**DRAFT**

**Weston Board of Finance**

**Fund Balance Policy Sub-Committee**

**Special Meeting**

**October 21, 7:30PM**

**Meeting Held Remotely**

Chairman Michael Imber called the meeting to order at 7:31 pm. Attendees were Theresa Brasco and Amy Gare.

**Discussion with Town Municipal Advisor Mark Chapman, Munistat.** Questions and answers with Mark Chapman, Investment Advisor:

-Mr. Imber asked about the utility of an available fund balance? Mr. Chapman discussed that an available fund balance is historically used for reserves. Moody’s would suggest greater than 35% to keep AAA rating. Historically the GFOA minimum that you want to keep on hand is 2 months of budget expenditures. TOW is approximately 25%. Available fund balance is a set of reserves against variations in either receipt of revenue or expenditures (unexpected/emergency).

-Ms. Brasco asked if Moody’s looks at a historical review of expenditures, fund balances, how did we get there, where are we now? Ms. Brasco discussed that the subcommittee should review TOW history and what the reliability of those fund flows are going forward in terms of growing the fund? Is it sustainable? Mr. Chapman agreed analytics are good.

- Ms. Gare spoke about emergencies/catastrophy reserve funds. Will Moody’s change standards in the future? Is Moody’s making these considerations now and saying you need to have 4 months or will they change the reserve. Will they be more conservative going forward? Mr. Chapman discussed that Moody's does revisit every 5 years. They look at medians nationally and regionally, they will look at Ct AAA’s.

**Discussion regarding the Moody’s scorecard as it relates to fund balance.**

Discussion on Moody’s assessment of the available fund balance and how it factors into the scorecard and methodology for assessing credit ratings. TOW is affirmed with Moody’s as AAA. The methodology of the scorecard was reviewed and the available fund balance ratio is weighted 20%, the liquidity ratio is worth 10%. Calculation of available fund balance ratio was discussed. Available fund balance has a 20% factor weight in our score, the rating criteria with Moody’s for AAA is at or above 35%. For a town considering setting criteria for where we should be targeting, is there an appropriate level? If we haven’t met 35% Mr. Imber asked do we set a number within our policy and what are the framework/boundaries? Mr. Chapman discussed ranges.

**Discussion regarding GFOA best practices as they relate to fund balance**

Mr. Imber discussed that the available fund balance provides cushion against the volatility of revenue and expenditures. GFOA gives guidance on best practices for establishing or renewing available fund balance policies, what’s an appropriate level, what is the use and replenishment and what happens if unrestricted fund balance is above the standards set and how to use funds if chosen to use it at all.

Appropriate Levels –

* Predictability of revenue – the stability of property taxes, high rate of collections.
* Volatility of expenditures - 2/3 of the budget is driven by schools which is predictable with most of the expenditures in salaries and contractual obligations.
* Risk of one time outlays.
* Potential risk of general fund use and availability of other funds as cushion (example: no sinking fund)
* Potential impact on bond ratings and corresponding increased cost of borrowed funds. Available fund balance and it’s impact on bond rating if we fall below/compromise our AAA rating? Discussed the spread between AAA and AA on a 20 year bond. AAA is the gold standard. What are the consequences if we downgraded? GFOA historically expects a minimum of about 2 months of expenditures.

Use and Replenishment –

* GFAO recommends a time period when fund balances may be used.
* Describe how expenditure and revenue levels may be adjusted to match new economic realities that justify use of fund balance as a financing bridge. May want to consider under what circumstances if there are new economic realities that we could justify the use of a fund balance as a financing bridge.
* Describe the period of time for replenishing appropriate level AFT (typically 1-3 yrs) - there are some communities that do it over 4 years.
* Time constraints to be considered, budget reasons, extreme events, political continuity, long term forecasts.
* Unrestricted Fund Balance above formal policy requirements

- One time capital expenditure purchases

- Sinking funds

- Prepay debt (Pension/OPEB)

**Discussion/decision on the approval of minutes from the October 7th meeting**

Motion to accept the October 7th special meeting minutes made by Ms. Brasco, seconded by Ms. Gare. Motion carries unanimously.

**Discuss tentative Agenda for next Special Subcommittee Meeting**

Next special meeting on November 4th with agenda items to include:

Existing available fund policy – compare existing fund balance policy to the recommendations of GFOA and Moody’s.

Review available fund balance policies of other towns.

Review of Weston history – historical context to understand where we are today with the available fund starting balance.

**Adjourn:** Motion to adjourn made by Ms. Brasco, seconded by Ms. Gare. Meeting adjourned at 8:34 pm.

Respectfully submitted, Shawn Amato, Recording Secretary