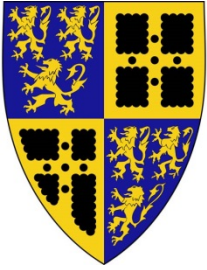


TOWN OF OLD SAYBROOK
SELECTMEN'S OFFICE



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To: Board of Finance Members
From: Carl P. Fortuna, Jr., First Selectman
Re: Fiscal Year 21 Surplus Recommendations
Date: August 3, 2021

The purpose of this memorandum is to request your consideration of the following uses of surplus for FY21.

Discussion

The Town's unassigned fund balance stands at \$7,559,728, or 16.1% of the total General Fund budgetary expenditures at the end of FY20. The Town's fund balance policy targets a rate of 15% or higher. With the FY22 budgeted expenditures of \$47,187,717, the unassigned fund balance would need to total approximately \$7,078,157, which we have exceeded at this point. The estimate for the surplus is approximately \$1.47 million and includes both the Town and the Board of Education. The addition of this surplus would increase the budget surplus fund to approximately \$9,029,728, or 19.1% of FY22 budget.

The following is an excerpt from the Fund Balance Policy that addresses year end surpluses.

"It is the goal of the Town to build an unassigned fund balance in the GF at each fiscal year end of 15% of approved GF annual expenditures. Fund balances that fall within the range of 12% to 15% are deemed to be healthy and no action or reporting is required. Should the unassigned GF fund balance fall below 12% at fiscal year end, the Board of Finance shall be notified. Should the unassigned GF balance fall below 5% the First Selectman shall develop a restoration plan to rebuild the minimum fund balance and present it to the Board of Finance for their approval.

In the event that a fiscal year ends with surplus funds projected to be in excess of the 15% policy target, the Board of Selectmen shall make a recommendation to the Board of Finance which may include one or more of the following options:

- a) Transfer excess funds to a capital reserve account;
- b) Transfer excess funds to a specific capital project;
- c) Transfer excess funds to reduce a Town liability or debt;
- d) Transfer excess funds to a debt stabilization account; or
- e) Other recommendation as may be appropriate."

With this policy as guidance, it is recommended that the Boards of Selectman and Finance consider the following uses of surplus in the following order:

1. Ensure enough surplus funds are available to maintain the Town's budget reserve fund at our above 15%.
2. The Town has budgeted \$618 thousand for Defined Benefit actuarial determined contribution ("ADC") in FY22 (\$468 thousand for the Town employees and \$150 thousand for the BoE employees). The ADC for FY22 is \$814 thousand. Therefore, it is recommended to transfer \$250 thousand to the municipal reserve fund

("MRF") and further to transfer these funds to the Town pension plan next fiscal year in order to meet the full ADC for FY22.

3. The Department of Public Works will not be able to complete its road work prior to the end of June 30, 2021. It is recommended to transfer \$150,000 to an off-budget account for use during FY22. Therefore, as these funds will drop to the bottom line as surplus, it is recommended that these funds be transferred to an off-budget fund entitled "DPW paving and road maintenance" in order to continue the Town's road maintenance program.
4. Over the course of the last three fiscal years, the BoF has appropriated surplus funds for the purpose of constructing sidewalks and other sidewalk improvements. It is recommended that an appropriation of \$200 thousand be considered to maintain our program of improving sidewalks.

In conclusion, these proposed uses of surplus would represent about a \$600 thousand reduction in FY21 surplus. This would reduce the projected budget reserve fund to approximately \$8.4 million and represent about 17.9% of the FY22 budgeted expenditures.

By way of background, the mechanism for this type of transaction is outlined in the Connecticut General Statutes, **Sec. 7-361. Procurement of the municipal reserve fund ("MRF")**. This statute states, "Upon the recommendation of the budget-making authority and approval by the legislative body, there shall be paid into such reserve fund (a) amounts authorized to be transferred thereto from the general fund cash surplus available at the end of any fiscal year."

Should you decide to move forward with this recommendation, the motions requested are as follows:

Motion

1. To appropriate \$250 thousand from the Town's FY21 surplus to the municipal reserve fund ("MRF") and further to transfer these funds to the Town pension plan next fiscal year in order to meet the full ADC for FY22 and to place said funds in the Town Pension Plan Fund 8100 to be used for the purpose of augmenting the FY22 ADC budget. Further to move the transfer of the surplus funds to Town meeting.
2. To appropriate the movement of \$150 thousand from the Town's surplus for FY2021 and to transfer those funds into an off-budget account called "DPW paving and road maintenance". Further to move the transfer of the surplus funds to Town meeting.
3. To appropriate the \$200 thousand from the Town's surplus for FY2021 and transfer said funds to an off budget Fund called "sidewalk construction". Further to move the transfer of the surplus funds to Town meeting.