TOWN OF GREENWICH
BOARD OF ESTIMATE AND TAXATION

DEBT AND FUND BALANCE POLICY WORKING GROUP
VIRTUAL WEBINAR
Thursday, November 5, 2020; 11:00 am – 1:00 pm

WEBINAR INFORMATION

Please click below to join Zoom Meeting
https://greenwichct.zoom.us/j/87060086391?pwd=TnM1SW5Ndm54ZjVOL1dFaWVObUNFQT09

Meeting ID: 870 6008 6391
Passcode: 2455825

One tap mobile
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8335480282,,87060086391#,,,,,,0#,,2455825# US Toll-free

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+1 646 518 9805 US (New York); 833 548 0282 US Toll-free; 877 853 5257 US Toll-free; 888 475 4499 US Toll-free; 833 548 0276 US Toll-free

AGENDA

1. Approval of the BET Debt & Fund Balance Policy Working Group Minutes for the Meeting of October 22
2. Discussion of Fund Balance Policy Upper and Lower Percentage Ratio Targets
3. Discussion of Debt Policy
4. Adjournment

Next Meeting: Thursday, November 19, 2:00 – 4:00 pm

The Town complies with all applicable federal and state laws regarding non-discrimination, equal opportunity, affirmative action, and providing reasonable accommodations for persons with disabilities. If you require an accommodation to participate, please contact the Commissioner of Human Services at 203-622-3800 or demetria.nelson@greenwichct.org as soon as possible in advance of the event.

TOWN OF GREENWICH
BOARD OF ESTIMATE AND TAXATION

DEBT & FUND BALANCE POLICY WORKING GROUP MEETING MINUTES
Thursday, October 22, 2020
Virtual Webinar

Present Committee: Andreas Duus, Chair; William Drake, Leslie Moriarty, David Weisbrod

Staff: Peter Mynarski, Comptroller; Nataliya Yemets, Treasurer

BET: Laura Erickson, Miriam Kreuzer, Elizabeth K. Krumeich, Jeffrey S. Ramer, Leslie L. Tarkington

RTM: Michael Basham, (D-5) Chair, Finance, Member LCC; Brooks Harris,(D-5) Finance; Scott Kalb, (D-7), Public Works; Brian Ramey, (D-9) Town Services

The meeting was called to order at 2:49 P.M.

1. **Acceptance of the BET Debt & Fund Balance Policy Working Group Meeting Minutes**

   Upon a motion by Mr. Drake, seconded by Ms. Moriarty, to accept the Minutes of the BET Debt & Fund Balance Policy Working Group meeting of October 9, 2020. The Group voted 4-0-0. Motion carried.

2. **Follow-up Discussion of Fund Balance Policy**

   The Working Group reviewed and discussed the follow-up materials requested at its previous meeting.

   - The first exhibit, prepared by Ms. Moriarty, compared the Fund Balance policy's current method of calculating unassigned fund balance - the sum of the residual unassigned portion of the General Fund calculated on a GAAP basis, the Risk Fund, and the Capital and Unassigned Fund with an alternative method of calculation – the residual unassigned portion of the General Fund calculated on a 'Budgetary basis.' The difference between using GAAP basis or Budgetary basis calculation of the unassigned portion of the General Fund is the latter excludes any reduction for encumbrances, including any allocation to reduce the Town's mill rate.

- The second exhibit examined for the past nine fiscal years the amount of unspent budgeted funding returned to the Town at FYEs and the amount of Fund Balance allocated to reduce the Town's mill rate. Although the difference between these amounts vary from year-to-year, the average is close, especially when unbudgeted revenues are considered.

The working group, together with Mr. Mynarski, concluded that given (a) the debt rating agencies do their own calculations and (b) in recent years an increasing number of RTM members and other Town citizens (so-called 'internal' clients) now consider the Fund Balance calculation, there may be a benefit to switch the calculation of the unassigned portion of the General Fund from GAAP to Budgetary and to not consider the Risk Fund and the Capital and Nonrecurring Fund as part of the Town's overall unassigned Fund Balance. Also discussed was whether the denominator of the fund balance calculation continue to be budgeted expenses or budgeted revenues.

Mr. Drake made a motion, seconded by Mr. Weisbrod, to recommend to the BET that the Fund Balance Policy change the basis of calculating the amount of unassigned fund balance to include only the unassigned portion of the General Fund, as calculated on a Budgetary basis. The Working Group voted 4-0-0. Motion carried.

Mr. Drake made another motion, seconded by Mr. Weisbrod, to recommend to the BET that the amount of unassigned fund balance be continue to be calculated over budgeted expenses. The Working Group voted 4-0-0. Motion carried.

Chairman Duus summarized next steps including circulating a redraft of the Policy Statement to reflect the changes discussed. He thanked Ms. Moriarty for the analysis that she prepared and proposed posting a watermarked draft of the meeting materials on the Town's website.

3. Initial Discussion of Debt Policy

The Working Group reviewed the capital budget model, updated by Mr. Geiger from what was circulated in the prior fiscal year. For the next meeting the Working Group may consider possible format and numerical changes.

4. Adjournment

Upon a motion by Ms. Moriarty, seconded by Mr. Drake, the Committee voted 4-0-0 to adjourn the Meeting at 4:21 P.M. Member voted 4-0-0. Motion carried.

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Catherine Sidor, Recording Secretary

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Andreas Duus, Chair

Schedule of Future Working Group Meetings

November 5, 2020 (Thursday) 11:00 A.M. – 1:00 P.M.
November 19, 2020 (Thursday) 2:00 P.M. – 4:00 P.M.
December 2, 2020 (Wednesday) 11:00 A.M. – 1:00 P.M.

FOR DISCUSSION PURPOSES
DRAFT OF MARK-UPS OF EXTANT POLICY
AD 11-4-2020

TOWN OF GREENWICH, CT
DEBT POLICY

The following policy guides the issuance and management of debt by the Town of Greenwich, CT (the "Town").

The primary objectives of this debt policy are to:

- Establish conditions for the use of debt;
- Create policies and procedures that manage the Town's debt service and the issuance costs for the bonds that are issued;
- Retain the highest possible credit ratings;
- Maintain all required financial disclosures and reporting; and
- Maintain ~~measures of~~ affordability guidelines.

This policy will apply to all general obligation debt and revenue supported debt (if applicable) issued by the Town and any other forms of indebtedness. The Town does not have any revenue-supported debt other than general obligation bonds payable from sewer assessments or revenues generated by The Nathaniel Witherell.

A regular, updated debt policy is an important tool to ensure that the Town utilizes its resources to meet its dual commitments of providing needed services to the residents of Greenwich while maintaining sound financial management practices. This policy is a guideline for general use and will be reviewed no less often than every two years.

Debt Policy

A) Use of Debt Financing
Debt financing, to include bond anticipation notes ("BANS"), general obligation bonds, revenue bonds and other indebtedness permitted to be issued or incurred under Connecticut law, shall only be used to purchase capital assets and to fund infrastructure improvements. The average expected useful life of assets acquired with the debt should equal or exceed the term of the debt. In addition to the use of debt financing, the Town may tax for the same purposes of purchasing capital assets and funding infrastructure improvements (defined as "Capital Tax Levy"). In any given year, the Capital Tax Levy will fund both General Fund debt service and a portion of the capital projects.

B) Assumption of Additional Debt
The Town shall not assume additional tax-supported general obligation debt without conducting an objective analysis as to the community's ability to support the proposed additional debt service payments, based upon the proposed principal amount, expected interest rates, amortization schedules and expected revenues.

C) Affordability Guidelines~~Targets~~

The Town will assess the additional debt service requirements of any new general-purpose debt taking into account the debt that is retired. Definitions for the terms used in the affordability guidelines~~targets~~ are:

- **Net Debt** is defined as (a) Town of Greenwich total short- and long-term debt as set forth in the Short and Long-term Obligations footnotes contained in the Town's Comprehensive Annual Financial Report, less (b) sewer debt, for which the sewer taxes on the benefiting properties will be used to pay interest and principal on the debt.

- **Capital Tax Levy** is defined as that portion of the Town's property taxes designated to fund (a) debt service payable by the Town's General Fund, and (b) a portion of the of the capital expenditures.

- **Debt Service** is defined as the interest expense and principal repayments for General Obligation Bonds (excluding principal repayments for bond anticipation notes and interest expense and principal repayments for sewer and Nathaniel Witherell debt.)

- **Annual Operating Costs** are defined as the total of annual General Fund operating expenses, fixed charges, and the Capital Tax Levy.

- **Grand List** is defined as the full market value of the real estate, motor vehicles, and personal property as certified by the Tax Assessor.

These affordability guidelines~~targets~~ ~~, or criteria,~~ shall be applied to maintain the total amount of debt and the annual debt service ratios within the following established parameters:

1. The Town shall finance a minimum of 10% of its capital projects appropriated in a given year, net of expected related reimbursements, with cash generated from the Capital Tax Levy in that same year.

2. The Town shall maintain a ratio of Debt Service to the Annual Operating Costs of no more than 11%.

3. The Town shall maintain a ratio of Net Debt to the most recent Grand List of no more than 0.75%.

These measures allow for the Town's capital financing to be commensurate with the level of the Town's operations and tax base.

D) Debt Structure

There shall be no debt that includes increasing debt service amortization levels in subsequent years. There shall always be, at a minimum, interest paid in the first full fiscal year after a bond sale. Principal payments will start to be made no later than the first fiscal year after the bond issue for general obligation debt.

The Town targets financing capital projects through the issue~~use~~ of bond anticipation notes ("BANS") in years one and two and long-term debt financing in year three. The

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Comptroller can recommend earlier implementation of the long-term debt financing if circumstances so warrant.

For the General Fund, the preferred financing model historically has been for amortization of debt to be over a period not greater than five years. Going forward, debt maturities shall consider the 15-year capital forecast and debt model, and evaluate the use of longer-~~-~~term maturities up to 20 years to address major infrastructure investments and remediation projects.

The amortization of debt for the Sewer Improvement Fund, Parking Fund and The Nathaniel Witherell Fund will be over a twenty-year period, provided that the capital assets being financed have a useful life of at least 20 years.

E) Call Provisions

Call provisions for bond issues shall be based upon the advice of the Town's Financial Advisor to achieve early optional redemptions without significant call premiums or higher interest rates. When economically feasible, all bonds shall be callable only at par.

F) Sale Process

The Town shall use a competitive bidding process in the sale of debt unless the nature of the issue warrants a negotiated sale.

G) Rating Agencies

Financial transparency to include full disclosure of operations and open lines of communication shall be made to the rating agencies. Town staff, with assistance of financial advisors, shall prepare the necessary materials and presentation to the rating agencies. Credit rating(s) will be sought from at least two agencies, including Moody's, Standard & Poor's, ~~Fitch~~ or any other agency as recommended by the Town's financial advisor. The Town shall endeavor to maintain highest possible bond ratings, and if failing to do so, make all efforts to regain that rating level again.

H) Continuing Disclosure

The Town is committed to continuing transparency and full disclosure of financial and operating information relevant to the Town's outstanding securities and will abide by the provisions of Securities and Exchange Commission ("SEC") Rule 15c2-12 concerning primary and secondary market disclosure.

I) Debt Refunding

Town staff and the financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. As a general rule, the present value savings of a particular refunding should exceed 2% when compared to the present value of the debt service on the refunded maturities.

J) Interest Earnings and Premium on Bonds

Interest earnings received on the investment of bond proceeds shall be used to assist in paying the interest due on bond issues, to the extent permitted by law. The procedures for investment shall follow the written Investment Policy [REVIEW] of the Town.

Premium on Bond proceeds shall be retained in the appropriate fund for each attributed financing amortized over the life of the bond and recognized in the appropriate fund on an annual basis in accordance with Generally Accepted Accounting Principles ("GAAP").

FOR DISCUSSION PURPOSES
DRAFT OF MARK-UPS OF EXTANT POLICY
AD 11-4-2020

TOWN OF GREENWICH, CT
FUND BALANCE POLICY

This policy sets a fund balance ratio target range for the Town's General Fund.

Objective of Fund Balance Policy:
The primary objective of the fund balance policy is to establish a target range for appropriate reserves, which are an essential element of sound fiscal management required to sustain a high credit rating, provide financial management flexibility and ensure sufficient liquidity to address unanticipated financial requirements. The maintenance of certain levels of fund balance should not be considered over-taxation by the Town. This policy is a guideline for general use and will be reviewed periodically, but no less often than every two years.

Uses of Fund Balance:
Available fund balances serve as a cushion against potential revenue shortfalls and expenditure overruns. A key purpose of maintaining an adequate balance in reserve is to be prepared for emergency appropriations such as: unexpected operational costs beyond that which was budgeted (e.g., storm- or snow-~~-~~related costs); legal claims or settlements or~~f~~ other risk matters; or new or supplemental appropriations for capital projects. Fund balance can also be used to fund long-term liabilities and to reduce ~~significant~~ potential increases~~fluctuations~~ in the mill rate~~ increases~~.

Definitions:

- **Fund Balance**: For the purpose of this policy, Fund Balance is defined as~~to include~~ the fiscal year-end unassigned balance of the Town's ~~of the following three accounts and funds: Risk Fund; Capital and Non-Recurring Fund; and Unassigned fund balance of the General Fund (GAAP basis). Unassigned Fund Balance is the residual classification for Government's~~ G~~g~~eneral F~~f~~und, as calculated on a Budgetary basis. It includes all amounts that are not constrained as reported in the other General Fund classifications such as~~,~~ Non-spendable, Restricted, Committed and Assigned~~)~~.

  Total Expenses: For the purpose of this policy, Total Expenses are defined to be the total of the budgets for General Fund Ope~~er~~rating Costs with Benefits, Fixed Charges and the Capital Tax Levy (which are~~is~~ shown, collectively, as Total Amount to Be Financed in budget documents~~.~~).

-

~~**Fund Balance Target:**~~

- ~~The target range for the Town's Fund Balance as a percent of Total Expenses is 5% - 10%.~~**Fund Balance Target Range:** The policy target range for the Town's Fund Balance as a percent of Total Expenses is [7.5% - 12.5%].

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TOWN OF GREENWICH Five Year Bonds
CAPITAL BUDGET 2022 - 2036
FINANCING (in thousands)

			21-22	22-23	23-24	24-25	25-26	26-27	27-28	28-29	29-30	30-31	31-32	32-33	33-34	34-35	35-36	Total
Fiscal Year			**21-22**	**22-23**	**23-24**	**24-25**	**25-26**	**26-27**	**27-28**	**28-29**	**29-30**	**30-31**	**31-32**	**32-33**	**33-34**	**34-35**	**35-36**	**Total**
Capital Financing Requirements																		
Town Capital			34,000	78,367	72,215	37,919	33,708	29,405	28,762	27,569	24,337	38,276	24,807	28,710	24,194	36,246	23,446	541,960
School Capital			20,000	54,400	42,270	114,230	60,624	106,464	29,540	55,289	52,087	45,689	52,700	86,410	143,153	12,347	12,761	887,964
																		-
Capital Projects			54,000	132,767	114,485	152,149	94,332	135,870	58,302	82,858	76,424	83,965	77,507	115,120	167,347	48,593	36,207	1,429,923
Bond acquistion Cost & BAN interest			1,025	1,819	1,351	1,842	1,085	1,920	926	1,555	1,648	1,744	1,526	2,051	2,847	1,044	896	23,279
Total Capital Requests			55,025	134,586	115,836	153,991	95,417	137,790	59,228	84,413	78,072	85,709	79,033	117,171	170,194	49,637	37,103	1,453,202
GF Contri To Sewer			1,270	1,076	1,554	1,801	1,917	1,916	1,862	1,991	2,056	2,180	2,237	2,181	2,278	2,259	2,378	28,955
Reimbursements					(1,528)	(1,528)	(1,528)	(1,528)	(1,528)	(1,900)	(1,900)	(1,900)	(1,900)	(1,900)	(1,900)	(1,900)	(1,900)	(22,839)
			1,270	1,076	26	273	389	388	334	91	156	280	337	281	378	359	478	6,116
Net Capital Costs			56,295	135,662	115,862	154,264	95,806	138,178	59,562	84,504	78,228	85,989	79,370	117,452	170,572	49,996	37,580	1,459,318
Principal and Interest Repayments																		
Principal			39,950	36,740	28,740	27,102	36,468	51,849	65,384	85,125	100,295	102,129	97,481	97,546	100,684	102,466	107,389	1,079,348
Interest			5,770	4,252	3,547	2,838	3,931	5,492	6,538	7,221	7,626	7,519	7,057	7,320	7,742	7,981	8,435	93,270
			45,720	40,992	32,287	29,939	40,399	57,340	71,921	92,345	107,922	109,648	104,539	104,867	108,425	110,447	115,824	1,172,618
Total Financing Requirements			102,015	176,654	148,149	184,203	136,205	195,518	131,483	176,849	186,149	195,636	183,908	222,319	278,997	160,443	153,404	2,631,931
Tax Levy	Ann Increase	3,000	51,000	54,000	57,000	60,000	63,000	66,000	69,000	72,000	75,000	78,000	81,000	84,000	87,000	90,000	93,000	1,080,000
(Borrowings) / Excess Revenues			(51,015)	(122,654)	(91,149)	(124,203)	(73,205)	(129,518)	(62,483)	(104,849)	(111,149)	(117,636)	(102,908)	(138,319)	(191,997)	(70,443)	(60,404)	(1,551,931)
	BANs	0.0100																
	Bonds	0.0250																
Outstanding Debt																		
General Fund			157,346	149,921	173,822	244,881	307,349	354,194	390,142	400,998	384,364	390,238	407,150	419,878	439,813	502,498	526,322	-
Sewer Cleanwater Loans			1,219	738	249													
Nathaniel Witherell			16,061	14,897	13,708	12,504	11,276	10,027	8,778	7,524	6,265	5,002	3,743	2,624	1,505	391	293	
Sewer Improvement			24,793	24,577	25,011	27,209	28,702	30,309	31,777	33,189	34,097	34,944	37,014	39,341	40,834	42,542	42,713	
Total			199,419	190,133	212,790	284,594	347,327	394,530	430,697	441,711	424,726	430,184	447,907	461,843	482,152	545,431	569,328	-
BET Policy Guidelines																		
Projects Funded by Taxes (10% Min)			**7.9%**	**22.1%**	**40.6%**	**47.1%**	**32.8%**	**10.2%**	**-6.9%**	**-31.0%**	**-46.6%**	**-43.4%**	**-31.8%**	**-27.4%**	**-27.2%**	**-25.2%**	**-27.1%**	
Debt Limit as % of Grand List (.75% Max)			0.42%	0.39%	0.44%	**0.58%**	**0.71%**	**0.80%**	**0.86%**	**0.88%**	**0.84%**	**0.85%**	**0.88%**	**0.89%**	**0.93%**	**1.04%**	**1.08%**	
Debt Service as % of Budget (11% Max)			9.99%	8.70%	6.65%	5.99%	7.84%	10.81%	**13.16%**	**16.41%**	**18.62%**	**18.37%**	**17.00%**	**16.56%**	**16.62%**	**16.44%**	**16.73%**	
Mill Rate			11.800	12.027	12.375	12.730	13.090	13.456	13.693	14.069	14.451	14.840	15.235	15.484	15.891	16.305	16.727	

Town of Greenwich
Fund Balance

10/9/2020

					Current Policy		Using Revenue as Base		
	Unassigned Fund Balance	**Capital & Non-Recurring**	**Risk Fund**	**Total Fund Balance (per BET Policy)**	**Budget - Expenses**	**Fund Balance Ratio**	**Budget - Revenues**	**Fund Balance Ratio**	
FY 18-19									
Budgetary Basis	**58,094,135**	9,593,697	(643,022)	67,044,810	425,900,925	15.7%	414,432,115	16.2%	p. 77 in CAFR
					Unassigned	13.6%	Unassigned	14.0%	
Adj:Use of FB - FY20	15,278,810	-	-						
Adj: Other adj for GAAP	423,962								
GAAP Basis	**42,391,363**	9,593,697	(643,022)	51,342,038	425,900,925	12.1%	414,432,115	12.4%	p. 15 in CAFR
					Unassigned	10.0%	Unassigned	10.2%	
Adj:Use of FB - FY20	15,278,810				Capital	2.3%	Capital	2.3%	
Adj: Encumbrances YE	5,146,216				Risk	-0.2%	Risk	-0.2%	
GASB/CAFR Basis	**62,816,389**			62,816,389					p, 15 in CAFR
FY 19-20									
Budgetary Basis	**59,808,633**	8,994,076	1,651,096	70,453,805	444,159,502	15.9%	428,880,692	16.4%	Preliminary audited Unass FB
					Unassigned	13.5%	Unassigned	13.9%	
Adj:Use of FB - FY21	19,100,000	-	-						
Adj: Other adj for GAAP	62,718								
GAAP Basis	**40,645,915**	8,994,076	1,651,096	51,291,087	444,159,502	11.5%	428,880,692	12.0%	Preliminary audited Unass FB
					Unassigned	9.2%	Unassigned	9.5%	
Adj:Use of FB - FY21	19,100,000				Capital	2.0%	Capital	2.1%	
Adj: Encumbrances YE	8,923,670				Risk	0.4%	Risk	0.4%	
GASB/CAFR Basis	**68,669,585**			68,669,585					Preliminary audited Unass FB
PROJECTION: FY20-21									
Budgetary Basis	**55,708,633**	8,994,076	1,648,887	66,351,596	448,381,253	14.8%	429,281,253	15.5%	Assumes $15M returned from unused
					Unassigned	12.4%	Unassigned	13.0%	budget/unbudgeted revenue
Adj:Use of FB - FY22	16,520,000	3,000,000		19,520,000					FY22 Draft Guidelines Proposed Use of FB proposal
Adj: Other adj for GAAP	-								
GAAP Basis	**39,188,633**	5,994,076	1,651,096	46,833,805	448,381,253	10.4%	429,281,253	10.9%	
					Unassigned	8.7%	Unassigned	9.1%	
Adj:Use of FB - FY21	16,520,000				Capital	1.3%	Capital	1.4%	
Adj: Encumbrances YE	6,000,000				Risk	0.4%	Risk	0.4%	Assumes Encumbrances back to normal level
GASB/CAFR Basis	**61,708,633**			61,708,633					
PROJECTION: FY21-22									
Budgetary Basis	**54,188,633**	5,994,076	2,350,000	62,532,709	466,316,503	13.4%	446,452,503	14.0%	Assumes 4% budget increase
					Unassigned	11.6%	Unassigned	12.1%	Assumes $15M - unused budget/unbudg revenue
Adj:Use of FB - FY23	19,000,000			19,000,000					Assumes $19m Use of FB in FY23 Guidelines
Adj: Other adj for GAAP	-								
GAAP Basis	**35,188,633**	5,994,076	2,350,000	43,532,709	466,316,503	9.3%	446,452,503	9.8%	
					Unassigned	7.5%	Unassigned	7.9%	
Adj:Use of FB - FY21	19,000,000				Capital	1.3%	Capital	1.3%	
Adj: Encumbrances YE	6,000,000				Risk	0.5%	Risk	0.5%	
GASB/CAFR Basis	**60,188,633**			60,188,633					

Guidance Provided by
David Panico, Bond Counsel, Robinson & Cole LLC

From: Duus, Andy
Sent: Friday, October 30, 2020 10:27 AM
To: Panico, David <dpanico@rc.com>
Cc: Mynarski, Peter <Peter.Mynarski@greenwichct.org>
Subject: CT Statute Prohibiting payment of Debt Service with Bond Proceeds

David,

- As you may be aware, every two years the Greenwich BET establishes a working group to reconsider the BET's debt and fund balance policies. I am chairing the current effort.
- Among items we are reviewing are policies that would (a) limit total debt to a certain percentage of the Town's Grand List, (b) limit debt service to a certain percentage of the Town's operating budget, and (c) require a certain percentage of capital projects to be funded by current taxes.
- My understanding is that this last policy might be a proxy for a statutory constraint that prohibits the payment of debt service with the proceeds of *longer-dated* borrowings. If so, then the Town's annual capital tax levy must exceed the Town's annual debt service, or expressed another way, the Town's annual capital spending must exceed annual borrowings.
- My specific questions are
    - Is my understanding correct and if so, where is the specific requirement in the Statutes?
    - Would the requirement apply to the borrowing and the debt service of the Town's General Fund and/or of the Town overall?
    - What are the penalties and remedies should the Town violate the statute?
- Would appreciate any guidance you would provide and speaking with you at your earliest convenience. Many thanks.

Andy

From: Panico, David <dpanico@rc.com>
Sent: Tuesday, November 3, 2020 3:44 PM
To: Duus, Andy <andy.duus@greenwichct.org>; Mynarski, Peter <Peter.Mynarski@greenwichct.org>
Cc: Panico, David <dpanico@rc.com>
Subject: RE: CT Statute Prohibiting payment of Debt Service with Bond Proceeds

Andy and Pete, I am not aware of any Connecticut statute that requires a certain percentage of capital projects to be funded by current taxes. I am also not aware of any Greenwich Town Charter provision or any Town-adopted fiscal policy regarding funding capital projects with current taxes, but this should be confirmed with Peter and Bill Lindsay, the Town's financial advisor.

Regarding your bullet points, I would note the following:

Expenditures that are not considered "capital expenses", such as painting, repairs, ordinary "wear and tear" type expenses, etc., are considered "operating expenses" and should not be bonded. These types of expenses should be funded from operations (tax receipts and other revenues), unless connected with a larger capital renovation project.

Under Federal tax rules, bond proceeds may be used to pay debt service on bonds (referred to as "capitalized interest") generally for a period of up to three years. Under current market conditions, bonds are typically issued with above-market interest rates, which produces bond proceeds in excess of the par amount of the bonds and applicable costs of issuance. This excess bond premium is deposited with the municipality on the closing date. Greenwich generally transfers such excess premium into a debt service fund and uses such amounts to pay interest on bonds.

Under Federal tax rules, the weighted average life of bonds should not exceed the economic life of the assets financed by such bonds by more than 120% in the aggregate. This limitation is generally not a problem since Greenwich issues bonds with a maximum maturity of five (5) years and finances projects with shorter lives (vehicles and equipment) together with projects with longer lives, such as buildings.

As for bond maturities, under current law (through June 30, 2022), any capital project can be funded using bonds with a maximum maturity of 30 years. CGS Section 7-371 (below) was amended in 2017 to allow a maximum 30 year maturity for any project. Previously (and after June 30, 2022), only bonds for sewer projects, schools and certain other projects were allowed to have maturities in excess of twenty (20) years. Greenwich has historically used bonds with a maximum maturity of five (5) years (twenty (20) years for sewer projects).

As Peter indicated, CGS Section 7-374 (below) limits the aggregate principal amount of indebtedness incurred by any municipality to seven (7) times annual tax receipts, with certain other limitations based on the type of debt (urban renewal, water pollution, schools, pension).

CGS Section 4-66l (below) imposes an "expenditure cap" of 2.5% or the rate of inflation, whichever is greater, on the annual increase in budget expenditures. There are exceptions for certain types of expenditures, such as debt service, special education, costs to implement court orders or arbitration awards, and emergencies. Violation of the expenditure cap can result in a reduction of the municipality's revenue sharing grants from the State.

If you have any further questions. Please do not hesitate to email me.

Connecticut General Statutes:

Sec. 7-371. Form of bonds. Unless otherwise provided by the general statutes or any special act, bonds issued by any municipality, as defined in section 7-369, by authority of any provision of the general statutes or of any special act shall be serial bonds maturing in annual or semiannual installments of principal that shall substantially equalize the aggregate amount of principal and interest due in each annual period commencing with the first annual period in which an installment of principal is due, or maturing in annual or semiannual installments of principal no one of which shall exceed by more than fifty per cent the amount of any prior installment, or shall be term bonds with mandatory deposit of sinking fund payments into a sinking fund of amounts sufficient to redeem or amortize the principal of the bonds in annual or semiannual installments that shall substantially equalize the aggregate amount of principal redeemed or amortized and interest due in each annual period commencing with the first annual period in which a mandatory sinking fund payment becomes due, or sufficient to redeem or amortize the principal of the bonds in annual or semiannual installments no one of which shall exceed by more than fifty per cent the amount of any prior installment. The first installment of any series of bonds shall mature or the first sinking fund payment of any series of bonds shall be due not later than three years from the date of the issue of such series and the last installment of such series shall mature or the last sinking fund payment of such series shall be due not later than twenty years therefrom, except that for bonds issued on or after July 1, 2017, but prior to July 1, 2022, the last installment of such series shall mature or the last sinking fund payment of such series shall be due not later than thirty years from the date of the issue of such series.

Sec. 7-374. Bonded indebtedness of municipalities. (a) **Definitions.** As used in this section, "town" includes each town, consolidated town and city and consolidated town and borough; "municipality" excludes each town and includes each other independent and dependent political and territorial division and subdivision.

(b) **Limitation of indebtedness.** No town and no municipality coterminous with or within such town shall incur any indebtedness in any of the following classes through the issuance of bonds which will cause the aggregate indebtedness, in that class, of such town and of all municipalities coterminous with and within such town, jointly, to exceed the multiple stated below for each class times the aggregate annual receipts of such town and of all municipalities coterminous with and within such town, jointly, from taxation for the most recent fiscal year next preceding the date of issue: (1) All debt other than debt for urban renewal projects, water pollution control projects, school building projects, as defined in section 10-289, and the funding of an unfunded past benefit obligation, as defined in section 7-374c, two and one-quarter; (2) debt for urban renewal projects, three and one-quarter; (3) debt for water pollution control projects, three and three-quarters; (4) debt for school building projects, as defined in section 10-289, four and one-half; (5) debt for the funding of an unfunded past benefit obligation, as defined in section 7-374c, three; and (6) total debt including subdivisions (1), (2), (3), (4) and (5) of this subsection, seven. In the computation of annual receipts from taxation, there shall be included as such receipts interest, penalties, late payment of taxes and payments made by the state to such town and to municipalities coterminous with and within such town under section 12-129d and section 7-528. In computing such aggregate indebtedness, there shall be excluded each bond, note and other evidence of indebtedness (i) issued in anticipation of taxes; (ii) issued for the supply of water, for the supply of gas, for the supply of electricity, for electric demand response, for conservation and load management, for distributed generation, for renewable energy projects, for the construction of subways for cables, wires and pipes, for the construction of underground conduits for cables, wires and pipes, for the construction and operation of a municipal community antenna television system and for two or more of such purposes; (iii) issued in anticipation of the receipt of proceeds from assessments which have been levied upon property benefited by any public improvement; (iv) issued in anticipation of the receipt of proceeds from any state or federal grant for which the town or municipality has received a written commitment or for which an allocation has been approved by the State Bond Commission or from a contract with the state, a state agency or another municipality providing for the reimbursement of capital costs but only to the extent such indebtedness can be paid from such proceeds; (v) issued for water pollution control projects in order to meet the requirements of an abatement order of the Commissioner of Energy and Environmental Protection, provided the municipality files a certificate signed by its chief fiscal officer with the commissioner demonstrating to the satisfaction of the commissioner that the municipality has a plan for levying a system of charges, assessments or other revenues which are sufficient, together with other available funds of the municipality, to repay such obligations as the same become due and payable; and (vi) upon placement in escrow of the proceeds of refunding bonds, notes or other obligations or other funds of the municipality in an amount sufficient, together with such investment earnings thereon as are to be retained in said escrow, to provide for the payment when due of the principal of and interest on such bond, note or other evidence of indebtedness. “Urban renewal project”, as used in this section, shall include any project authorized under title 8, the bonds for which are not otherwise, by general statute or special act, excluded from the computation of aggregate indebtedness or borrowing capacity. In the case of a town that is a member of a regional school district, a portion of the aggregate indebtedness of such regional school district shall be included in the aggregate indebtedness of such town for school building projects for the purposes of this section. Such portion shall be determined by applying to the indebtedness of the district, other than indebtedness issued in anticipation of the receipt by the district of payments by its member towns or the state for the operations of such district's schools and of proceeds from any state or federal grant for which the district has received a written commitment or for which an allocation has been approved by the State Bond Commission or from a contract with the state, a state agency or another municipality providing for the reimbursement of capital costs but only to the extent such indebtedness can be paid from such proceeds, such member town's percentage share of the net expenses of such district for the most recent fiscal year next preceding the date of issue payable by such town as determined in accordance with subsection (b) of section 10-51.

Sec. 4-66*l*. Municipal revenue sharing account. Grants.

(h) (1) Except as provided in subdivision (2) of this subsection, for the fiscal year ending June 30, 2018, and each fiscal year thereafter, the amount of the grant payable to a municipality in any year in accordance with subsection (d) or (f) of this section shall be reduced if such municipality increases its adopted budget expenditures for such fiscal year above a cap equal to the amount of adopted budget expenditures authorized for the previous fiscal year by 2.5 per cent or more or the rate of inflation, whichever is greater. Such reduction shall be in an amount equal to fifty cents for every dollar expended over the cap set forth in this subsection. For the purposes of this section, (A) “municipal spending” does not include expenditures for debt service, special education, implementation of court orders or arbitration awards, expenditures associated with a major disaster or emergency declaration by the President of the United States, a disaster emergency declaration issued by the Governor pursuant to chapter 517 or any disbursement made to a district pursuant to subsection (c) or (g) of this section, budgeting for an audited deficit, nonrecurring grants, capital expenditures or payments on unfunded pension liabilities, (B) “adopted budget expenditures” includes expenditures from a municipality's general fund and expenditures from any nonbudgeted funds, and (C) “capital expenditure” means a nonrecurring capital expenditure of one hundred thousand dollars or more. Each municipality shall annually certify to the secretary, on a form prescribed by said secretary, whether such municipality has exceeded the cap set forth in this subsection and if so the amount by which the cap was exceeded.

FOR DISCUSSION PURPOSES
DRAFT OF NOTE TO THE BET
AD 11-4-2020

BET Debt and Fund Balance Policy Working Group

Note on
Proposed Changes in the Unassigned Fund Balance Calculation

At its meeting on October 22, the BET's Debt and Fund Balance Policy Working Group approved proposing to the BET a change in the BET's Fund Policy definition of unassigned reserves.

Historically, the BET has defined unassigned reserves to be the sum of the following:

1. The Risk Fund is a reserve fund used to accumulate funds to pay future unanticipated [costs within / legal settlements/judgments against] the Town.
2. The Capital and Nonrecurring Fund is a reserve fund authorized by the General Statutes of the State of Connecticut. Although none of the money in this fund is earmarked for specific capital projects, its funds can be used only for the financing of equipment or the planning, construction, reconstruction or acquisition of capital improvements.
3. The Unassigned Fund Balance is the residual classification for the Town's General Fund (calculated on a GAAP basis). It includes all amounts that are not constrained as reported in the other classifications such as Non-spendable, Restricted, Committed and Assigned.

In its meeting on October 22, the Working Group approved unanimously the following two changes:

1. For the new definition of Unassigned Fund Balance, exclude the Risk Fund and the Capital and Nonrecurring Fund. Although not allocated to specific expenditures, the funds in these two funds are nonetheless earmarked for spending on specific purposes and are therefore not truly unassigned.
2. Calculate the Unassigned Fund Balance on a budgetary basis.
   - As do all state and local governments in the U.S., the Town follows generally accepted accounting standards as promulgated by the Governmental Accounting Standards Board ("GASB"). This is essentially a modified accrual" accounting, which combines cash-basis and accrual-basis accounting. It allows for revenue and expense recognition when certain cash flows are expected, such as budgeted expenditures and tax revenue.
   - Since 2003, however, GASB has required state and local governments to also report (in the Supplement of the Consolidated Annual Financial Report) financials based on budgetary-basis accounting (also called "cash plus encumbrances") method.
   - The difference between the Unassigned Fund Balance on a GAAP basis versus a Budgetary basis is that GAAP excludes the total amount of encumbrances, including the

portion of the Unassigned Fund Balanced budgeted to be used to reduce the Town's mill rate.

- For example, at the end of FY2019 the amount of Unassigned Fund Balance on a budgetary basis was $58.1 million. In comparison, the sum of the Capital and Nonrecurring Fund, the Risk Fund and the residual unassigned balance in the General Funds on a GAAP basis (after subtraction of the FY2020 budgeted use of fund balance and other GAAP adjustments) was $51.3 million.
- The advantages of the budgetary method are (a) simplicity and (b) the use of fund balance for purposes of mill rate reduction would be considered when the sum of (a) unbudgeted revenues received and (b) the amount of budgeted funding to be returned to the Town could be known or reasonably estimated.
- We believe that this means of calculation would make the calculation more accessible and understandable for local citizens who are its primary users.

The Working Group also unanimously approved the continuation of the calculation of the Unassigned Fund Balance percentage over Budgeted Expenses. The Working Group will consider its recommended unassigned fund balance policy ratio range at its November 5 meeting.