

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: Lee Ann Palladino, Finance Director
Re: Planning for Fiscal Year 20 Surplus
Date: July 20, 2020

The purpose of this memorandum is to request your input into the plans for the Town of Old Saybrook's Fiscal Year 2020 "FY20" surplus management.

Discussion

The Town's unassigned fund balance stands at \$6,971,610, or 15.5% of the total General Fund budgetary expenditures at the end of FY19. For planning purposes, in order to target the Town's unassigned fund balance to 15% of FY21 budgeted expenditures of \$47,020,426, the unassigned fund balance would need to total approximately \$7,053,000 or an increase of \$81,390. While the amount of the surplus is not yet known at this time, we do project the Town budget surplus will likely range from \$100 to \$400 thousand, and there is likely to be a surplus at the Board of Education that will increase the overall town wide surplus.

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. The Town has budgeted \$590 thousand for Defined Benefit actuarial determined contribution ("ADC") in FY21 (\$440 thousand for the Town employees and \$150 thousand for the BoE employees). The ADC for FY21 is \$787 thousand. Therefore, it is recommended to transfer \$200 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 FY21.

2. Transfer up to \$200 thousand to the debt stabilization fund.
3. Over the course of the last two 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 \$150 thousand be considered to maintain our program of improving sidewalks. The proposed sidewalk construction will take place between Lynde Street and Main Street and other sidewalk improvements in and around Town. The timely completion of the sidewalk project will not only lead to safe walkways but also continue to complement the work that has been completed to date.
4. Establish a long term recover fund entitled "LTR COVID Fund" at a minimum amount of \$25 thousand for the purpose of providing funding that will assist businesses in the procurement of PPE and the Long Term Recovery ("LTR") taskforce initiatives.

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."

In conclusion, should the BoF determine that these transfers are reasonable, it would represent a total use of surplus of \$575 thousand. At present the Town is predicting a surplus of at least \$1 million, which would leave about \$425 thousand that would fall to the bottom line and the Town's budget reserve fund. As of June 30, 2019, the unassigned fund balance stood at \$6,971,610, or 15.5%. An additional \$375 thousand would equate to \$7,396,610 and maintain our strong budget reserve ratio at 15.7%.

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

Motion

1. To appropriate \$200 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 FY21 and to place said funds in the Town Pension Plan Fund 8100 to be used for the purpose of augmenting the FY21 ADC budget. Further to move the transfer of the surplus funds to Town meeting or moved to the Board of Selectman for consideration pursuant to Governor Ned Lamont's Executive Order 7S, whichever is in effect.
2. To appropriate the movement of \$200 thousand from the Town's surplus for FY2020 and to place those funds in the Debt Stabilization Fund. Further to move the transfer of the surplus funds to Town meeting or moved to the Board of Selectman for consideration pursuant to Governor Ned Lamont's Executive Order 7S, whichever is in effect.
3. To appropriate the \$150 thousand from the Town's surplus for FY2020 and transfer said funds to an off budget Fund called "sidewalk construction". Further to move the transfer of the surplus funds to Town meeting or moved to the Board of Selectman for consideration pursuant to Governor Ned Lamont's Executive Order 7S, whichever is in effect.
4. Establish a long term recover fund entitled "LTR COVID Fund" at a minimum amount of \$25 thousand for the purpose of providing funding that will assist businesses in the procurement of PPE and the Long Term Recovery ("LTR") taskforce initiatives. Further to move the transfer of the surplus funds to Town meeting or moved to the Board of Selectman for consideration pursuant to Governor Ned Lamont's Executive Order 7S, whichever is in effect.