

**TOWN OF SOUTH BETHANY  
BIDGET AND FINANCE COMMITTEE MEETING MINUTES  
March 21, 2014  
MEETING CALLED TO ORDER**

Tony Caputo, Chairperson, called the March 21, 2014, meeting to order at 3:30 p.m.

**ATTENDANCE**

Tony Caputo (Chairperson), Renee McDorman (Finance Director/ ad hoc member), Steve Farrow (Committee Member), Al Rae (Committee Member), were present. Joe Conway (Committee Member) teleconference into the meeting. Kent Stephan (Committee Member) and Melvin Cusick (Town Manager/ad hoc member) were not present.

**PUBLIC COMMENTS**

Jim Gross asked the Committee to consider making recommendations regarding 1) COLA and Step limits, 2) hiring a part time DPW staff, and 3) keeping Operating Expenditures under Projected Revenues when we address the FY 2015 Budget review later in the meeting. There were no other comments.

**RESERVES OF FUND BALANCE POLICIES**

Joe gave a Power Point presentation on the research he conducted on Reserves and why the Town should develop Reserves. Everyone agreed it could be helpful that we establish Reserves. After Joe's presentation Tony recommended that we move to the next phase of developing draft recommendations as to the types, size, funding, use and management of Reserves. Joe believed that we should address Capital Replacement Reserve, Annual Operating Reserve and a Long Term Reserve as the three primary areas where we might come up with recommendations. A copy of Joe's presentation is attached.

**BUDGET PREPARATION POLICIES**

Renee and Tony gave an overview of the Budget preparation process currently used, and how it would be helpful if we had written Budget Preparation Policy Guidelines for ultimate inclusion into a B&F Policies Manual. Renee has a documented process, including instructions and forms, she has followed in recent years. She explained how she and Melvin go about getting input for drafting the annual budget. Tony said that he would prepare a high level draft Budget Preparation Policy Guidelines for the Committee to review before the next B&F Committee meeting.

**FDIC INSURANCE AND COLLATERALIZATION OF CASH**

Renee gave an overview of both FDIC Insurance and the collateralization two of our banks provide. FDIC Insurance is used to cover specific accounts for any bank the Town has accounts with, and the collateralization that is provided by Citizens Bank and Fulton Bank are designed to cover all monies we have placed in their bank with no limit as to the amount. She attempts to stay within those limits.

**INVESTMENT POLICIES**

Steve said he would follow up on research he had conducted earlier and would report back. Tony asked Steve, and Steve agreed, to look into the Town's CD processing (solicitation, communications, analysis, etc.) to see if we can improve it. The Committee all agreed that under today's extremely low interest rates for CD's, there is likely not a material benefit to making this a high priority at this time. Tony said that we could begin with some simple investment enhancements to create some competition of banks by emailing notification to a list of banks informing them that we have cash available to place into a CD. The banks could sort of "bid" on a CD by giving us their best offer via email.

**CLEAN UP OF FIXED ASSET RECORDS**

Tony explained that we do not have a written Fixed Asset Capitalization and Depreciation Policy Guidelines, and before we begin to clean up existing records we should have one. He has been working on them and has a draft in process that he will present to Council. Right now it is not a high priority because the Budget process is underway and there are no Fixed Asset/Capitalization Expenditures in the FY 2014 budget. Tony intends to work cleaning up our records in connection with the annual audit. Joe, Renee and Steve explained that a lot of work was done on fixed assets in 2012 to coordinate with setting up Reserves, and that we should look into them. Tony explained that he did look at them and the

resulting records of all the work are not in agreement with our annual report and the auditors list of fixed assets. Tony did use those records to help develop the draft Policy Guidelines. Tony explained that while there were a lot work done on Fixed Assets in connection with Reserves nothing was ever formalized.

#### **REVIEW OF THE FY 2015 DRAFT BUDGET**

After some discussion, the Budget and Finance Committee recommended that no more than a Step increase to employee payroll costs for the following reasons: 1) Private sector increases are running in the 2.0 – 3.0% range, 2) The Town's employees' total wage and benefit package appears to be competitive, 3) Our draft budget expenses exceed revenues and we should strive to keep costs in line, 4) We believe some level of COLA is already included in the Step increase, 5) The Sussex County 2014 Budget did not include COLA, and the Town provided both Step and COLA in FY14. Tony made it clear that these opinions are not validated.

The Committee also agreed that the additional DPW part-time position requested in the Second Draft (3/27/14) of the Budget should not be funded unless the Estimated Revenues are equal to or greater than the Proposed Operating Expenditures. We believe the Town's Operating Expenditure Budget should not exceed the Proposed Estimated Revenues, and over all priorities should be set inside these parameters.

The Committee also agreed that the Estimated Revenues are to be equal to or greater than the Proposed Operating Expenditures. It was stated that the Town's Operating Expenditure Budget should not exceed the Proposed Estimated Revenues, and over all priorities should be set inside these parameters.

Steve commented that he felt the Committee should be involved in the budget analysis earlier in the process and before the Council look at the first Draft. Tony did not necessarily agree, but will address that in his draft Budget Preparation Policy Guidelines.

Al Rae noted that it would be helpful if the Committee developed high level guidelines early in the Budget Preparation Process for Council's consideration. These could serve as a basis for overall guide, such as

#### **PUBLIC COMMENTS**

None.

#### **ADJOURNMENT**

A motion was made by Steve, seconded by Tony, to adjourn the March 21, 2014, Budget and Finance Committee Meeting at 4:45 p.m. The motion was unanimously carried.

Attachment: Fund Balance Policy PowerPoint Presentation

## Fund Balance Policy

### BENCHMARKING AND MUNICIPAL RESERVE FUNDS: THEORY VERSUS PRACTICE

By Michael Shelton and Charlie Tyer

- "One way of anticipating the future, according to Osborne and Gaebler, is by "long-term budgeting," or multi-year budgeting, something they imply few governments do. But, they then proceed to acknowledge that there is another, indeed more common, way that local governments anticipate the future. This is by the use of reserve funds, although they too refer to these in the context of "contingency funds" or "rainy day funds."<sup>7</sup>
- Thus, several examples exist of authors dealing with local government budgeting and finance either confusing reserve funds with contingency funds, or failing altogether to understand that there may be a distinction between the two concepts. Reserve, contingency and rainy day funds are not necessarily the same. Contingency and rainy day funds do share some similarities, and they are forms of reserve funds. But, and this is the key distinction, a reserve fund is not necessarily a contingency or rainy day fund. Rather, reserve funds can be for any number of purposes while contingency and rainy day funds are for unexpected contingencies, emergencies, or revenue shortfalls, in short, forms of uncertainty.
- All of these funds, however, are intended to help local governments accomplish two goals: achieve tax stability and contribute to the orderly provision of services.

## Factors to Consider in Fund Balance/Reserve Policies

1. Predictability of revenues and volatility of expenditures
2. Perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts)
3. Potential drain upon general fund resources from other funds, as well as the availability of resources in other funds.
4. Liquidity/Cash flow predictions
5. Commitments and assignments of unrestricted for specific purposes.

## Categories of General Fund Balance\*

- *Non-spendable*
- *Restricted*
- *Unrestricted*
  - *Committed*
  - *Assigned*
  - *Unassigned*

*GFOA Note: Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve).*

*\* Per GASB Statement No. 54*

## Categories of Restricted Fund Balances\*

- **Budget Stabilization Funds (BSF)**
  - Purpose: To mitigate need for tax changes due to economic conditions.(ie.,used to accrue funds during good times; fund deficits during recessions)
  - State of Delaware has a BSF. “ can fund any unanticipated deficit in any fiscal year”
    - “There is hereby established a Budget Reserve Account within the General Fund. Within 45 days after the end of any fiscal year, the excess of any unencumbered funds remaining from the said fiscal year shall be paid into the Budget Reserve Account, provided, however, that no such payment will be made which would increase the total of the Budget Reserve Account to more than 5 percent of only the estimated State General Fund revenues as set by subsection (b) of this section.”
    - “The General Assembly by a three-fifths vote of the members elected to each House, may appropriate from the Budget Reserve Account such additional sums as may be necessary to fund any unanticipated deficit in any given fiscal year or to provide funds required as a result of any revenue reduction enacted by the General Assembly.”
- **Contingency Funds (also called Reserves)**
  - Purpose: To reserve for specific purposes (eg., natural disasters, self insurance, etc.)
- **General Fund Balances (UUB): (Unrestricted, Unreserved)**

\* “State Government Budget Stabilization”, Yilin Hou,

## Features of Reserve Funds

- For each Fund we establish, we need.....
  - Purpose of the Fund
  - Sources of Revenue
  - Maximum balances allowed (ie., caps on balances) and methods for determination.
  - Approval procedures for withdraw(s) from fund

## **Views on Fund Balance Sizing**

- **States:** Generally allow Towns to maintain own standards. DE limits its budgeted fund balance to 5% of annual budget; many others 2.5%
  - BSF though is maintained at 23.5% of annual expenditures.( FY 2010)
- **Rating Agencies, Auditors, Treasurers, Government Managers:** Prefer Higher levels
- **Unions, Tax Payers, Citizen's Groups:** Prefer lower levels.

## **Fund Balance/Reserve Sizing Recommendations**

- GFOA recommendation: Minimum of 2 mos. of operating expenses adjusted for known issues.
  - Small Town statistics show 30-60%
- SB Auditor, Sombar and Company: 6-9 mos. of operating expenses.(50-75%)
- Research shows size Balances vary with Town size.

## Balances Vary with Population\*

Table 4 Central Range for Available General Fund Balances As a Percentage of General Fund Expenditures, Fiscal Year 1997		
Cities	N. C.*	S. C.
50,000 or more	18-26%	22-27%
10,000 to 49,999	34-44%	25-43%
2,500 to 9,999	35-82%	18-63%
1,000 to 2,499	40-90%	19-36%
500 to 999	48-163%	31-50%
Less than 500	97-325%	57-161%

**\*BENCHMARKING AND MUNICIPAL RESERVE FUNDS:  
THEORY VERSUS PRACTICE**

By Michael Shelton and Charlie Tyer with the Assistance of Holly Hembree

## Past SB Approach

- **3 Basic Intentions to Accumulate Funds**
  - *Operating*: 6-9 months of Annual Expenses
  - *Long Term*: Undefined, but generally understood to be for Projects and anticipated lowering of state and federal support.
  - *“ARM”*: Intended accumulation for depreciating asset replacements

## Current SB Approach

- Fund Balances
  - Non-spendable
  - Restricted
    - Restricted by Other Governments
  - Assigned by Council
  - Unassigned

## Recommendation

- Breakout restricted fund accounts:
  - Restricted by Other Governments ( established )
  - Long Term Liability ( is this on our balance sheet already?)
    - Personnel benefit accruals
    - Accumulated depreciation (ARM)
  - Budget Stabilization
    - 6 months operating expenses per current practice
  - Contingency ( the old LTR)
    - Storm/ natural disaster/etc.
    - Size based on best estimate of Town's likely cash need ( see separate presentation.
  - Capital Projects (the old ARM)
    - Inputs from Town Goal leads and Comprehensive Plan