

**MINUTES OF THE CHESHIRE TOWN COUNCIL BUDGET COMMITTEE MEETING
HELD ON MONDAY, DECEMBER 3, 2018 AT 7:00 P.M. IN ROOM 207-209 TOWN
HALL, 84 SOUTH MAIN STREET, CHESHIRE CT 06410**

Present

Chairman Timothy Slocum, Jeffrey Falk, Sylvia Nichols
Staff: Sean Kimball, Town Manager; James Jaskot, Finance Director;
Guest: Matthew A. Spoerndle, Phoenix Advisors, LLC

1. ROLL CALL

The clerk called the roll and a quorum was determined to be present.

2. PLEDGE OF ALLEGIANCE

The group Pledged Allegiance to the Flag.

3. REVIEW OF FUND BALANCE POLICY AND RESERVE ACCOUNTS

Town Manager Kimball stated he wanted the fund balance policy discussion and review of the policy with the Council. Under the current policy the review takes place every three (3) years. He cited the need for Council and staff to know where the market is now, what rating agencies are looking for, the fund balance being one factor under control of the town, the fund balance as an important measure of the town's fiscal flexibility and strength, and look at where trends are now and what changes the agencies are looking for from towns.

Fund Balance Policy – This formal policy was introduced in 2008-2009. There has not been a formal review of the policy in many years. Mr. Kimball noted the minimum balance is 8% to 9%.

TOWN OF CHESHIRE CREDIT & FUND BALANCE OVERVIEW

(a copy is attached to these minutes)

Mr. Spoerndle has worked with the town for 15 to 18 years, and helped devise the original fund balance policy. His firm's role is to assist with bond issues, preparation of documents, work with rating agencies, attorneys and bankers to coordinate the process.

In his prepared document, Mr. Spoerndle reviewed the following information.

Overview of Credit Ratings – directly related to the cost of borrowing; the higher the rating the lower the interest cost; ability and willingness to repay debt; determination of bond insurance; provides a foundation for developing financial and debt policies.

Credit Rating Determinants – Management Practices 20% (how the town budgets, reporting to the board, etc.); Economy & Demographics 30%; Financial Performance 30%; Debt & Contingent Liabilities 10%; Institutional Framework 10%.

Mr. Spoerndle pointed out that rating agencies are more transparent with what goes into a rating. In Connecticut, the rating is 10% for all towns.

It was stated by Mr. Kimball that towns are impacted by what happens at the state level, such as businesses leaving, less state aid. Many towns were AAA rating, and more are now AA rating.

S&P Rating Categories – AAA is the highest (Cheshire, Fairfield, Avon, Greenwich); ratings go down to the lowest BB+ (Hartford).

S&P Rating Distribution – The chart shows 31.1% of towns with AAA rating.

Impact of Rating on Cost of Borrowing – There are credit spreads in terms of basis points; \$15M bond issue, 20 year term, AAA vs. AA+ impacts the interest cost and has a difference of \$200K to \$250K in debt service.

Cheshire Credit Overview – The Town of Cheshire is in the middle of the listing for AAA rated towns.

Grand List Per Capita – Cheshire is in the \$110,000+ range; State median is \$134,857.

Annual Unemployment Rate – Cheshire is in the lower range; State median is 4.3%.

Tax Collection Rate – Cheshire is on the high range at 99.5%; State median is 98.73%.

Debt Service as % of Operating Expenditures – Cheshire is at 8%.

Overall Net Debt per Capita \$ - Cheshire is in the mid range with + \$2M.

Debt Burden – Cheshire is on the high side; State median is 1.11%.

Total Fund Balance as % of Revenues – Cheshire is just over 10%; State median is 14.3%.

Unassigned General Fund Balance as % of Revenues – Cheshire is at 8.3%.

Total Fund Balance – the fund balance has been stable over the last five (5) years; 11% for FY 2018; AAA median is 13%.

Unassigned Fund Balance – for FY 2018 it is about 9%.

Mr. Kimball cited the non-spendable amount on the balance sheet (FY 17) which was a pre-paid interest payment.

Mr. Jaskot explained the fund balance did not decrease that year, but a portion was unassigned and committed to this prepayment.

TOWN OF CHESHIRE FUND BALANCE POLICY (Review)

Mr. Kimball pointed out that Cheshire has a good policy and procedures in place.

Fund Balance Analysis – as of June 30, 2018 the available fund balance is \$11.93M; \$1M of fund balance was appropriated to the 2017-2018 budget; Unassigned Fund Balance July 1, 2018 - \$10,091M – 9.47%.

Mr. Jaskot said the Town has had a healthy surplus; has been conservative with tax projections; there is a built-in of \$500,000 with tax collections; the tax collection rate is now at 99.8%.

A number of sample fund balance policies of other towns have been reviewed, and Mr. Kimball said they could be looked at again. The Town of Bristol has a new section in its policy to decrease reliance on budgeting fund balance over multiple years. He said Cheshire is projected at 10.41% of estimated expenditures; this is above the 8% by about \$2.5M. Mr. Kimball stated it is time to look at the fund balance policy.

Fund Balance Summary – Mr. Jaskot reviewed the funds and amounts; total fund balances are about \$12M.

General -	\$11,130,832
WPCD -	\$ 1,774,684
Debt Reserve -	\$ 4,721,261
Pension Reserve -	\$ 36,527
Health Insurance-	\$ 4,639,009
Heart & Hypertension -	(\$3,644,741)

Mr. Jaskot stated the Heart & Hypertension has a potential long term obligation, with only \$380,011 towards this liability. He advised there are not much OPEB dollars; about \$500,000 is earmarked to OPEB benefits in a trust account.

General Fund/Unassigned Fund Balance/Ten Year History – the charge identifies the amount of Town fund balance reserve 2008 to 2017; it is consistently in the 9% range; in 2018 the balance is 10.4%

GFOA BEST PRACTICES – Mr. Kimball commented on GFOA being very conservative. He referred to page 2, paragraph #2 Appropriate Level, and noted GFOA now recommends a minimum fund balance of no less than two (2) months of operating revenues or expenditures. In Connecticut there is the stability of the property tax, high collection rates, and there is money available for immediate use for an unperceived debt.

The Connecticut AAA median for fund balance is 13%; the national median is 25%; and this is due to different revenue sources, some of which are volatile requiring higher fund balances.

Town Manager Kimball recommended the Council consider increasing the fund balance range to 9%. He reviewed a situation in Simsbury (with a fund balance of 8% to 10%) when the town lost a large employer (Hartford Ins. Co.) which was 2.2% of the grand list. The town was deliberate and strategic; fund balance policy range was increased to 10% to 12%; there was an addition to the policy for uses of fund balance above 12%. The Board of Finance could use funds above 12% for certain purposes, and #1 on the list was to mitigate tax loss from a major employer. Last year Simsbury's fund balance was at 13% with tax collection at 99.5%. The policy was edited for a fund balance above 12%...funds could be used to pay down debt...#1 was to mitigate the tax loss. The unassigned \$1M was assigned to the loss; the insurance company building was demolished; a new developer came in, and next year the new development comes onto the tax rolls.

This is more conservative than Cheshire and Mr. Jaskot said Simsbury went from 98.5% to 99.5%. Cheshire went from 99.0% to 99.1%...and up to 99.7+%. The town's surplus is healthy at this point; there was hold back on town and BOE expenditures this year and CNR contributions were curtailed; and now fund balance is over 10%. The town has a bond sale coming in mid-February 2019. The situation with the State is still very volatile, and it is a "wait and see" regarding declining State municipal aid. Mr. Jaskot supports the recommendation of increasing the fund balance range to 9%.

In that regard, Mr. Slocum asked about restating the percentage from 8% to 9.25%...or whatever is averaged over the 10 year span...and if this would be beneficial.

Stating this will help, Mr. Spoerndle said following the policy in effect helps with the town's rating. He recommended the Town Council take the action to increase the fund balance policy percentage.

In the policy, Ms. Nichols pointed out #5, and talked about review of the fund balance policy every two (2) years. She asked about the effect of this change on the rating agencies.

It would be beneficial, and Mr. Spoerndle suggested removal of #1 in the fund balance policy, as the town is already at 1.5 months of budgeted expenditures.

The committee was informed by Mr. Jaskot about past times the town went to the rating agencies...there was bragging about increasing the debt service reserve fund. Now, the WPCD funds are being used; this reserve fund is declining; it has been a reserve to fall back on, and it will not be there for fall back to the past extent. He said the town can state it is doing what it can to mitigate this decrease.

Mr. Slocum supports a review of the policy every two (2) years, but does not support increasing the balance to 10%.

10% fund balance is about +\$2.5M. Mr. Spoerndle recommended the town settle the changes in the policy before going to the rating agencies in 2019. He noted there is weighting and all the information is used to make the best informed decision.

Mr. Slocum said the next step for the Budget Committee would be the recommendation of 9.25% fund balance in the policy. He questioned the risk of 9.5%.

Ms. Nichols supports 9.25% as a good number. Mr. Falk supports 9.25%.

Mr. Jaskot said looking at the policy in two (2) years is reasonable.

With a two (2) year policy review, Mr. Kimball said there can be a look at the market, and he supports this change in the policy. Staff will prepare a draft policy with the 9.25% and two (2) year review. The liquidity that is maintained helps the town in not going to market every year. The amended policy can go to the Council for approval at one of the January 2019 meetings. The town goes to the bond agencies in February and the new fund balance policy will be approved and in effect at that time.

4. ADJOURNMENT

MOTION by Ms. Nichols; seconded by Mr. Falk.

MOVED to adjourn the meeting at 8:00 p.m.

VOTE The motion passed unanimously by those present.

Attest:

Marilyn W. Milton, Clerk