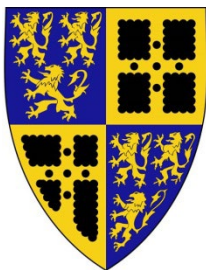


TOWN OF OLD SAYBROOK
SELECTMEN'S OFFICE



302 Main Street • Old Saybrook, Connecticut 06475-2384
Telephone (860) 395-3123 • Fax (860) 395-3125

To: Board of Finance Members
From: Carl P. Fortuna, Jr., First Selectman
Re: Pension Reserve Funding
Date: August 8, 2022

The purpose of this memorandum is to recommend that the Board of Finance approve a transfer of \$321,821 from the Debt Service Reserve to the newly created Pension Reserve Fund.

By way of background, the Town created the Debt Service Reserve Fund in Fiscal Year (“FY”) 19 which was ultimately funded through two transfers of FY end surplus transfers in the amounts of \$249 thousand in FY19 and \$200 thousand in FY20. Over the course of the next 3 fiscal years, a total of \$140 thousand of the debt service reserve was used to augment debt service and help to mitigate budget spikes.

During FY20, the town refinanced a significant portion of its debt service to take advantage of very low interest rates, reduce the cost of overall debt service, and manage debt spikes. As a result, debt service has remained stable from FY19 to present by design. Use of the debt service reserves up to this point helped to manage budget fluctuations. However, going forward debt service is project to decline: \$61 thousand in FY24, \$678 thousand in FY25, \$48 thousand in FY26 and \$257 thousand in FY27, for a total decline of \$1,044,000. This will lead to a yearly debt service amount of \$2,35,000 in FY27 down from the current level of \$3,399,963. Therefore, a debt service reserve is not needed given the future reductions in debt service.

In terms of the recommendation to add the funds to the Pension Reserve Fund, the town has recently made the funding commitment to fully fund the Town’s Actuarial Determined Contribution (“ADC”). Given the reduction of eligible employees their contributions will be reduced, negative returns in the capital markets, and further conservative changes in the actuarial assumptions, will potentially lead to increases in the employer ADC in future years. The pension reserve will be used to help support budget fluctuations over time.

Motion Requested:

To approve a transfer of \$321,821 from the Debt Service Reserve to the newly created Pension Reserve Fund, and further to move this transfer to Town meeting.