

Town of Southington



Adopted Fiscal Policies

Adopted August 13, 2007
Amended October 28, 2013
Amended June 13, 2016

FUND BALANCE POLICY

Purpose: A municipality's formal fiscal policies should include a policy related to general fund balance reserves. Establishing a Fund Balance Policy that is adhered to is a prudent fiscal management tool that is widely recognized as reflecting positively on the management and protection of the municipality's reserves and ultimately its overall finances. This policy provides both specificity and flexibility, accomplishing one or more of at least three main criteria: establishing a base level of reserves, or a floor; specifying the appropriate circumstances for drawing down reserves; and directing the replenishment of reserves.

Policy on Fund Balance Levels:

The town sets forth the following policies on general fund Unassigned Fund Balance Levels:

Floor- the town shall strive to maintain during the year and specifically at fiscal year end a level of general fund unassigned fund balance, also known as accumulated surplus or the rainy day fund at 10% of actual year end general fund revenues. The 10% shall be known as the town's 'floor'.

Draw Down of Excess Above the Floor: any excess over the 10% floor may be designated for the following:

- To be used to fund future capital projects or large capital items (e.g. heavy equipment).
- To be used to reduce the following years debt service.

The Town of Southington recognizes it is financially advantageous not to use fund balance reserves to balance its budget.

Draw Down Below-the Floor: reducing the floor below the 10% minimum shall be only for the following:

- To be used for emergency situations.
- To be used for one time opportunities, provided there is a two-thirds vote by the Town Council.

Replenishment of the Floor Shortfall: if at fiscal year end it is determined there is a shortfall to the 10% floor, the unassigned fund balance is to be rebuilt through any one or combination of the following mechanisms.

- Adding an annual appropriation of at least 25% (or greater) of the difference between the policy level and the account balance until the policy level is met, resulting in the amount(s) adding to unassigned fund balance at fiscal year end(s).
- Freezing an amount of the contingency line-item in the current year resulting in preventing further transfer amounts out of contingency once the target shortfall

is known during the year, except in the interest of flexibility for emergencies or one-time opportunities.

- Implementing a Cost Containment Policy as recommended by the Board of Finance.

Maintenance of Unassigned Fund Balance Percentage: During the budget development process, once the projected revenue can be estimated, the required unassigned fund balance percentage for the next year's budget year should be calculated and reviewed. If that amount is projected to fall below the estimated current fiscal year-end unassigned fund balance percentage, a line item will be added to the proposed budget to maintain the required target fund balance.

Yearly Reporting and Monitoring: a monthly report shall be prepared by the Director of Finance for review by the Town Manager and given to the Board of Finance and Town Council that reflect:

- Year to date use of contingency.
- Any use of fund balance after contingency hits zero.
- Any potential problems that may cause a fiscal year end deficit.
- Monthly status of revenues and expenditures.

Charts and Graphs: (to be prepared and included in the annual budget document)

- 5 year rolling Financial Summary of general fund (condensed statement of revenues, expenditures, and changes in fund balances, along with fund balance ratios.)

Annual review and update of Policy: this policy shall be annually reviewed by the Board of Finance and recommendations for any changes be submitted to the Town Council.

Adopted: Town Council 8-13-2007

Revision adopted: Town Council 10-28-2013

DEBT MANAGEMENT POLICY

Purpose:

- To establish a criteria for the issuance of debt obligations so as not to exceed acceptable levels of indebtedness.
- To provide consistency and continuity to public policy development through the Town's Capital Improvement Plan (CIP), which also provides evidence of a commitment to meet infrastructure needs through a planned program of future financing, and
- To transmit a message to investors and rating agencies who value such evidence of the community's commitment to financial management.

Capital Improvement Plan

- A CIP shall be prepared by Town staff and submitted to the Planning Commission as per Connecticut General State Statutes.
- The Town Council shall approve a CIP annually.
- The CIP shall consist of a multi-year priority listing of long term capital projects, accompanied by a financing plan which finances all projects in the plan, and is supported by the appropriate sources of revenue.

The financing plan shall be in accordance with the debt management policies contained herein.

- It is the intent of these policies that authorized projects must be part of an adopted CIP.

Debt Management

- It shall be the responsibility of the Town Manager or his designee to maintain all necessary files associated with the issuance of Town debt.
- The Town Manager or his designee shall submit for Town Council consideration a fiscal impact statement prior to any Town Council action to authorize a project involving the issuance of debt. The fiscal impact statement shall contain tables, charts and graphs which address the following:
 - a. An estimate of the debt service principle and interest payments required at the time of long term debt issuance.
 - b. A calculation showing the impact of this additional principle and interest payments to the existing debt service payment schedules at this time.
 - c. A schedule showing the projected impact of such issuance on the mill rate over the period of time that the issuance is for, and

- d. Tables, charts, and graphs showing the various debt ratios relating to the Town's indebtedness.

Debt Issuance Ratio's/Limits and Repayment Schedules

The Town shall use the following limits to guide issuance of debt:

- Total direct indebtedness shall not exceed three (3) percent as percentage of full market valuation (most recent equalized grand list as developed the State of Connecticut).
- Total debt service shall be maintained below nine and one half (9.5) percent of general fund expenditures.
- The annual budget shall include a five-year trend showing compliance with the below 3% and 8% limits, which include the prior three audited fiscal years, the current fiscal year, and the proposed budgeted fiscal year.
- The town shall strive to issue debt no more frequently than every other fiscal year unless it is deemed more cost effective to do otherwise.

Repayment schedules shall be designed to relate to the useful life of the asset and generally be in accordance with the following:

- The town shall structure the repayment schedule to level principal payments and declining interest payment over the life of the issue.
- On an overall basis, all general obligation debt shall be structured to retire at least 25% of principal in five years and 70% with ten (10) years.
- Any and all premium received on debt issuances shall be appropriated and used to lower budgeted general fund debt service payments in the following budget year.

Alternative Financing Plan

- The Town Manager is encouraged to suggest to the Town Council/Board of Finance an alternative financing plan for proposed capital projects if a complete analysis indicates that an alternative approach is deemed in the best interests of the Town of Southington (hereby referred to as the "Town").

Rating Agency Strategy

Town management shall strive to remain up to date and pro-active on rating agency standards and criteria for rating the town's debt. Management will provide the rating agencies with financial transparency to include full disclosure of operations and open lines of communication. Management shall endeavor to maintain the highest possible bond ratings to aid in minimizing borrowing costs and preserving access to credit.

Credit Reports from Rating Agencies

Credit Reports issued by the credit rating agencies shall be distributed to the Town Council and Board of Finance for review by those boards after each debt issuance is finalized.

Debt Disclosure Practices

The Town is committed to continuing disclosure practices as evidenced by its financial information online and filing its financial information with nationally recognized disclosure organizations such as www.emma.msrb.org The Town shall make available at its online website its: Comprehensive Annual Financial Report (CAFR), Adopted Budget, 5 year Capital Improvement Plan, and most current Bonding Official Statement. The Town shall also file relevant financial information online with www.emma.msrb.org.

Annual review and update of Policy: this policy shall be annually reviewed by the Board of Finance and recommendations for any changes be submitted to the Town Council.

Adopted: Town Council 8-13-2007

Revision adopted: Town Council 10-28-2013

Revision adopted: Town Council 6-13-2016

Contingency Planning Policy

Purpose:

The Town of Southington (hereby referred to as the “Town”) will utilize this policy as an effort to avoid over expenditures that require the use of Unassigned Fund Balance at year end.

Contingency Fund Requirements:

The Town shall require that sufficient Contingency Fund levels be maintained to avoid the use of Unassigned Fund Balance at year end. The Town Manager’s Proposed Budget shall reflect contingency levels commensurate with this objective. The budgeted level of the Contingency Fund shall not exceed 1.125 % of the total budgeted expenditures approved by the Town Council in the previous fiscal year.

Adopted: Town Council 8-13-2007

Revision adopted: Town Council 10-28-2013

BUDGETARY ACCRUALS

Purpose:

The Town of Southington (hereby referred to as the “Town”) will utilize this procedure in order to streamline the budgeting of large non-capital expenditures which relate to multiple years but are paid in one year.

Requirements :

- The expenditure is non-capital in nature.
- The expenditure relates to multiple years, but the total is paid in one year.
- The accrual must total at least \$75,000 per year.

The total budgetary expenditure will be accrued on a flat-line basis over the number of years over which it relates. The accruals will be carried forward into the following fiscal year until the expenditure is paid. The carry forward of these appropriations into subsequent years will be designated as “Assigned Fund Balance” at the end of the fiscal year.

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