

Cash Management and Use of Fund Balance Report

Findings and Recommendations

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This report was prepared to analyze the Town of Jaffrey's cash management position, review the use of Unassigned Fund Balance for the General Fund and Restricted Fund Balance for the Water Enterprise and Sewer Funds, and to present recommendations on the use of available resources to enhance and sustain long-term fiscal stability.

CASH MANAGEMENT AND USE OF FUND BALANCE POLICY

- 1) **Executive Summary & Recommendations** – Local government is best served by clearly understanding its fiscal position and optimizing the use of available resources to stabilize the tax rate and moderate water and sewer rates without compromising its long-term fiscal integrity. This report reviews the Town’s financial position and makes recommendations to help achieve long-term fiscal sustainability, in considerations of the Purposes listed in Section 2. In summary:
- a) The Town, as collector of property taxes, is responsible for providing cash flow for the School District and remitting its obligations to Cheshire County in a timely fashion;
 - b) The Town begins to incur expenses in January, yet only collects property taxes in June/July and November/December;
 - c) The Town is guided by DRA and GFOA which recommend the retention of between 5-17% of Unassigned Fund Balance;
 - d) The retention of Restricted Fund Balance for Water and Sewer is guided not by a specific standard, but by more subjective criteria such as system dependability, ability to quickly raise revenues for major repairs and other cash flow requirements which may be unique to a system;
 - e) Based upon the analysis of revenues, expenses, cash flow, best practices and condition of the water and sewer infrastructure, the following recommendations are presented:
 - i) The Town currently holds \$2.5M in Unassigned Fund Balance in its General Fund; 11% of General Operating Expenses should be retained annually (anticipated \$1.72M for 2016; average of \$1.66M for previous five years), which results in excess resources currently available for other uses. This amount funds the General Fund’s portion of the Consolidated Cash account;
 - ii) For the mid-term, increase the amount of UFB to \$435,000 annually to be applied to stabilize the property tax burden;
 - iii) The Town’s Water Enterprise Fund currently carries a Restricted Fund Balance in the amount of \$1.3M, anticipates positive restricted fund balance at the end of future budget years, \$500,000 should be maintained in Restricted Fund Balance annually;
 - iv) Policy makers should review the Water Enterprise Fund to allocate the excess Restricted Fund Balance towards debt reduction, mid-term rate stabilization/reduction or a combination of the two;

- v) The Town's Sewer Fund currently carries a Restricted Fund Balance of \$723,000, \$500,000 should be maintained in Restricted Fund Balance annually, however Fund currently experiences and further anticipates a negative fund balance at the end of future budget years;
- vi) Policy makers should not allocate any of the currently excess Restricted Fund Balance in the Sewer Fund but should review its rate structure along with the soon-to-be-completed Asset Management Study to ensure the Fund's long-term sustainability.
- vii) Replenishment of Fund Balance in all funds is vital to the fiscal soundness of the organization; accordingly, this policy should be reviewed at least annually.

2) Purpose

- a) To establish guidelines for the appropriate level of the unassigned fund balance (UFB) for the General Fund and restricted fund balance for the Water Enterprise and Sewer Funds, and the use of any funds exceeding these levels held by the Town of Jaffrey.
 - b) To manage the town's unassigned fund balance to assist with the orderly operation of the town and provision of services to residents and the continued stability of the property tax structure.
 - c) To meet the cash flow requirements for the Town's general operations, water and sewer funds, which will reduce interest and other borrowing costs associated with Tax Anticipation Notes.
 - d) To assist with the management of revenues and expenditures, recognizing that sources of revenues are impacted differently under varying economic conditions.
 - e) It is essential that the Town maintain adequate levels of unassigned fund balance to mitigate financial risks that can occur from unforeseen revenue fluctuations, unanticipated expenditures and similar circumstances.
- 3) **Untangling Accounting Jargon** – It may be helpful to provide information on terms, phrases and organizations referenced when reviewing this report or discussing the Town's cash management practices:

- a) Consolidated Cash Account - The account maintained by the elected Jaffrey Town Treasurer in a local financial institution in which all general revenue receipts are deposited and expenditures are drawn. The Consolidated Cash Account provides cash flow for major Town accounts including the General Fund, Water Enterprise Fund, Sewer Fund, Water and Sewer Capital Project Funds and the Tax Increment Financing Districts Funds.

- b) Department of Revenue Administration (DRA) – DRA is the state agency which is responsible by statute for setting the Town’s tax rate. DRA gathers all pertinent information from the Town, School District and County, including minutes of the annual meetings, financial forms detailing appropriations voted and anticipated revenues, the Town’s inventory of taxable property and the Town’s audited financial condition. DRA later confers with the Town regarding any adjustments to estimated revenues and use of UFB and proceeds to calculate the Town’s tax rate.

- c) Fiscal Year vs. Calendar Year – New Hampshire communities and counties operate on either a Fiscal Year (July –June) or a calendar year (January-December) basis. School Districts operate exclusively on a Fiscal Year; property tax receipts align with a Fiscal Year, with payments due on July 1 and December 1.

- d) Fund Balance – Generally, fund balance represents the difference between current assets and current liabilities. In accordance with the Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, it is recognized that fund balance shall be classified into one or more of the following categories in order to be compliant with GASB standards:
 - i) Non-spendable Fund Balance contains Permanent trust funds (non-expendable portion) and non-cash assets such as inventories or prepaid items.

- ii) Restricted Fund Balance contains funds legally restricted for specific purposes, such as grants, revenues library funds, income balances of permanent funds and capital project funds. The category also includes the amount available in the Sewer Fund and the Water Enterprise Fund; those amounts would be reported similar to UFB in the General Fund or as retained earnings in the private sector, however, these available “surplus” funds are noted as restricted as they are restricted to the fund from which they are derived (e.g. sewer funds for sewer purposes, etc..).

- iii) Committed Fund Balance are reported and expended as a result of motions passed by the highest decision making authority in Town (i.e. Town Meeting). For example, special warrant articles passed at Town Meeting, such as Article 13 to raise and appropriate \$200,000 into the Municipal Building Maintenance Capital Reserve Fund, can only be used for that specific purpose.

- iv) Assigned Fund Balance is used for specific purposes as established by management, such as encumbrances. Encumbrances occur when funds are appropriated by Town Meeting for a specific purpose, and that purpose or item has not been completed or acquired prior to the end of the budget year. In these instances, the funds are encumbered into the next fiscal year and used to complete that project or acquisition.

- v) Unassigned Fund Balance (UFB) - Unassigned fund balance is an important measure of economic stability, and contains residual spendable fund balance after deducting all of the above amounts from total fund balance. It is from UFB that the Select Board determines annually the appropriate amount to use to stabilize the tax rate.

- e) Governmental Accounting Standards Board (GASB) – Established in 1984, the GASB is the independent, private-sector organization based in Norwalk CT that establishes accounting and financial reporting standards for U.S. state and local governments that follow Generally Accepted Accounting Principles (GAAP)

- i) The GASB standards are recognized as authoritative by state and local governments, state Boards of Accountancy, and the American Institute of CPAs (AICPA). The GASB develops and issues accounting standards through a transparent and inclusive process intended to promote financial reporting that provides useful information to taxpayers, public officials, investors, and others who use financial reports.
 - ii) The Financial Accounting Foundation (FAF) supports and oversees the GASB. Established in 1972, the FAF is an independent, private-sector, not-for-profit organization based in Norwalk, CT responsible for the oversight, administration, financing and appointment of the GASB and the Financial Accounting Standards Board (FASB).
- f) Governmental Finance Officers Association – The Government Finance Officers Association (GFOA), founded in 1906, represents public finance officials throughout the United States and Canada. The association's more than 18,000 members are federal, state/provincial, and local finance officials deeply involved in planning, financing, and implementing thousands of governmental operations in each of their jurisdictions. The GFOA's mission is to enhance and promote the professional management of governmental financial resources by identifying, developing, and advancing fiscal strategies, policies, and practices for the public benefit. The GFOA has accepted the leadership challenge of public finance. To meet the many needs of its members, the organization provides best practice guidance, consulting, networking opportunities, publications including books, e-books, and periodicals, recognition programs, research, and training opportunities for those in the profession.
- g) Tax Anticipation Notes (TAN) – A funding mechanism used by governments to provide adequate cash when cumulative expenses exceed cumulative revenues during the budget year. TANs are typically used by calendar year communities which begin to incur expenses in January with the predominant revenue source (property taxes) collected in June/July and November/December. TANs are typically paid by year-end as failure to do so would result in an adverse notation on the Town's credit worthiness.

- 4) **Jaffrey's Banking and Accounting Practices** – Jaffrey is required by and conforms with state law by separately accounting for various expenditure groups such as the General Fund, Water Enterprise Fund and Sewer Fund. However, for cash management purposes, these funds and others are comingled into the Consolidated Cash Account. This practice allows cash from any of these major accounts to be used for cash flow purposes should expenditures exceed revenues, particularly before the Part A property tax payments are due on July 1.

Other accounts included in the Consolidated Cash Account include:

- a) **Water Capital Project Fund** – The account receives all revenues and pays all expenses associated with any capital projects currently underway in the Water Enterprise Fund.

The Town in recent years has made efforts to identify any remaining balances in this account and sweep remaining balances into the Water Fund; any bond proceeds remaining upon project conclusion are required to be used to pay down the issued debt or be repurposed which requires a 2/3 affirmative vote at Town Meeting. As the Town seeks to tightly control these funds and expeditiously close out projects in the Capital Project Account, any balance in this fund which is held in the Consolidated Cash Account is not projected as available for cash flow purposes beyond its own specific project.

- b) **Sewer Capital Project Fund** – The account operates in a similar fashion as the Water Capital Project Fund.
- c) **Tax Increment Financing Revenues** – Revenues received from property tax collections to support both TIF Districts pursuant to Town Meeting directives are included in the Consolidated Cash Account; whereas revenues and expenditures in these funds are predictable and stable, any cash balances are recognized as available for cash flow purposes.

A mechanism provided in state statute allows the Select Board by vote to authorize the transfer of a portion of restricted fund balance into a Capital Reserve Fund for a specific purpose, as authorized pursuant to RSA 38:29 (Water) or RSA 149-I:10 (Sewer). This process allows the Town some flexibility when addressing system failures and other emergencies and restricted earnings are available to pay for such repairs. This mechanism was used recently to make emergency repairs to the sewer system adjacent to the Peterborough Street Bridge.

It should be noted that Capital Reserve Funds are not held in this account; pursuant to RSA 35:10 these funds are invested with the Trustees of Trust Funds.

- 5) **Jaffrey's Cash Flow Needs** – The State has adopted a litany of dates and budget years which impact when revenues are available in relation to a community's budget year and correspondingly the need for additional cash to sustain operations during the course of the year.
 - a) **Town Cash Flow Needs** - The Town operates on a calendar year, which means the budget adopted by Town Meeting in March covers the period from January 1 through December 31. Technically, the Town expends funds from January 1 until the Town Meeting without an official appropriation from the Town; as a result, expenditures are limited to those required to “maintain” current operations. Therefore, expenses such as wage adjustments, collective bargaining agreements, acquisition of capital equipment and funding of warrant articles other than the General Fund, Water Enterprise Fund and Sewer Fund maintenance activities occur only after Town Meeting has voted. Property tax bills are issued semi-annually, with due dates of July 1 (1/2 of previous year's obligation) and December 1 (balance of full year calculated on new tax rate), which can result in cash flow deficiencies, particularly during the first half of the Town's budget year.
 - b) **School District Cash Flow Needs** - The School District operates on a fiscal year, which for New Hampshire governments is defined as July 1 – June 30. Tax payments received by the Town on July 1 and December 1 are used to fund the Town's share of school expenses for the fiscal year into the following June, which typically eliminates the need to borrow funds to cover these payments. The notable exception is the Town's responsibility to transmit funds to the District on a timely basis, regardless of the Town's property tax collection rate; accordingly, the Town must subsidize the school payments to the extent the Town does not collect 100% of property tax revenues on a timely basis. Typically the Town collects between 95-96% of the levy by December 31.

- c) Cheshire County Cash Flow Needs - The Town is required to pay its assessment to Cheshire County in December of each year. The County operates on a calendar year and therefore is required to issue Tax Anticipation Notes until it receives revenues from communities at the end of the County's budget year in December. For 2016, Cheshire County has budgeted \$50,000 for interest costs associated with borrowing TANs. Similar to the Town's responsibility to the School District, funds shall be paid to the County by the due date regardless of the Town's collection rate.

6) Jaffrey's Cash Flow History

- a) General Fund – Staff has compiled a three year history of revenues and expenditures to present a picture of the General Fund's cash flow challenges with a calendar year budget. Listed below is the Town's monthly cash position as averaged from 2013-2015:

Average	January	February	March	April	May	June
Revenues	\$ 453,815.00	\$ 220,518.67	\$ 274,346.33	\$ 307,070.33	\$ 1,129,983.00	\$ 4,700,404.00
Expenses	\$ 1,158,775.67	\$ 1,118,256.33	\$ 1,054,186.67	\$ 1,142,113.33	\$ 1,088,772.00	\$ 1,038,329.33
Monthly	\$ (704,960.67)	\$ (897,737.67)	\$ (779,840.33)	\$ (835,043.00)	\$ 41,211.00	\$ 3,662,074.67
Cumulative	\$ (704,960.67)	\$ (1,602,698.33)	\$ (2,382,538.67)	\$ (3,217,581.67)	\$ (3,176,370.67)	\$ 485,704.00
	July	August	September	October	November	December
Revenues	\$ 1,079,311.33	\$ 222,448.00	\$ 163,841.67	\$ 343,673.00	\$ 3,041,336.00	\$ 4,036,380.33
Expenses	\$ 1,233,800.00	\$ 1,087,527.67	\$ 1,278,329.33	\$ 1,216,078.67	\$ 1,159,102.67	\$ 2,739,271.33
Monthly	\$ (154,488.67)	\$ (865,079.67)	\$ (1,114,487.67)	\$ (872,405.67)	\$ 1,882,233.33	\$ 1,297,109.00
Cumulative	\$ 331,215.33	\$ (533,864.33)	\$ (1,648,352.00)	\$ (2,520,757.67)	\$ (638,524.33)	\$ 658,584.67

The above illustrates the cash flow challenges with 1) hypothetically no funds available at the beginning of the budget year; and 2) actual property tax collections midway and at the end of the budget year. This scenario would require the issuance of a \$3.2M TAN to pay necessary expenses until sufficient revenues were collected. However, recall that the Town collected taxes on behalf of the School District in the previous December for school expenses through June. This mechanism significantly contributes to cash available on January 1; listed below is a revised cash flow analysis with the 2013-2016 average of cash available at the beginning of the calendar year:

Average Available on January 1:		\$ 3,535,265.00				
Average	January	February	March	April	May	June
Revenues	\$ 453,815.00	\$ 220,518.67	\$ 274,346.33	\$ 307,070.33	\$ 1,129,983.00	\$ 4,700,404.00
Expenses	\$ 1,158,775.67	\$ 1,118,256.33	\$ 1,054,186.67	\$ 1,142,113.33	\$ 1,088,772.00	\$ 1,038,329.33
Monthly	\$ (704,960.67)	\$ (897,737.67)	\$ (779,840.33)	\$ (835,043.00)	\$ 41,211.00	\$ 3,662,074.67
Cumulative	\$ 2,830,304.33	\$ 1,932,566.67	\$ 1,152,726.33	\$ 317,683.33	\$ 358,894.33	\$ 4,020,969.00
	July	August	September	October	November	December
Revenues	\$ 1,079,311.33	\$ 222,448.00	\$ 163,841.67	\$ 343,673.00	\$ 3,041,336.00	\$ 4,036,380.33
Expenses	\$ 1,233,800.00	\$ 1,087,527.67	\$ 1,278,329.33	\$ 1,216,078.67	\$ 1,159,102.67	\$ 2,739,271.33
Monthly	\$ (154,488.67)	\$ (865,079.67)	\$ (1,114,487.67)	\$ (872,405.67)	\$ 1,882,233.33	\$ 1,297,109.00
Cumulative	\$ 3,866,480.33	\$ 3,001,400.67	\$ 1,886,913.00	\$ 1,014,507.33	\$ 2,896,740.67	\$ 4,193,849.67

Available cash can fluctuate significantly from year to year, depending upon a number of factors, including:

- (1) Excess or underperforming revenues;
- (2) Unexpended appropriations;
- (3) Property Tax Collections and due date (typically July 1 and December 1 but 30 days from billing which may result in later due date);
- (4) Projects and Funds which were completed and fund balances lapsed to General Fund.

b) Water Enterprise Fund – A similar analysis was completed for the Water Enterprise Fund; cash flow is not a significant issue with this fund as revenues are billed and collected monthly throughout the budget year.

Average	January	February	March	April	May	June
Revenues	\$ 98,433.00	\$ 103,594.33	\$ 109,960.67	\$ 90,000.00	\$ 102,102.33	\$ 95,827.33
Expenses	\$ 107,903.33	\$ 88,850.33	\$ 83,402.00	\$ 44,025.67	\$ 49,943.33	\$ 77,840.00
Monthly	\$ (9,470.33)	\$ 14,744.00	\$ 26,558.67	\$ 45,974.33	\$ 52,159.00	\$ 17,987.33
Cumulative	\$ (9,470.33)	\$ 5,273.67	\$ 31,832.33	\$ 77,806.67	\$ 129,965.67	\$ 147,953.00
TAN Required						
	July	August	September	October	November	December
Revenues	\$ 119,552.00	\$ 131,160.67	\$ 111,567.00	\$ 106,894.67	\$ 96,660.00	\$ 107,779.00
Expenses	\$ 118,685.00	\$ 62,041.67	\$ 99,890.33	\$ 124,506.00	\$ 60,787.00	\$ 86,435.33
Monthly	\$ 867.00	\$ 69,119.00	\$ 11,676.67	\$ (17,611.33)	\$ 35,873.00	\$ 21,343.67
Cumulative	\$ 148,820.00	\$ 217,939.00	\$ 229,615.67	\$ 212,004.33	\$ 247,877.33	\$ 269,221.00

The Water Fund’s beginning year Restricted Fund Balance was \$492,340 in 2012, and has been developed to \$597,159 as of January 1, 2016; during the course of the 2015 audit, the auditors focused upon aged Capital Projects. This review identified an older Water Fund Capital Project which was closed out, resulting in a transfer of approximately \$771,000 to the Water Restricted Fund Balance (posted to the Water Fund in early 2016).

- c) Sewer Fund - A similar analysis was completed for the Sewer Fund; cash flow is not a significant issue with this fund as revenues are billed and collected monthly throughout the budget year.

Average	January	February	March	April	May	June
Revenues	\$ 268,032.00	\$ 200,779.33	\$ 147,533.67	\$ 158,691.67	\$ 110,294.00	\$ 130,588.33
Expenses	\$ 232,328.00	\$ 160,873.67	\$ 94,442.67	\$ 164,778.00	\$ 153,979.33	\$ 157,348.67
Monthly	\$ 35,704.00	\$ 39,905.67	\$ 53,091.00	\$ (6,086.33)	\$ (43,685.33)	\$ (26,760.33)
Cumulative	\$ 35,704.00	\$ 75,609.67	\$ 128,700.67	\$ 122,614.33	\$ 78,929.00	\$ 52,168.67
Average	July	August	September	October	November	December
Revenues	\$ 129,831.67	\$ 124,763.67	\$ 133,922.67	\$ 115,348.00	\$ 141,348.67	\$ 121,805.00
Expenses	\$ 123,218.67	\$ 99,471.00	\$ 89,829.33	\$ 279,737.00	\$ 75,707.67	\$ 231,893.00
Monthly	\$ 6,613.00	\$ 25,292.67	\$ 44,093.33	\$ (164,389.00)	\$ 65,641.00	\$ (110,088.00)
Cumulative	\$ 58,781.67	\$ 84,074.33	\$ 128,167.67	\$ (36,221.33)	\$ 29,419.67	\$ (80,668.33)

The Sewer Fund’s beginning year balance was \$1,554,701 as of December 31, 2012, and is now at \$723,290 as of January 1, 2016. The Restricted Fund Balance has decreased significantly during this period, due to:

- (1) Transfers to Capital Reserve for emergency projects such as the Peterborough Street Bridge Sewer Main Repair;
- (2) Annual rate determinations which envisioned using some fund balance to temper or avoid rate increases.

7) Jaffrey Fund Retention Practices

- a) General Fund UFB – The maintenance of an adequate general fund unassigned fund balance, consistent with recognized GFOA and State of New Hampshire recommended standards and practices and past experience, is intended to help achieve the following:

- (1) To meet the cash flow requirements for the Town’s general operations which will reduce interest and other borrowing costs associated with Tax Anticipation Notes.

- (2) To assist with property tax rate stabilization.
- (3) To assist with the management of revenues and expenditures, and to mitigate financial risks that can occur from unforeseen revenue fluctuations, unanticipated expenditures and similar circumstances.

GFOA and DRA recommend that UFB be maintained at a rate of 5-17% of General Fund operating expenditures, which is defined by DRA as the sum of the Town’s general fund budget, education tax amount, local school net tax commitment and the county appropriation.

Communities operating under a calendar budget year typically retain UFB at the higher level to account for potential cash flow deficiencies during the first half of the year.

Jaffrey historically has also used a portion of excess UFB to stabilize the Town’s tax rate:

Unreserved Fund Balance and Use 2010-2015

Year	UFB (from PY)	UFB Used	UFB Retained	Retention
2016	\$ 2,502,362	\$ TBD	\$ TBD	TBD
2015	\$ 2,046,329	\$ 395,000**	\$ 1,651,329	13.1%
2014	\$ 1,794,171	\$ 350,000	\$ 1,444,171	9.3%
2013	\$ 2,171,420	\$ 400,000	\$ 1,771,420	11.4%
2012	\$ 2,351,336	\$ 450,000	\$ 1,901,336	13.0%
2011	\$ 1,883,283	\$ 478,000	\$ 1,405,283	9.8%
2010	\$ 1,671,522	\$ 400,000	\$ 1,271,522	9.0%

*(** An additional amount of \$45,000 was applied to the Tax Rate in 2015 as DRA erred calculating the amount of taxes necessary for school support; this amount of excess taxation was returned directly to the taxpayers. Instead of the funds being transmitted to the School District, and then listed as year-end surplus for the District, the District requested that the Town apply the funds against the Town revenues in the form of additional UFB.)*

It should also be noted that Unassigned Fund Balance as determined by the State of New Hampshire consists of two components. Typically the larger component is residual spendable fund balance after deducting all of the other fund balance categories (See Section 3.D) from total fund balance in accordance with GASB standards. DRA further considers property tax receivables, but not yet collected as part of UFB, as these revenues are secured through the tax lien process and in most events will be collected at some point in the future. It should be noted that the receivables, designated as “Deferred Inflows” are not cash and customarily not available for some period of time.

Listed below is the composition of Jaffrey’s UFB:

Composition of Jaffrey’s UFB			
Budget Year	Residual Fund Balance	Deferred Inflows	Total
2015	\$ 1,759,882	\$ 742,480	\$ 2,502,362
2014	\$ 1,342,550	\$ 678,680	\$ 2,021,230
2013	\$ 912,351	\$ 741,052	\$ 1,653,403
2012	\$ 1,458,504	\$ 712,916	\$ 2,171,420

Replenishment of UFB – As noted above, the Select Board has returned approximately \$2.5M to the taxpayers in the last six years, an average of \$412,000 or about \$1.00 on the tax rate. A corresponding challenge is to identify the amount of fund balance to be used for this purpose annually, as failure to manage on a sustainable basis will contribute to fluctuations in the tax rate. Thus, adequate replenishment of UFB is a critical component to sustainable fund balance use.

The Town has experienced the following replenishment from 2011 – 2015:

<i>Changes in Unassigned Fund Balance</i>							
YEAR	UFB as of 1/1/xx	UFB used to stabilize taxes	Excess Revenues	Unexpended Appropriations	Other Adjustments**	UPB as of 12/31	Fund Balance Replenishment
2015	2,021,230.00	(395,000.00)	313,814.00	429,673.00	132,645.00	2,502,362.00	481,132.00
2014	1,653,403.00	(350,000.00)	111,007.00	211,637.00	395,183.00	2,021,230.00	367,827.00
2013	2,171,420.00	(400,000.00)	(22,296.00)	515,672.00	(611,393.00)	1,653,403.00	(518,017.00)
2012	2,351,336.00	(450,000.00)	(144,005.00)	363,341.00	50,748.00	2,171,420.00	(179,916.00)
2011	1,883,283.00	(478,000.00)	742,881.00	194,498.00	8,674.00	2,351,336.00	468,053.00

**Other adjustments include transactions such as:

- (a) Adjustments in encumbrances between budget years;
- (b) Property taxes not collected in that year;
- (c) Deferred revenues recognized;
- (d) Changes in non-spendable fund balance;
- (e) Specific adjustments, including:
 - (i) PY School Payment adjusted to correct budget year (2015);
 - (ii) TIF residual funds were formally maintained in separate fund and were properly reclassified to the General Fund (2014).

As shown on the above chart, the amount of Excess Revenues or Unexpended Appropriations varies significantly from year to year. Listed below are the predominant influences impacting changes in Unassigned Fund Balance for years 2012-2015:

<i>Influences on Revenue and Appropriation Variances 2012-2015</i>					
YEAR	UFB as of 1/1/xx	Excess Revenues	Revenue Variances	Unexpended Appropriations	Appropriation Variances
2015	2,021,230.00	313,814.00	MV Fees; TIF Residual	429,673.00	Health Insurance; Solid Waste; Genl. Assist.; Police; Road Salt; Fuel
2014	1,653,403.00	111,007.00	MV Fees; TIF Residual	211,637.00	Health Insurance; G.A.; Capital Outlay
2013	2,171,420.00	(22,296.00)	N/A	515,672.00	PD Vacant Positions; SRO; Fire; Debt; DPW Vacant Positions
2012	2,351,336.00	(144,005.00)	N/A	363,341.00	Capital Outlay

- b) Water Enterprise Fund – Currently, the Water Enterprise Fund has Restricted Fund Balance of approximately \$1.274M, which surged by over \$800,000 in 2015 due in large measure to the reclassification of funds (\$771,000) previously held in a Capital Projects Account. The annual water budget is approximately \$1.0M.
- i) Appropriate Level of Fund Balance – The Town has reached out to numerous resources in an effort to identify what amount of fund balance to retain, as neither GFOA nor DRA has established guidelines on the appropriate range of fund balance retention. Similar to the General Fund, fund balance is necessary to protect against revenue strain and to provide operating cash. Unlike the General Fund, the Water Enterprise Fund also needs to maintain reserves in the event of system failure or major repairs.
- (1) Information gleaned from various resources such as the Town’s auditors, engineers, GFOA and municipalities nationwide offer the following:
- (a) It is common for utility funds to carry three months of operational costs as cash flow reserve;
 - (b) Utilities should examine its infrastructure and develop an assessment of system vulnerabilities and probability of unplanned major repairs;
 - (c) Governmental structure, i.e. how quickly are approvals obtained to fund major repairs/projects (Town Meeting is the most cumbersome process due to statutory requirements to petition Superior Court and then schedule a Special Town Meeting to obtain additional funding approval).
- c) Sewer Fund – The Sewer Fund has Restricted Fund Balance of approximately \$723,290 as of 12/31/2015. The Fund’s Restricted Balance has been as high as \$1.55M in 2012 and has experienced predominantly planned decreases (such as no adjustments to the rates in 2013 & 2014) to its current level. The annual sewer budget is approximately \$2.0M.
- i) Appropriate Level of Fund Balance – The Town utilized the same information to consider an appropriate fund balance for the Sewer Fund as the Water Enterprise Fund. The Sewer System recently began operating a new wastewater treatment facility and is currently replacing two pump stations, resulting in an inventory of critical assets which should not be

prone to major failure. For either water distribution or sewer collection piping, it is really the overall system vintage that will dictate future required capital expenditures. Additionally the Sewer Fund’s revenue base is larger, contributing to some economies of scale.

8) Town’s Debt Portfolio

a) Statutory Debt Limitations – RSA 33 (Municipal Finance Act) outlines the various rules and regulations towns must follow when issuing long-term debt. One of the limitations in statute is the amount of debt a municipality may incur. RSA 33:4-a limits the Town’s indebtedness for general purposes to 3% of the Town’s equalized value (EV), which for 2015 was recently announced at approximately \$419M. Thus, the community could issue up to \$12.57M in General Purpose Debt, although borrowing to the maximum would result in a significant impact on the Town’s tax rate. RSA 33:5 exempts debt incurred to install sewers under order from the Department of Environmental Services.

i) General Purposes – General Fund debt authorized for Jaffrey includes \$1.1M in sewer bonds incurred without an order from NHDES.

<i>GENERAL PURPOSE LONG-TERM DEBT</i>									
			12/31/16				2016		
PURPOSE	YEAR ISSUED	ORIGINAL AMOUNT	CURRENT BALANCE	INTEREST RATE	DEBT HOLDER	MATURITY DATE	ANNUAL PAYMENT	SOURCE OF PAYMENT	EARLY REPAY
Sewer - No DES AO									
Sewer Asset Management (LESS - NHDES)	2015	\$ 100,000.00	\$ 100,000.00		NHDES		N/A	100% Sewer	Yes
		Pending							
Sewer Sludge Station (LESS - NHDES)	2016	\$ 1,000,000.00	\$ 1,000,000.00		NHDES		N/A	100% Sewer	Yes
		\$ (125,000.00)							
General Fund Debt			\$ 1,100,000.00				\$ -		

ii) Water – RSA 33:5-a allows communities to borrow up to 10% of the Town’s EV for its water works, or \$41.9M. Currently, the Town has approximately \$5.355M of authorized and issued debt which includes the Town’s share of NHDES-funded projects and other water projects financed by others. With approved and anticipated Principal Forgiveness determinations from the NH Department of Environmental Services, the net water debt is currently at \$4.553M.

WATER ENTERPRISE FUND LONG-TERM DEBT									
			12/31/16				2016		
PURPOSE	YEAR ISSUED	ORIGINAL AMOUNT	CURRENT BALANCE	INTEREST RATE	DEBT HOLDER	MATURITY DATE	ANNUAL PAYMENT	SOURCE OF PAYMENT	EARLY REPAY
Water Enterprise Fund									
New Water Source (LESS - NHDES)	2011	\$ 1,318,434.64 \$ (394,015.00)	\$ 901,440.44 \$ (290,327.03)	2.86%	NHDES	2030	\$ 80,881.78 \$ (20,737.64)	Water 2/3; GF 1/3	Yes
Water Main	2000	\$ 1,500,000.00	\$ 375,000.00	4.75%	NHMBB	2021	\$ 96,421.88	Water 2/3; GF 1/3	No
River St Water Main (LESS - NHDES)	2006	\$ 850,000.00 \$ (170,000.00)	\$ 420,526.30 \$ (89,473.67)	3.35%	NHDES	2026	\$ 49,535.63 \$ (8,947.37)	Water 2/3; GF 1/3	Yes
Squantum Well (LESS - NHDES)	2013	\$ 1,000,655.60	\$ 838,997.58 \$ (402,895.54)	2.72%	NHDES	2032	\$ 43,129.62 \$ (23,669.74)	Water 2/3; GF 1/3	Yes
Water Main Replacement** (LESS - NHDES)**	2017	\$ 2,800,000.00 Pending	\$ 2,800,000.00	2.616%	NHDES	2037	N/A	Water 2/3; GF 1/3	Yes
Water Debt			\$ 5,335,964.32				\$ 269,968.91		
Net - Less NHDES			\$ 4,553,268.08				\$ 216,614.16		

iii) Sewer – RSA 33:5 includes sewer debt into the 3% limit for general purposes, unless such debt is incurred pursuant to an order issued by the Department of Environmental Services. Of the total amount of \$11.1M authorized to date for sewer facilities, approximately \$9.9M has been issued under NHDES directive, thus leaving \$1.1M as classified as General Purpose Debt.

SEWER FUND LONG-TERM DEBT									
			12/31/16				2016		
PURPOSE	YEAR ISSUED	ORIGINAL AMOUNT	CURRENT BALANCE	INTEREST RATE	DEBT HOLDER	MATURITY DATE	ANNUAL PAYMENT	SOURCE OF PAYMENT	EARLY REPAY
Sewer Fund									
Sewer Facility Upgrade	2002	\$ 933,681.32	\$ 326,788.50	3.70%	NHDES	2023	\$ 60,517.49	Sewer 2/3; GF 1/3	Yes
Sewer Facility Upgrade	2005	\$ 1,506,246.60	\$ 677,810.97	3.69%	NHDES	2025	\$ 103,087.52	Sewer 2/3; GF 1/3	Yes
Sewer AWWTF Construction	2012	\$ 7,278,000.00	\$ 6,317,948.00	3.38%	USDA-RD	2036	\$ 444,978.00	Sewer 2/3; GF 1/3	Yes
Sewer Teritary/Pellet Boiler	2013	\$ 2,749,139.50	\$ 1,199,025.07	2.72%	NHDES	2032	\$ 93,423.83	Sewer 2/3; GF 1/3	Yes
Sewer Improvements	2013	\$ 1,743,560.68	\$ 1,465,438.69	2.72%	NHDES	2032	\$ 114,181.40	Sewer 2/3; GF 1/3	Yes
Sewer Debt			\$ 9,987,011.23				\$ 816,188.24		

iv) Tax Increment Finance District Debt – Pursuant to the provisions of RSA 162-K, municipalities with proper approvals from their Legislative Body may incur debt to implement the Development Plan of the TIF District. This debt pursuant to RSA 162-K:8 is not included with the Town’s indebtedness limit.

TAX INCREMENT FINANCING LONG-TERM DEBT									
			12/31/16				2016		
PURPOSE	YEAR ISSUED	ORIGINAL AMOUNT	CURRENT BALANCE	INTEREST RATE	DEBT HOLDER	MATURITY DATE	ANNUAL PAYMENT	SOURCE OF PAYMENT	EARLY REPAY
Stone Bridge TIF District									
Stone Bridge	2001	\$ 750,000.00	\$ 175,000.00	4.13%	NHMBB	2021	\$ 45,395.00	Stone Bridge TIF	No
Water Main Extension	2012	\$ 739,500.00	\$ 620,000.00	4.30%	NHMBB	2033	\$ 73,935.00	Stone Bridge TIF	No
Downtown TIF									
Community Field	2004	\$ 287,500.00	\$ 110,000.00	4.38%	NHMBB	2024	\$ 20,912.00	Downtown TIF	No
TIF Debt			\$ 905,000.00				140,242.00		

9) **Summary and Recommendations** – Recommended adjustments for one fund invariably impacts other funds in the Town’s Consolidated Cash Account; therefore, any adjustments must be made in consideration to the impact upon other funds in order to maintain sufficient cash flow for all operations.

- i) *General Fund* – GFOA and DRA recommend a fund balance range of 5-17%; typically, Jaffrey retained an average of 10.9% of UFB annually between 2010-2015, which to date has allowed the General Fund to maintain its own positive fund balance for most of the months during the year. Maintaining a specific target of 11% should be sufficient, as long as the Town maintains a Consolidated Cash Account (which requires retention of cash from both Water and Sewer Funds to support overall cash flow liquidity); otherwise the target would have to be increased to ensure self-sufficiency for the General Fund.

For 2016, an anticipated tax levy of \$15.7M would result in UFB retention of \$1.727M (11% of levy), making available UFB balance of approximately \$775,000 (2015 year end UFB of \$2.502M – UFB retention of \$1.727M); typically, \$350,000 is allocated annually to stabilize taxes, which leaves a discretionary balance of \$425,000.

General Fund Balance Replenishment has fluctuated significantly from 2012, ranging from (\$518K) in 2013 to \$481K in 2015. A prevalent rule of thumb with respect to available fund balance is to return these funds to taxpayers over a three year period, which again aids in avoiding tax rate fluctuations should the fund fail to replenish in any subsequent year. However, tightening operating budgets into the future will no doubt result in a slower replenishment of UFB; accordingly, it is recommended that the discretionary balance of \$425,000 be disbursed over a five year period, or approximately \$85K annually, for a total UFB allocation to the tax rate of \$435,000 in 2016. This amount will continue to be evaluated each year, as any fluctuation in replenishment may result in a different action by the Select Board regarding tax rate management.

This policy’s sustainability is entirely dependent upon the level of replenishment, as exhibited below. A slower replenishment rate will result in a shorter policy sustainability horizon, requiring a re-evaluation of this policy:

<i>Sustainability of \$435,000 UFB Application</i>	
If the Town replenishes its Fund Balance with Unexpended Appropriations, Excess Revenues, etc. each year in the amounts listed below, then...	The Policy of applying \$435,000 each year against the Tax Rate is sustainable through:
\$350,000.00	2019
\$300,000.00	2018
\$250,000.00	2017
\$200,000.00	2016

- ii) *Water Enterprise Fund* – As stated previously, there is no authoritative recommendation on the appropriate range of fund balance for a utility; information gleaned from GOFA, auditors, engineers and other municipalities nationwide recommend an evaluation of the system, probability of system failure, governance structure and other circumstances which would draw down cash reserves. First, we need to review the sustainability of the current rate structure which includes the anticipated bond payments associated with the 2016 \$2.8M Water Main Replacement Bond authorization:

Water Enterprise Fund Budget Projection with \$2.8M Water Main Replacement Project

Category	2016	2017	2018	2019	2020	2021	2022
Administration	\$ 527,448.00	\$ 537,996.96	\$ 548,756.90	\$ 559,732.04	\$ 570,926.68	\$ 582,345.21	\$ 593,992.12
Services Treatment	\$ 228,700.00	\$ 230,987.00	\$ 233,296.87	\$ 235,629.84	\$ 237,986.14	\$ 240,366.00	\$ 242,769.66
Exsiting Debt Service	\$ 180,879.00	\$ 176,099.00	\$ 171,243.00	\$ 166,266.00	\$ 161,150.00	\$ 155,909.00	\$ 101,581.00
System Improvements/Replacement	\$ 50,001.00	\$ -	\$ -	\$ -	\$ -	\$ -	
Total Expenses	\$ 987,028.00	\$ 945,082.96	\$ 953,296.77	\$ 961,627.88	\$ 970,062.82	\$ 978,620.21	\$ 938,342.77
Water Revenues (based upon 2014 @2%/YR. for 2015)	\$ 1,233,938.88						
Retained Earnings	\$ 246,910.88	\$ 288,855.92	\$ 280,642.11	\$ 272,311.00	\$ 263,876.06	\$ 255,318.67	\$ 295,596.11
2016 Water Main Replacement Project (@20 years, NHDES Principal Forgiveness @ 20%, 1/3 paid through General Fund)			\$ 123,498.00	\$ 121,057.00	\$ 118,616.00	\$ 116,175.00	\$ 113,734.00
Balance Available for Asset Mgt., other System Improvements			\$ 157,144.11	\$ 151,254.00	\$ 145,260.06	\$ 139,143.67	\$ 181,862.11

It is anticipated that the Water Fund can sustain operations into at least 2022 without a rate increase, based upon the anticipated expense rates and no new major projects (of course, these projections would need to be reexamined should either of those two variables change). \$1.3M in available restricted balance as of January 1, 2016, which, according to the budget projections presented above, would increase to approximately \$1.99M at the end of 2018 and \$2.6M in 2022. However, according to these projections, additional restricted fund balance is not needed to fund operations, therefore, it may be restricted for other uses.

Based upon the all of the aforementioned information, it is recommended that the Town maintain a six month reserve for the water enterprise fund, which is rounded to \$500,000.00.

There are a number of options available to the Town when managing the available restricted balance:

- (a) Pay Down Existing Available Debt – Pending consultation with NHDES regarding the management of Principal Forgiveness, the following issuances appear to be the most eligible for early payment:

Use of Available Water Enterprise Fund Balance to Pay Existing Debt		
Subject	River Street Water Mains - 2005	Water Source Optimization
Original Issue	\$850,000.00	\$ 1,733,188.00
Original Average Interest Rate	3.352%	2.8640%
Current Balance	\$ 420,526.30	\$ 901,440.44
Planned Retirement of Bond	October, 2026	March, 2030
Anticipated Interest Savings	\$ 37,989.37	\$ 43,564.64

- (b) Make a balloon payment on the 2016 \$2.8M Bond – This strategy would result in an approximate bond issuance of \$2.0M, which would reduce bonding and interest costs by approximately \$146,500 over the term of the financing.
- (c) Create a Capital Reserve Fund to deposit excess funds, bond the Phase II water main replacement bond through the NHDES Principal Forgiveness Program, and pay off all or a major portion of the bond immediately upon receipt from the Capital Reserve resources. The amount of potential savings is unknown as the project and its costs have yet to be determined.

- iii) Sewer Fund – Similar to the Water Enterprise Fund, no specific guidelines exist for fund balance retainage, therefore the same exercise as applied to the Water Fund was used.

Listed below is the Sewer Fund Budget Projections which measures sustainability:

Category	2016	2017	2018	2019	2020	2021	2022
Administration	\$ 273,120.00	\$ 278,582.40	\$ 284,154.05	\$ 289,837.13	\$ 295,633.87	\$ 301,546.55	\$ 307,577.48
Services Treatment	\$ 872,975.00	\$ 881,704.75	\$ 890,521.80	\$ 899,427.02	\$ 908,421.29	\$ 917,505.50	\$ 926,680.55
Industrial Pretreatment	\$ 30,002.00	\$ 30,000.00	\$ 30,000.00	\$ 30,000.00	\$ 30,000.00	\$ 30,000.00	\$ 30,000.00
Existing Debt Service	\$ 538,686.00	\$ 535,710.00	\$ 532,735.00	\$ 529,761.00	\$ 526,787.00	\$ 523,812.00	\$ 520,838.00
Septage Enhancement Bond (10 years @ 1.595%)			\$ 103,450.00	\$ 110,468.00	\$ 107,916.00	\$ 105,364.00	\$ 102,812.00
System Improvements/Replacement	\$ 315,001.00	\$ 100,000.00	\$ 101,000.00	\$ 102,010.00	\$ 103,030.10	\$ 104,060.40	\$ 105,101.01
Total Expenses	\$ 2,029,784.00	\$ 1,825,997.15	\$ 1,941,860.85	\$ 1,961,503.14	\$ 1,971,788.26	\$ 1,982,288.45	\$ 1,993,009.04
Sewer Revenues (based upon 2014 @1%/YR. for 2015)	\$ 1,391,990.00	\$ 1,391,990.00	\$ 1,391,990.00	\$ 1,391,990.00	\$ 1,391,990.00	\$ 1,391,990.00	\$ 1,391,990.00
SAG	\$ 282,727.00	\$ 280,427.00	\$ 282,798.00	\$ 281,574.00	\$ 280,074.00	\$ 278,574.00	\$ 277,074.00
Septage Revenues	\$ 175,000.00	\$ 175,000.00	\$ 175,000.00	\$ 175,000.00	\$ 175,000.00	\$ 175,000.00	\$ 175,000.00
Total Revenues	\$ 1,849,717.00	\$ 1,847,417.00	\$ 1,849,788.00	\$ 1,848,564.00	\$ 1,847,064.00	\$ 1,845,564.00	\$ 1,844,064.00
Retained Earnings	\$ (180,067.00)	\$ 21,419.85	\$ (92,072.85)	\$ (112,939.14)	\$ (124,724.26)	\$ (136,724.45)	\$ (148,945.04)

The Sewer Restricted Fund Balance stands at \$723,290 at the end of 2015. The sewer system should be less prone to major failures and therefore should retain a similar restricted amount as the Water Fund (\$500,000.00).

It is further recommended that the Town not expend the excess Restricted Fund Balance as the projected Sewer Budget into the future anticipates using restricted fund balance for operations. Further, the above projections anticipate no rate adjustments through 2022; for sewer, the Select Board should meet with staff to further refine these projections and institute rate adjustments as appropriate to maintain the fiscal integrity of the sewer fund. Finally, the Town is nearing completion of an Asset Management Plan for the Sewer Department and the results of that study should be reviewed and appropriate recommendations incorporated into the Fund's long-term financial plan.