DEBT PERFORMANCE GOALS

The debt performance goal provides a framework for the issuance and management of debt recognizing the infrastructure needs of the Town as well as the taxpayer's ability to pay. The following guidelines will be adhered to:

- Long term borrowing will be limited to capital improvements and will not fund current operations.
- The Town will strive to increase each year the percentage of capital improvements financed by current revenues and thereby follow a "pay as you go" plan.
- The maturity date for any debt will not exceed the reasonable expected useful life of the project.
- Bond Anticipation Notes may be used to provide interim cash flow, facilitate the timing of bond sales, finance less significant borrowing needs, avoid locking in high long-term interest rates during periods of market turmoil or finance projects whose final cost is uncertain or is expected to be mitigated by grants or investment earnings.
- The issuance of Tax and Revenue Anticipation Notes will be avoided.
- Special assessments, revenue bonds and/or any other available self-liquidating debt measures will be used instead of general obligation bonds where and when possible and applicable.
- An official statement will be prepared to be used in connection with all sales of bonds and notes.
- Debt obligations are generally issued through competitive sale, however, if conditions provide that a negotiated sale would provide significant benefits to the Town then the Town Council may approve that method of sale.
- Good relations will be maintained with financial and bond rating agencies and a policy of full and open disclosure on every financial report and bond prospectus will be followed.

As a means of minimizing the impact of debt obligations to the taxpayers, the following measures will be used to analyze the Town's debt position:

- The total direct general obligation debt shall not exceed **XX (X)** percent of the full market value of taxable property
- Long term net debt will not exceed **$X,XXX** per capita (excluding student/inmate population)
- General Fund debt service as a percentage of total expenditures shall not exceed **XX%**.

Debt Performance Goals - Worksheet of options

October 1, 2010 **Full** Assessed Value	$ 1,391,032,254
Population excluding institutional residents	13,428
Total Expenditures - 2011/12 Budget	$ 44,131,150

	Current Policy	Scenario 1	Scenario 2	Scenario 3	Scenario 4
% of Full Assessment Value	3.00%	3.25%	3.50%	3.75%	4.00%
Debt Limit	$ 41,730,968	$ 45,208,548	$ 48,686,129	$ 52,163,710	$ 55,641,290
Amount per Capita	$ 500	$ 1,500	$ 2,000	$ 2,500	$ 3,000
Debt Limit	$ 6,714,000	$ 20,142,000	$ 26,856,000	$ 33,570,000	$ 40,284,000
Annual Debt Service % of Expenditures	n/a	5%	6%	8%	10%
Annual Debt Service Limit	n/a	$ 2,206,558	$ 2,647,869	$ 3,530,492	$ 4,413,115
2011/12 Debt Service	$ 825,000				
2011/12 Debt Service per Capita	$ 61	$ 164	$ 197	$ 263	$ 329

2008/2009 Municipal Fiscal Indicators	Conn. Average Pop. Range 10,000-30,000	Tolland:	Coventry:	Mansfield:
Long Term Debt	$ 37,692,541	$ 43,117,334	$ 23,660,470	$ 3,905,000
Debt Per Capita	$ 2,036	$ 2,909	$ 1,923	$ 291
Annual Debt Service	$ 4,784,775	$ 4,785,160	$ 4,322,786	$ 825,000
Annual Debt Service per Capita	$ 258	$ 323	$ 351	$ 61

State Statute Debt Limitation:		
Total Collections 06/30/2010	$ 23,930,741	
2.25 times Total Tax Collections - General Purpose		$ 53,844,167
4.5 times Total Tax Collections - Schools		$ 107,688,335
Sub-total		$ 161,532,502
3.75 times Total Tax Collections - Sewers		$ 89,740,279
Total Indebtedness limit - 7 times Tax Collections		$ 167,515,187

FUND BALANCE GOALS

The fund balance goal is an effort to ensure financial security through the maintenance of a healthy reserve fund.

The primary objective is to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures. The Town also seeks to maintain the highest possible credit ratings which are dependent, in part, on the Town's maintenance of a healthy fund balance.

- A year-to-year carryover fund balance will be maintained in an amount necessary to maintain adequate cash flow and to prevent the demand for short-term borrowing. The Town will strive to maintain a fund balance within the range of at least ten (10) percent to seventeen (17) percent of the general fund operating budget and shall be separate from the contingency account. This amount would be consistent with the Government Finance Officers' Association recommendation of no less than either two months of regular operating revenues or expenditures.

- It is the Council's policy that the practice of using fund balance as a source of financing for future year operating budgets has an inherently destabilizing impact upon the operating budget. Therefore, fund balance in excess of the seventeen (17) percent goal will be transferred to the Capital and Nonrecurring Fund and used for one-time/capital expenditures.

BEST PRACTICE

Appropriate Level of Unrestricted Fund Balance in the General Fund (2002 and 2009) (BUDGET and CAAFR)

Background. Accountants employ the term *fund balance* to describe the net assets of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net assets of governmental funds calculated on a government's budgetary basis.[1] In both cases, fund balance is intended to serve as a measure of the financial resources available in a governmental fund.

Accountants distinguish up to five separate categories of fund balance, based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts can be spent: *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.[2] The total of the last three categories, which include only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself, is termed *unrestricted fund balance*.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning.

In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance (i.e., the total of the amounts reported as committed, assigned, and unassigned fund balance) in the general fund.

Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unrestricted fund balance for state and local governments.

Those interested primarily in a government's creditworthiness or economic condition (e.g., rating agencies) are likely to favor increased levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

Recommendation. The Government Finance Officers Association (GFOA) recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund.[3] Such a guideline should be set by the appropriate policy body and should provide both a temporal framework and

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[1] For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.
[2] These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* which must be implemented for financial statements for periods ended June 30, 2011 and later.
[3] 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). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.

specific plans for increasing or decreasing the level of unrestricted fund balance, if it is inconsistent with that policy. [4]

The adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.[5] The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.[6] Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time.

In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
- Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
- The potential drain upon general fund resources from other funds as well as the availability of resources in other funds (i.e., deficits in other funds may require that a higher level of unrestricted fund balance be maintained in the general fund, just as, the availability of resources in other funds may reduce the amount of unrestricted fund balance needed in the general fund);[7]
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained); and
- Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose).

Furthermore, governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance rather than on unrestricted fund balance.

Naturally, any policy addressing desirable levels of unrestricted fund balance in the general fund should be in conformity with all applicable legal and regulatory constraints. In this case in particular, it is essential that differences between GAAP fund balance and budgetary fund balance be fully appreciated by all interested parties.

Approved by the GFOA's Executive Board, October, 2009.

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[4] See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).

[5] In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.

[6] In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues or expenditures, that decision should be followed consistently from period to period.

[7] However, except as discussed in footnote 4, not to a level below the recommended minimum.

BEST PRACTICE

Replenishing Fund Balance in the General Fund (2011) (Budget and CAAFR) (new)

Background. It is essential that governments maintain adequate levels of fund balance to mitigate risks and provide a back-up for revenue shortfalls.

The adequacy of unrestricted fund balance[1] in the general fund should be assessed based upon a government's specific circumstances. Nevertheless, the GFOA recommends, at a minimum, that general-purpose governments, regardless of size, incorporate in its financial policies that unrestricted fund balance in their general fund be no less than two months of regular general fund operating revenues or regular general fund operating expenditures.

If fund balance falls below a government's policy level, then it is important to have a solid plan to replenish fund balance levels. Rating agencies consider the government's fund balance policy, history of use of fund balance, and policy and practice of replenishment of fund balance when assigning ratings. Thus, a well developed and transparent strategy to replenish fund balance may reduce the cost of borrowing. However, it can be challenging to build fund balances back up to the recommended levels because of other financial needs and various political considerations.

Recommendation. The Government Finance Officers Association (GFOA) recommends that governments adopt a formal fund balance policy that defines the appropriate level of fund balance target levels. Also, management should consider specifying the purposes for which various portions of the fund balances are intended. For example, one portion of the fund balance may be for working capital, one for budgetary stabilization, and one for responding to extreme events. This additional transparency helps decision makers understand the reason for maintaining the target levels described in the fund balance policy.

Governments should also consider providing broad guidance in their financial policies for how resources will be directed to fund balance replenishment. For example, a policy may define the revenue sources that would typically be looked to for replenishment of fund balance. This might include non-recurring revenues, budget surpluses, and excess resources in other funds (if legally permissible and if there is defensible rationale). Year-end surpluses are an especially appropriate source for replenishing fund balance.

Finally, a government should consider including in its financial policy a statement that establishes the broad strategic intent of replenishing fund balances as soon as economic conditions allow. This emphasizes fund balance replenishment as a financial management priority.

Governments are subject to a number of factors that could require the use of fund balances. It is therefore incumbent on jurisdictions to minimize the use of fund balance, except in very specific circumstances. Replenishment should take place in a prompt fashion with amounts that have been used to ensure that the jurisdiction is properly prepared for contingencies. With the foundation of a financial policy in place, governments should use their long-term financial planning and budget processes to develop a more detailed strategy for using and replenishing fund balance. With these criteria in mind, the government should develop a replenishment strategy and timeline for replenishing fund balances as soon as possible, and that is still appropriate to prevailing budgetary and economic conditions and that considers the following:

[1] Unrestricted fund balance comprises the committed, assigned, and unassigned fund balance categories.

1. The policy should define the time period within which and contingencies for which fund balances will be used. This gives the public a sense for how fund balance is being used as a "bridge" to ensure stable cash flow and provide service continuity.
2. The policy should describe how the government's expenditure levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge.
3. The policy should describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished. Frequently, a key part of the replenishment plan will be to control operating expenditures and use budget surpluses to replenish fund balance. The replenishment plan might also specify any particular revenue source that will aid in the replenishment of fund balances. For example, if the government has a volatile sales tax yield, it might specify that yields that are significantly above average would be used to replenish fund balances.

Generally, governments should seek to replenish their fund balances within one to three years of use. However, when developing the specifics of the replenishment plan, governments should consider a number of factors that influence the rate and time period over which fund balances will be replenished. Factors influencing the replenishment time horizon include:

1. *The budgetary reasons behind the fund balance targets.* The government should consider special conditions that may have caused it to set its fund balance target levels higher than the GFOA-recommended minimum level. For example, if targets are higher because the community has very volatile cash flows, then the government would want to build the fund balances back up more quickly compared to governments with more stable cash flows.
2. *Recovering from an extreme event.* An extreme event, such as a natural disaster, that has required the government to use a portion of its fund balance, may make it infeasible to replenish the fund balance as quickly as normal, depending upon the severity of the event.
3. *Political continuity.* Replenishing fund balance takes political will, and that will is often strengthened by the memory of the financial challenge that caused the use of fund balances in the first place. If the governing board and/or management are already committed to a particular financial policy, the replenishment strategy should be as consistent as possible with that policy in order to maximize political support.
4. *Financial planning time horizons.* Fund balances should typically be replenished within the time horizon covered by the organization's long-term financial plan. This puts the entire replenishment plan in context and shows the public and decision makers the expected positive outcome of the replenishment strategy.
5. *Long-term forecasts and economic conditions.* Expectations for poor economic conditions may delay the point at which fund balances can be replenished. However, in its replenishment plan the government should be sure to set a benchmark (e.g., after fund balances have dropped to a certain point below desired target levels) for when use of fund balance is no longer acceptable as a source of funds.
6. *Milestones for gradual replenishment.* A replenishment plan will likely be more successful if it establishes replenishment milestones at various time intervals. This is especially important if replenishment is expected to take place over multiple years (e.g., if you are starting from 75% of your target, set a goal to reach 80 percent of target in one year, 90 percent in two years, and 100 percent in three years).
7. *External financing expectations.* A replenishment plan that is not consistent with credit rating agency expectations may increase the government's cost of borrowing. It is important that the logic used by the government to develop the replenishment plan be communicated in an effective fashion to external lenders.

References.

- GFOA Best Practice Appropriate Level of Unrestricted Fund Balance in the General Fund, 2009.
- For a fuller explanation of the concept of "bridging" in financial distress, please visit GFOA's financial recovery website at www.gfoa.org/financialrecovery.

Approved by the GFOA's Executive Board, February, 2011.

Town of Mansfield
Summary of Available Balances

Fund #	Description	Estimated Balance at June 30, 2011
111	Town General Fund	$ 1,890,000
240	Town Aid Road Fund	57,090
250	Capital Nonrecurring Fund	8,728
260	Parks & Recreation Fund	93,085
270	Other Operating Fund*	741,372
280	Cafeteria Fund	214,729
612	Cemetery Fund	296,000
812	Solid Waste Fund	185,000
831	Health Insurance Fund **	713,640
832	Workers' Compensation Fund	57,934
	Total Estimated Available at 06/30/11	$ 4,257,578
	2010/11 Budgeted Revenues	$ 43,626,285
	Estimated Available - % of Revenues	9.76%

* Primarily Special Education Reserve Fund
** Anticipated excess balance over fully funding of $2.3mil (Town/Board share only)

17% = $7,416,468

@ $4,257,578 we are @ 57%

increase 5% per year = $340,000 – $350,000

5 Year forecast presents:

11/12 – $250,000
12/13 – $350,000
13/14 – $450,000
max @ $650,000
20/21 – $500,000
ending fund balance $7,233,000