain, because I wasn't here."

Commissioner Burgess: “Okay. Alright, item three, the consent agenda, and our General Manager will explain that, I hope.”

Commissioner Ramirez: “May I...? Excuse me. On the minutes themselves, you’re recording March 9th and April 9th?”

Commissioner Burgess: “Yes [responding to Commissioner Ramirez].”

Commissioner Ramirez: “Alright, I was not here on April 9th, so I have to abstain on that.”

Commissioner Burgess: “Okay.”

Commissioner Mann made a motion to approve the regular meeting minutes of March 9, 2010 and the special meeting minutes of April 9, 2010. Commissioner Geake seconded. The regular meeting minutes of March 9, 2010 passed with Commissioners Burgess, Ayme, Borges-Lopez, Geake, Mann, and Ramirez voting in favor and no opposed. Commissioner Harris abstained. The special meeting minutes of April 9, 2010 passed with Commissioners Burgess, Ayme, Borges-Lopez, Geake, and Mann voting in favor and no opposed. Commissioners Harris and Ramirez abstained.

CONSENT AGENDA

Electric Write Offs – January 1, 2010 thru March 31, 2010

Mr. Hiscock: “Okay, on the consent agenda it’s the standard, quarterly write off of old debt six years or older. It’s on the consent agenda. If anybody wishes to discuss any particular item you can pull it off and move it to the regular agenda. Otherwise, it’s generally acted on without discussion.”

Commissioner Burgess: “Is there a motion to approve the...?”

Commissioner Ayme: “I move the consent agenda.”

Commissioner Ramirez: “I second that.”

Commissioner Burgess: “All in favor?”

Commissioners simultaneously: “Aye.”

Commissioner Burgess: “Opposed?”

[No opposed]

Commissioner Burgess: “Abstentions?”

Commissioner Harris: “Abstention.”

Commissioner Ramirez: “One [acknowledging Commissioner Harris].”

Ms. Pampoukidis: “Abstention [also acknowledging Commissioner Harris].”

Commissioner Ayme made a motion to approve the consent agenda, Electric Write Offs – January 1, 2010 through March 31, 2010. Commissioner Ramirez seconded and the motion passed with

Commissioners Burgess, Ayme, Borges-Lopez, Geake, Mann, and Ramirez voting in favor and no opposed. Commissioner Harris abstained.

REGULAR AGENDA

Declare Commission Vacancy Filled

Mr. Hiscock: "We'll explain all these processes to you as we go [directed to Commissioner Harris]."

Commissioner Harris: "Okay [responding to Mr. Hiscock]."

Commissioner Burgess: "Now, we're at item four, and... would you like me to read the resolution or do you want the secretary of the Democratic Town Committee to read it, or...?"

Mr. Hiscock: "I don't care who reads it, as long as it gets to the record."

Commissioner Ayme: "Okay, on Tuesday... on Monday, rather, April 19th, we had a meeting of the Democratic Town Committee, and at that meeting the... it was announced that there was a vacancy on the Second Taxing District Commission due to Sylvester Maultsby's relocation out of the state. At that meeting a vote of voters of the B1 District was taken, and that vote resulted in the election of Sherelle Harris as the new Commissioner. On that basis, this morning, I issued a certification from the Democratic Town Committee, which was transmitted to the office of the Manager of the Second Taxing District, the... which Candace [Ms. Pampoukidis] has. So if you want to read that, or...?"

Commissioner Ramirez: "When you said this morning, do you want to give the date perhaps, so it can be on the record please?"

Commissioner Ayme: "On the 20th. April the 20th."

Commissioner Burgess: "Well we need to move the resolution..."

Commissioner Mann: "In the book."

Commissioner Burgess: "...correct?"

Commissioner Ayme: "Alright..."

Mr. Hiscock: "Yes, and we do need to fill the name in, because..."

Commissioner Ayme: "Okay."

Mr. Hiscock: "...when the board book went out we didn't really have the name."

Commissioner Ayme: "Alright, I'll read the resolution."

Mr. Hiscock: "Okay."

Commissioner Ayme: "I move the following resolution."

[Commissioner Ayme read the following resolution into the record]:

“DISTRICT COMMISSION VACANCY FILLED

WHEREAS that the vacancy on the Board of the District Commissioners, created by the resignation of former Commissioner Sylvester Maulsby on March 31, 2010, has been filled in accordance with the Second Taxing District Charter.

WHEREAS that the Democratic Town Committee, in accordance with the Second Taxing District Charter, and its authority under said Charter, has named Sherelle Harris to fill said vacancy for the remainder of its term, which term expires in November 2013.

NOW THEREFORE BE IT RESOLVED that the Second Taxing District Commissioners do hereby declare the vacancy has been filled by Sherelle Harris who shall complete the unexpired term of Sylvester Maulsby.”

Commissioner Ramirez: “It is my privilege and honor to second that resolution, or the motion, whatever you want to call it.”

Commissioner Burgess: “Okay, all in favor?”

Commissioners simultaneously: “Aye.”

Commissioner Ayme made a motion to approve the resolution declaring the District vacancy, created by the resignation of Sylvester Maulsby, filled by Sherelle Harris. Commissioner Ramirez seconded and the motion passed unanimously with all Commissioners voting in favor and none opposed.

Commissioner Burgess: “Now I have taken off Chairman’s comments. I would just like to comment, and welcome Sherelle to join us. That’s the only Chairman’s comment you’ll get from me.”

Commissioner Harris: “Thank you.”

Customer Deposit Funds

Commissioner Burgess: “Okay, I guess you’re on stage again, Consumer [Customer] Deposit Funds [directed to Mr. Hiscock].”

Mr. Hiscock: “Okay, customer deposit funds. Behind tab five in your book you’ll find a brief comment regarding a recommendation to the District Commissioners to permit the investment of customer deposit funds in the amount of \$1 million in T Bills [Treasury Bills] for a term of 10 years. As most of you know, when we take new customers on in the Department we require a deposit from that customer to guarantee their bill in accordance with the Deposit policies. The Deposit policies are separate for residential and for commercial. Commercial, in essence, are our estimation of three months of the... the highest three consecutive months for the customer. If it’s an existing business changing hands it’s pretty easy to determine that number, otherwise the

engineering department makes an estimate. With respect to residential properties, it is \$225.00 for a residential apartment; \$270.00... no, \$325.00 for all electric, I believe. I didn't bring those numbers with me. But if you turn the page you'll see that as of March 31st, 2010, the table halfway down the page, we had total deposits of \$1,753,953.57. Up until now... and the other side of the equation is that on the customer deposits we pay an interest rate to the customers. It goes on once per year, or when they terminate their account, of 4.0%. It started out in the low 3's. As we made investments at better interest rates, we upped it to 4. And we stayed at 4 for quite awhile, and we were having little or no trouble maintaining Department interest rates coming into us on the security funds in excess of the 4.0%. But recently we've had a problem, and if you look at the table at the bottom you will see the banks that the funds are invested in; essentially the Fairfield County Bank and the Patriot National Bank, and you'll see a rate column, you'll see a maturity, total dollar amount, and it's split up into various certificates and/or straight bank accounts because the certificates were not paying reasonably good interest rates. As you can see we have a Patriot's CD for 4.75%, maturing September 26, 2013. That's fine. That \$536,372.66 is receiving 4.75% interest, and that's fine for us, and it's obviously going to stay there until maturity. The one under it, to the Patriot's Bank, 5.01%, comes due in June. It's \$158,000.00. And then we have one at June 6th, also for 1.0%, at \$158,000.00. And we have a Patriot's account at 1.08%, and there is no maturity because it's a straight account at \$314,000.00. And then we have three at the Fairfield County Bank, which is our normal operating cash fund. The top one is 0.20%, \$139,000.00. The next are 2.02%. They mature in October and November. The actual situation now, is if you look at the bottom of the rate column, the weighted average incoming interest, based on those accounts, is 2.72%. We're paying out 4.0%, so we're obviously losing money every month. That's an issue for us. We've been sitting back and waiting for the interest rates to change before we would make any move. We clearly don't see CD rates approaching 4.0% for a considerable time period. That's pretty clear. It's just not going to happen. But we think we have an opportunity that will work out reasonably well, and everybody obviously has the same opportunity. We're thinking the best position to be in at the moment is to buy a series of long-term Treasury Bonds; 10 year notes, but we want to do it in a way that we protect the 4.0% interest rate. We believe that customers generally are satisfied if you pay 4.0%. When interest rates are high, their CD's and their bank accounts are doing a little better than that. When interest rates are low, their doing considerably lower than that. We also do not believe that the DPUC, even though they do not set our customer deposit interest rate, we don't believe the DPUC would ever set an interest rate higher than 4.0%. Generally all of the deposit funds in Connecticut that are controlled in one way or another by the legislature is set by the banking group, and even when interest rates are high, I've never seen them approve an interest rate higher than 4.0%. So it puts us in a safe position. So what we would like to do is obtain permission to invest in a series of long-term treasuries. We will not do it all in one note. We'll do it in several lots, so that if we got into a cash crunch and had to sell one to cover customer deposits, we wouldn't be stuck with a situation if the interest rate was high, the value of the bond would be low. I mean that's... the value of the bond is related to the interest rate at any given time. Right now we're not at 4.0%. The T Bills are hovering in that range. I think as of this week we were at 3.78%. So it's not a case where I can come to the Commission at a specific point in time and say that "Okay, we have this rate", because it changes every week. It changes with the market. So what we're proposing instead is a resolution which you will see on the [flipping pages]... well, someplace in here. Oh, we didn't prepare a resolution. I'm sorry. Okay, but we are looking for a motion to allow us to invest customer deposit funds only, in 10-year treasuries, with a value of not less than 4.0%, and we also need to

indicate very clearly that they will be held to maturity. Now that doesn't mean that we have to hold them to maturity, but if we do not indicate in the resolution that we're holding them to maturity, the auditors are then obligated to value them at each audit. So on the balance sheet they're going to be going up and down, and up and down, depending on the interest rate. So as long as we include the phrase "to be held to maturity" we don't have the problem with the auditors changing the valuation at every audit. Now from a practical perspective that's not a real problem, other than our balance sheet will end up fluctuating, there's no other reason to do that. So if the Commission, and I'll answer your questions and we can talk about it in a minute, but if the Commission is so inclined, the motion would be to allow staff to deposit up to \$1 million of customer deposit funds in 10 year treasuries at an interest rate of greater than 4.0%, and they will be held to maturity. If there are any questions about the sheet, the information, how we deal with the situation, I can certainly answer that. And we did, by the way, include minutes of the last time we dealt with this, so you can (inaudible); pages and pages of discussion we had on it."

Commissioner Burgess: "Commissioner Ramirez had a question."

Commissioner Ayme: "Yes, go ahead [directed to Commissioner Ramirez]."

Commissioner Ramirez: "Go ahead Al [acknowledging Commissioner Ayme]."

Commissioner Ayme: "Yes. No, I just have a couple of questions. The face value... how will you break it down for the face value of each bill?"

Mr. Hiscock: "Probably \$200,000.00 apiece."

Commissioner Ayme: "\$200,000.00?"

Mr. Hiscock: "Yes."

Commissioner Ayme: "And do we have... how much of the rest of the monies that we have, liquid, that we have invested in CD's and so on, do we have anything invested in T Bills?"

Mr. Hiscock: "No."

Commissioner Ayme: "No?"

Mr. Hiscock: "We have nothing currently."

Commissioner Ayme: "So this would be the first time that we're going to T Bills?"

Mr. Hiscock: "Well actually no, it won't be the first time we're going to do this. In the 90's we had a People's Securities account, and the District Fund, remember we had about \$2.7 or 8 million in District Funds?"

Commissioner Ayme: "Right."

Mr. Hiscock: "We generally dealt with those in short-term T Bills, and we went into the option in million dollar lots and spread them out over the year. We did that for probably 5 to 7 years and were reasonably successful. The short-term interest rates were good, because we knew we were headed to the library thing, so we didn't want to tie them up into long-term. Here, we don't believe that, unless the Commission simply decided to end the deposit program, we don't believe that these funds will be needed, because as one customer leaves, another customer comes in and replaces them. And that's why we gave you the five-year range, so you can see the funds always build. But they've also started to level off, because these are our transient customers as opposed to our long-term stable customers like those of you who own homes and live in the same place for quite awhile."

Commissioner Ayme: "And the... the... the 2-year term, is that the...?"

Mr. Hiscock: "The 10-year term [responding to Commissioner Ayme]."

Commissioner Ayme: "Hold on; 10-year or 2 years?"

Commissioner Borges-Lopez: "10 years."

Commissioner Ramirez: "10 year."

Commissioner Mann: "10 years."

Mr. Hiscock: "10 years is what the proposal is."

Commissioner Ayme: "Oh."

Mr. Hiscock: "Because you certainly... we can't get T Bills anywhere near that interest rate at 10 [2] year."

Commissioner Ayme: "Right. That's a long time. Okay."

Mr. Hiscock: "Yes. And that way we're in a position where we won't make any money, and we won't lose any money on the funds. It will be essentially neutral. And because it's not our money, it's customer money, we can't manage it in a way to take the profit anyway. It would have to go back to the customers eventually as part of the interest one way or the other."

Commissioner Ayme: "So we're talking about, basically, on a face value of \$200,000.00 for 10 years each."

Mr. Hiscock: "Right, five of them."

Commissioner Ayme: "Five of them?"

Mr. Hiscock: "Right. So if we have to turn one in, and we don't believe we'll have to turn one in, but if we did have to turn one in, it would be in \$200,000.00 lots, so if we were in a very high interest rate period we wouldn't lose on the face value, because obviously, you know, if you get

to a 7.0% interest rate on a \$200,000.00 face and you've got to turn it in, you're going to get oh, I don't know, I can't do the math in my head, but \$140,000.00, \$150,000.00..."

Commissioner Ayme: "I know..."

Mr. Hiscock: "Yes."

Commissioner Ayme: "...you get penalized."

Mr. Hiscock: "And that would be a straight loss. And we certainly don't want to do that."

Commissioner Ayme: "Do you see any advantage or any benefit to investing in \$100,000.00 lots rather than the \$200,000.00?"

Mr. Hiscock: "I think our risk is so low with respect to having to turn these in, especially in light of our other balances of our own funds which are in the \$10,000,000.00 range, the chances of every having to move into this is are so small that I really don't think we need to break it up to anything smaller than. I mean we certainly could, but there is a transaction fee for every one of them."

Commissioner Ayme: "Right. I just have one more question. The actual... the actual certificate for the T Bills, where would they be kept? At the bank?"

Mr. Hiscock: "Yes."

Commissioner Ayme: "Always, at the bank?"

Mr. Hiscock: "Yes they will be in..."

Commissioner Ayme: "They won't be handled in any way, shape, or form?"

Mr. Hiscock: "No. They will be in the account. We will obviously open a brokerage account."

Commissioner Ayme: "Right."

Mr. Hiscock: "And the only purpose of the brokerage account will be for the T Bills."

Commissioner Ayme: "We will not take possession..."

Mr. Hiscock: "We will not take..."

Commissioner Ayme: "...of the physical bills here?"

Mr. Hiscock: "We will not."

Commissioner Ayme: "Thank you. That's it."

Mr. Hiscock: “No. It’s all on paper. We will not take possession of the T Bills.”

Commissioner Ayme: “Okay.”

Commissioner Burgess: “Commissioner Ramirez, did you have a question?”

Commissioner Ramirez: “Yes. The question I have, based on the... I was reading the minutes, what transpired in 2008.”

Mr. Hiscock: “Yes [acknowledging Commissioner Ramirez].”

Commissioner Ramirez: “Even before that. I can see that you did something similar for \$500,000.00.”

Mr. Hiscock: “Yes.”

Commissioner Ramirez: “Okay, obviously this time you’re asking for \$1,000,000.00. And the reason why... last time was 5 years; and now 10 years.”

Mr. Hiscock: “Right.”

Commissioner Ramirez: “Is there any way that we could deal perhaps \$1,000,000.00 in 5 years instead of 10 years?”

Mr. Hiscock: “We’ll end up... you’re going to end up right now in the current interest rate market, you’re going to sacrifice interest, and we’ll be in a position of not being able to cover what we’re paying out to the customers, because the shorter the term in the current market place, the lower the interest rate.”

Commissioner Ramirez: “Right. So based on your knowledge, and hopefully the CPA or whatever accountant we have, do you perceive, or do you believe, that within 5 years this will be losing money?”

Mr. Hiscock: “No. If we take this plan...”

Commissioner Ramirez: “No, I’m talking about instead of 10 years, it will be only 5 years, and you just stated that in the short term, which is only 5 years...”

Mr. Hiscock: “Right.”

Commissioner Ramirez: “... we will not make...”

Mr. Hiscock: “We will not be able to get the blended interest rate above 4.0%. And if we can’t get the blended interest rate of all of the investments above 4.0%, then we’re taking cash out of the company to pay the interest.”

Commissioner Ramirez: “Okay, are you basing that response, based on what the bank is telling you, or the CPA, or based on the transition of what’s going on with the economics?”

Mr. Hiscock: “Based on the knowledge of the current economic situation, based on what the banks are willing to offer, and based on simply looking at the current money market. Simply, paying attention to what is going on. That’s something that we do pretty good. The other choice, and this not a recommendation at this point, the other choice would be not to do something like this and eliminate our losses by lowering the deposit interest rate to customers. That’s the other option. We could drop the interest rate downward to match this fund, because in the long run this fund can’t be managed for our benefit. It can only be managed for the customers’ benefit. So we... as we would accumulate more money in this fund than the liability to the customers, we would up the interest rate a little bit, or pay an interest dividend, one or the other. So this is why we want to do this. Judging this 4.0% interest rate as the appropriate target over the long haul, this would get us right there.”

Commissioner Ramirez: “I don’t have any concerns about the... my concern is just the long term. Okay? That’s basically what it is, and that’s why I ask what you base your knowledge. And it’s such a long time. That’s... 10 years is a long time, versus 5 or 6, or whatever the case might be.”

Mr. Hiscock: “You know, there’s always opportunity for out...”

Commissioner Mann: “Absolutely.”

Mr. Hiscock: “..depending on what the interest rate is, at either a gain or a loss.”

Commissioner Ramirez: “So you do have the flexibility to do so?”

Mr. Hiscock: “You do have that flexibility.”

Commissioner Ramirez: “So you don’t lock precisely at 10 years?”

Mr. Hiscock: “Yes, I mean you’re committing yourselves to being held for 10 years, but that doesn’t mean you must hold it for 10 years. The accountant’s position is the intention to hold to maturity. So that’s why you put it in the resolution.”

Commissioner Ramirez: “So (inaudible) the case... okay, if the rates go up, that’s what I meant.”

Mr. Hiscock: “If the rates go up, the value goes down. So every time the interest rate gets above 4.0%, the face value of the T Bill goes down.”

Commissioner Ramirez: “Right. Right. The face value goes down. Right.”

Mr. Hiscock: “I have no idea who this guy is wandering around [referring to an unknown individual outside the District meeting room.]”

Commissioner Ramirez: “Do you know who...? Is anybody waiting for him? May I try and find out who it is?”

Mr. Hiscock: “Yes, I’m curious as to who it is.”

Ms. Pampoukidis: “He’s been sitting in there for awhile.”

Commissioner Ayme: “What?”

Ms. Pampoukidis: “He’s been sitting in the kitchen for awhile.”

Mr. Geake: “Yes, he came in, he sat down...”

[Cell phone ringing]

Commissioner Ayme: “Who? Who is it?”

Commissioner Ramirez: “Oh, that’s your son [responding to Commissioner Ayme].”

Commissioner Ayme: “My son?”

Commissioner Ramirez: “Yes.”

Commissioner Ayme: “Oh.”

[Laughter]

Mr. Hiscock: “Okay. Sorry.”

Commissioner Ramirez: “I was curious who was behind there.”

Commissioner Burgess: “Are there any other questions from Commissioners?”

[No remarks]

Commissioner Burgess: “Any other questions? Maria [Commissioner Borges-Lopez], you’re the financial wiz; any questions?”

Commissioner Borges-Lopez: “No questions [responding to Commissioner Burgess].”

Commissioner Burgess: “Okay, so I need a motion for approval to invest funds in Treasury Bills for a term of 10 years at no less than 4.0%, right?”

Mr. Hiscock: “With the intention to hold to maturity.”

Commissioner Borges-Lopez: "I make a motion that we invest the customer deposit[s] of up to \$1 million in long-term Treasury Bonds with an interest rate not less than 4.0% to be held to maturity."

Commissioner Mann: "Second."

Commissioner Burgess: "Okay, all in favor?"

Commissioners simultaneously: "Aye."

Commissioner Burgess: "Opposed?"

[No opposed]

Commissioner Burgess: "Abstentions?"

[No abstentions]

Commissioner Borges-Lopez made a motion approving the investment of up to \$1,000,000.00 in Treasury Bills for a term of 10 years at no less than 4.0% to be held to maturity. Commissioner Mann seconded and the motion passed unanimously with all seven Commissioners voting in favor and none opposed.

Public Participation

Commissioner Burgess: "Alright, we have a public here. It's public participation time."

Mr. Geake: "No. The public has nothing to say."

Commissioner Burgess: "Well, I'm going to set a record now. Motion for adjournment."

Commissioner Geake: "Second."

Adjournment

The meeting adjourned at 7:28 p.m.

Attest:

Candace Pampoukidis
District Clerk