



TOWN OF OLD SAYBROOK
SELECTMEN'S OFFICE

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To: Board of Finance Members
From: Lee Ann Palladino, Finance Director
Re: Planning for Fiscal Year 21 Surplus
Date: June 8, 2021

The purpose of this memorandum is to request your input into the plans for the Town of Old Saybrook's Fiscal Year 2021 "FY21" surplus management should a surplus be available.

Discussion

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 \$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 FY22.
3. The Department of Public Works will not be able to complete its road work prior to the end of June 30, 2021. At present there is \$149,988 in the paving and road maintenance line items of the Public Works' budget.

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 \$150 thousand be considered to maintain our program of improving sidewalks. 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.

In conclusion, these proposed uses of surplus would represent about \$500 thousand for the GG.

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.”

As we approach August, the Town’s surplus balance will become clear, at that time, we will reissue this memorandum with specific requested amounts for the FY21 Town surplus.