

Chris Eide, Chair
Alison Plante, Vice-Chair
Ryan Knapp
Paul Lundquist
Cathy Reiss
Chris Smith



TOWN OF NEWTOWN

The Legislative Council
Finance and Administration Committee
met on Tuesday, February 23, 2021 at 7:30 PM

Meeting Notes

CALL TO ORDER

The meeting was called to order by Mr. Eide, Chair at 7:33 PM.

SALUTE TO THE FLAG

ROLL CALL

Members in attendance via teleconferencing:

- C. Eide
- A. Plante
- P. Lundquist
- C. Reiss
- C. Smith
- R. Knapp (8:15PM arrival)

Also present: Ned Simpson

VOTER COMMENT

None

COMMUNICATIONS

None

APPROVAL OF THE MINUTES

Motion to approve minutes from 22 October 2020 made by Ms. Reiss; seconded by Ms. Plante. Motion passes 5-0-0.

OLD BUSINESS

Discussion and possible action on the Board of Finance approved Fund Balance Policy

Mr. Simpson explained the rationale behind the language in the Fund Balance Policy regarding the Non-Lapsing Fund function. He explained the Board of Finance's desire to make a document that helps to explain town functions to residents. Additionally, the Board of Education asked the Board of Finance to add in language that helped to explain fund flow.

Ms. Reiss moved to strike II.C.2 "Board of Finance, may deposit into a non-lapsing account any unexpended funds from the prior fiscal year from the Board of Education budgeted appropriation." and replace with "Any unexpended funds from the prior fiscal year from the Board of Education budgeted appropriation may be deposited into this Non-Lapsing Educational Fund." Mr. Smith seconded the motion. The motion passed unanimously (5-0-0).

The committee reviewed sec III.A's use of the term "Deferred Inflow of Resources". Mr. Simpson expressed his belief that the language was taken from the Comprehensive Annual Financial Report.

Ms. Reiss discussed language in sections III.C.4.c and III.D.3 about the order in which spending occurs between funds. She questioned whether or not such language falls under the category of "assigned fund balance" and whether or not it belongs in definitions.

Mr Knapp entered the meeting at 8:15 PM.

A motion to recommend the Legislative Council accept the Fund Balance Policy as revised by the Finance and Administration Committee was made by Ms. Reiss; seconded by Mr. Smith. Motion passed unanimously (6-0-0).

Discussion and possible action on the Board of Finance approved Fund Balance Policy

Mr. Simpson gave an overview of changes made to the document. Mr. Knapp then spoke to history of the "Debt Policies, Ratios and Measurement" section.

The committee discussed the document and identified changes to be made involving grammar, capitalization, and top-level section numbering.

Ms. Plante moved to recommend that the Legislative Council accept the Debt Policy as revised by the Finance and Administration Committee. Ms. Reiss seconded the motion. The motion passed unanimously (6-0-0)

NEW BUSINESS

None

VOTER COMMENT

None

ADJOURNMENT

Having concluded the committee's business for the night, **Mr. Lundquist made a motion to adjourn. Ms. Reiss seconded the motion. The motion passed unanimously (6-0-0) at 9:13 PM.**

Newtown Fund Balance Policy

I. PURPOSE

This policy is intended to provide for a fund balance which satisfies the cash flow and contingency needs of the community, supports our positive bond rating with the rating agencies, and at the same time avoid over taxing the citizens through an excessively large fund balance.

This Policy is established by the Board of Finance under Charter Chapter 2 Section 125, to institute the town's preferred financial practices and obligations. This policy reflects GASB54 Fund Balance Reporting and Governmental Type Definitions.

A positive fund balance serves three important functions:

1. Eliminates the need for short term borrowing to handle cash flow between the start of the fiscal year and receipt of revenue from taxes;
2. Can be periodically used to lower taxes to smooth out major fluctuations in the property tax rates;
3. Serves as a contingency fund that enables the Town to respond to unanticipated emergencies or opportunities.

Credit rating agencies determine the adequacy of the unreserved fund balance using a complex series of financial evaluations. The size of the fund balance is an important, but not the only, consideration in the Town's rating. Other important factors are the reliability of a government's revenue sources, economic conditions, community wealth factors, cash position, debt ratios, management performance, and fiscal decisions made by the legislative body.

A town's ability to accurately plan and develop sufficient fund balance is a common characteristic of highly rated municipalities.

II. GOVERNMENTAL FUND TYPE DEFINITIONS

The books of account of the Town are subject to the regulations adopted by the Board of Finance and approved by the Legislative Council per. Newtown's Charter Chapter 4 Section 05 Finance Director

- A. General Fund – This fund is the Town's primary operating fund. It accounts for all funds not reported in another fund. Funded principally by property tax, user fees and grants from other government units.
- B. Bonded (Capital) Project Funds – Used to account for and report financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. e.g. High School Auditorium, Police Facility, Road Program, and Hawley School Boiler,
 - o Bonded Projects (various) – to account for bond proceeds, grants, and other resources used for the acquisition or construction of major capital projects as authorized through the Capital Improvement Plan (CIP)
- C. Other Governmental Funds

1. Special Revenue Funds – Used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt and capital projects. Restricted or committed revenues are the foundation for a special revenue fund. e.g. Children’s Adventure Center, Edmond Town Hall (movies etc.), Eichler Cove, School Lunches and Dog License
2. Capital Projects & Capital and Nonrecurring Fund
 - Capital and Nonrecurring Fund - Town – A multiyear fund where funding can accumulate enabling the Town to acquire larger capital assets, on a pay-as-you-go basis. Mainly funds are transferred from the General Fund in the Annual Budget or as a budget transfer.
 - Capital and Nonrecurring – Non Lapsing – An account established under CT Chapter 171 Section 10-248a. Any unexpended funds from the prior fiscal year from the Board of Education budgeted appropriation may be deposited into this Non-Lapsing Educational Fund.
 - Land Use – Open Space
 - Parks & Recreation Surcharges
3. Debt Service Funds – Used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest, including resources being accumulated for principal and interest maturing in future years. Excess bond proceeds are deposited into this fund.
4. Permanent Funds – Used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs – that is for the benefit of the government or its citizenry. Permanent funds do NOT include private purpose trust funds. e.g. Hawley School Trust, Edmond Town Hall Endowment and Newtown Flagpole Fund,

III. FUND BALANCE DEFINITIONS

- A. Fund Balance - The Town’s current assets (cash, short- term investments, receivables) expected to be available to finance operations in the immediate future less its current liabilities and less Deferred Inflows of Resources.
- B. Fund balance is initially characterized as being Restricted and Unrestricted.
- C. Restricted Fund Balance Categories
 1. Non-spendable Fund Balance– Amounts that cannot be spent because they are (a) not in spendable form (such as inventory, prepaid items, long term portions of notes receivables), or (b) legally or contractually required to be maintained intact (such as the corpus of an endowment fund).
 2. Restricted Fund Balance - Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation

3. Committed Fund Balance– Amounts constrained to specific purposes by The Board of Finance to be reported as committed, amounts cannot be used for any other purposes unless the Board of Finance approves removal or change to the constraint.
 - a. The decision making authority for purposes of this policy is the Board of Finance.
4. Assigned Fund Balance – Amounts the Town intends to use for a specific purpose; intent can be expressed by the Town or by an official or body to which the Town delegates the authority. e.g. open P.O.s at the end of the year.
 - a. Appropriations of existing fund balances to future budgets are considered Assigned Fund Balance. The Town shall not report an assignment that will result in deficit in Unassigned Fund Balance. Negative fund balances cannot be considered assigned.
 - b. The body authorized to assign amounts to a specific purpose for purposes of this policy is the Board of Finance.
 - c. When an expenditure is incurred for purposes for which both restricted and unrestricted fund balances are available, the Town considers the restricted fund balance amount to have been spent first until exhausted and then any available unrestricted fund balance.

D. Unrestricted Fund Balance

1. Unassigned Fund Balance amounts that are available for any purpose as defined in this policy; these amounts are reported only in the general fund. In other governmental funds, if expenditures incurred exceed the amounts restricted, committed or assigned it may be necessary to report a negative unassigned fund balance.
2. Unrestricted Fund Balance and Unassigned General Fund Balance are synonymous.
3. When an expenditure is incurred for purposes for which committed, assigned, or unassigned amounts are available, the Town considers the fund balance to be spent in the following order: committed, assigned, and then unassigned.

IV. GENERAL FUND POLICY STATEMENT

- A. The Unassigned General Fund Balance shall be no less than eight (8) percent nor more than twelve (12) percent of the Town Budget (Charter Section 6-25)
- B. The Board of Finance Consolidated Budget (Charter Section 6-15), shall provide for an Unrestricted General Fund Balance within the range above.
- C. In the event the Unrestricted General Fund Balance is greater than the range in IV.A. above at the end of any fiscal year, the Board of Finance shall, in consultation with Town Executives, and in coordination with the Finance Director, prepare and submit to the Legislative Council for approval, one or a combination of the following means to account for the excess:

1. Transfer such excess to the Capital and Nonrecurring Fund - Town for future capital projects.
 2. Transfer such excess to the Debt Service Fund for future debt payments.
 3. Use directly to reduce the tax rate in the subsequent year provided that care is taken to avoid a major fluctuation in the tax rate in succeeding years.
- D. If at the end of a fiscal year, the Unrestricted Fund Balance falls below the range in IV.A. above the Board of Finance shall in consultation with Town Executives, and in coordination with the Finance Director, prepare and submit a plan for expenditure reductions and or revenue increases. The Board of Finance shall take action necessary to restore the Unrestricted Fund Balance to acceptable levels determined by this policy.
- E. The following circumstances may justify a significantly higher minimum target levels:
1. Significant volatility in operating revenues or operating expenditures.
 2. Potential drain on resources from other funds facing financial difficulties.
 3. Exposure to natural disasters (e.g. hurricanes).
 4. Reliance on a single corporate taxpayer or upon a group of corporate taxpayers in the same industry.
 5. Rapidly growing budgets.
 6. Disparities in timing between revenue collections and expenditures.
- F. The use of Unrestricted General Fund Balance will be allowed under the following circumstances:
1. Operating emergencies
 2. Unanticipated budgetary shortfalls
 3. Over the limit in IV.A

V. Policy Review

This policy shall be reviewed by the Board of Finance at a minimum, on a bi-annual basis, during the month of January in each odd numbered year. Recommendations for change, if any will be presented to the Legislative Council for approval. The Board of Finance in this review process shall collaborate with the Board of Selectmen, Board of Education and Legislative Council.

*Approved by Legislative Council Finance and Administration Committee 23 Feb 2021

TOWN OF NEWTOWN, CONNECTICUT

DEBT MANAGEMENT POLICY

I. PURPOSE

The purpose of this policy is to establish parameters and provide guidance governing the issuance, management, continuing evaluation of and reporting on all debt obligations issued by the Town of Newtown.

Debt obligations, which include general obligation bonds, special assessment bonds, revenue bonds, bond anticipation notes, lease/purchase agreements and any other debt obligations permitted to be issued under Connecticut law. Issuance of debt shall follow the Capital Improvement Plan Policy (see Section 310)

II. POLICY STATEMENT

Under the requirements of Federal and state laws and Town Charter provisions, ordinances and resolutions, the Town may periodically issue debt obligations to finance the construction or acquisition of infrastructure and other assets or to refinance existing debt. It is the Town's goal to assure that such debt obligations are issued and managed in such a manner as to obtain the best long-term financial advantage to the Town and its residents, while making every effort to maintain and improve the Town's bond ratings and reputation in the investment community. Newtown seeks the highest practical long-term obligation rating Moody's and Standard & Poor's confers on municipalities.

III. RESPONSIBILITY FOR POLICY

- A. The Finance Director shall be responsible for issuing debt, and managing the Town's debt program. In carrying out this policy, the Director shall periodically:
 1. Consider the need for debt financing based upon the approved Capital Improvement Plan.
 2. Review the Town's adherence to this policy statement and compare the debt ratios established in this policy with where the Town actually is.
 3. Review the Town's authorized but unissued debt to determine if any authorizations are no longer needed.
 4. Determine if there are any opportunities for refinancing current debt.
 5. Review every three years the services provided by the Town's financial advisor, bond counsel, paying agents and other debt financing service providers.
- B. The Finance Director shall report his/her findings to the Board of Selectmen, Board of Finance and Legislative Council in the September/October time period of each year, during the Town's review and formulation of the Capital Improvement Plan.

- C. Actual issuance of bonds and material changes to the measures identified below shall be reported to the Board of Finance at their next meeting by the Finance Director.

IV. GENERAL DEBT GOVERNING POLICIES

The Town hereby establishes the following policies concerning the issuance and management of debt:

- A. The Town shall only issue debt obligations for approved Capital Asset Projects as defined within 310-6 of the Capital Improvement Plan ("CIP") Policy; or for refinancing existing debt obligations.
- B. The Town shall not issue debt obligations or use debt proceeds to finance current operations of the Town.
- C. The Town will utilize debt obligations when an approved Capital Asset Project cannot practically be funded from current revenue sources or in such cases wherein it is more equitable to the users of the project to finance the project over its useful life.
- D. The Town will measure the impact of debt service requirements of outstanding and proposed debt obligations on single year, five, ten, and twenty-year periods.
- E. The Finance Director will present a report on the measures in Section VI to the Board of Finance prior to their taking final action on the CIP. This report will include any funding parameters related to the Combined BOS and BOE proposed CIP Capital Asset Projects which may impact this policy.

V. DEBT POLICIES, RATIOS AND MEASUREMENT

- A. Ratio of General Fund Total Bonded Debt to Taxable Net Grand List - An increasing ratio of debt to net grand list (over several years) is not desirable. This debt ratio should not go beyond 3%.
- B. Maximum Maturity – All debt obligations shall have a maximum maturity of twenty years. The estimated useful life of the Capital Asset Project being financed should be considered when determining the maturity of debt. In the event debt obligations are being issued to refinance outstanding debt obligations the final maturity of the debt obligations being refinanced shall remain the same maturity.
- C. Average Maturity of General Obligation Bonds –The Town shall have at least 50% of outstanding general obligation bonds mature in less than ten (10) years.
- D. Ratio of General Fund Annual Debt Service to Total Annual Budget (Debt Service Level) –The Town will adhere to a debt management cap that limits annual General Fund debt service to no more than 9.0% of the total General Fund budget. In addition, the Town will set a goal of limiting annual General Fund debt service to 8.5% or less of the total General Fund budget by July 1, 2023.
- E. Net Present Value Savings – The Town must achieve a Net Present Value Savings of at least 2 percent over the life of an existing bond issue in order for it to be considered for refunding.
- F. Bond Covenants and Laws – The Town shall comply with all covenants and requirements of the bond resolutions, and state and Federal laws authorizing and governing the issuance and administration of debt obligations.

- G. If the debt management indicators fall outside the recommended levels, the Finance Director shall recommend and submit to the Board of Finance for approval, a plan to bring the debt management indicators to their appropriate levels within a specific time frame.

VI. DEBT SERVICE INDICATORS

- A. The Town's debt measures will be annually compared to Connecticut Towns:
1. In the immediate vicinity of the Town, including Bethel; Brookfield; Danbury; Monroe; New Fairfield; New Milford; Oxford; and Southbury;
 2. With the same bond rating;
 3. With a bond rating one level higher and
 4. Within our District Reference Group ("DRG").
- B. The Town recognizes that the below ratios are useful guides but not the exclusive means by which it should measure debt burden:
1. Ratio of Debt to Equalized Net Grand List (see V.A)
Indicates Newtown's ability to repay its long term (bonded) debt. Increasing bonded long-term debt as a percentage of assessed valuation (taxable net grand list) is undesirable, as it suggests that debt is exceeding the government's ability to pay. Sustained growth in debt (well beyond tax base growth) may ultimately overburden a tax base and reduce economic viability by straining budget and tax resources and reducing flexibility. A government near its debt limit has less flexibility to meet future capital needs. Debt reduction, on the other hand, lowers taxes and generates economic capacity to the extent that infrastructure necessary for economic growth isn't underfunded. A low debt profile may indicate underinvestment in infrastructure and capital facilities. Neglecting critical capital needs may impede economic growth and endanger future tax revenue generation. Standard & Poors considers a Debt to Equalized Net Grand List (market value) of less than 3% to represent a low debt burden; 3% to 6% a moderate debt burden; and greater than 6% a high debt burden.
 2. Average Maturity of General Obligation Bonds (Section V.B)
Prudent use of debt dictates that the debt's term matches the useful economic life of the financed capital items. A faster maturity schedule may be desired to avoid increased interest costs, however, it can place undue strain on the operating budget. Tax-backed debt retirement that falls below 40% in 10 years is considered a weak fiscal practice.
 3. Debt Service Level (Section V.D)
Indicates the extent of Newtown's fixed costs for paying principal and interest on its local tax supported debt. Increasing debt service as a percentage of total budget reduces Newtown's expenditure flexibility and may suggest excessive debt and/or fiscal strain. Debt service above 10% of total budget constitutes a level at which budgetary competition is a significant consideration.
 4. Debt per Capita and Debt per Family

Calculated by dividing the Town's direct debt by most current population figure. A low ratio suggests Newtown has the ability to repay its long-term debt. If long-term debt is increasing as population stabilizes or declines, debt levels may be reaching or exceeding the government's ability to pay (assuming that the ability to generate revenue and repay debt is directly related to population size). A high ratio is not inherently bad, however, and must be considered in the local context.

5. Debt per Capita income
 6. Median Household Income
 7. Debt per Capita as a Percentage of per Capita Income
 8. Debt per Capita as a Percentage of Median Household Income
- C. The Town will, at the discretion of the Finance Director, employ data taken from the latest State of Connecticut Municipal Fiscal Indicators Report, the CERC Town Profile or other report from the CT Data Collaborative to compile the above ratios and develop trend lines from same.

Policy Review

This policy shall be reviewed by the Board of Finance, at minimum, on a biennial basis during the month of January in each odd numbered year. Recommendations for change, if any will be presented to the Legislative Council for approval.

Adopted by Board of Finance on May 11, 2020

Approved by the Legislative Council: _____