



STATE OF CONNECTICUT

OFFICE OF POLICY AND MANAGEMENT

OFFICE OF THE SECRETARY

August 7, 2017

Dear Mayor Drew,

On August 2nd, the Governor directed the Office of Policy and Management to produce a series of reports on the fiscal health of municipalities (please see attached).

To that end, I am requesting updated information on your municipality's fund balance. We have historic data already reported to our office, which we have included below. We are looking for estimates of your General Fund's total fund balance and unassigned fund balance for as of June 30, 2017. In addition, we are requesting projections of your municipality's General Fund total fund balance and unassigned fund balance as of June 30, 2018, based on the assumptions from your adopted FY 18 budget.

MIDDLETOWN

General Fund

	<u>Total Fund Balance</u>	<u>Unassigned Fund Balance per GASB 54</u>
FY 15 Actual	26,567,000	21,826,000
FY 16 Actual	27,808,000	22,979,000
FY 17 Estimated	31,445,000	24,287,000
FY 18 Projected (based on adopted municipal budget)	22,971,000	15,815,000

Finally, please provide any supplemental information about the potential impact of a continuing state budget impasse on your community's finances, such as contingency plans to utilize fund balance, issue supplemental taxes or reduce spending.

Please email the requested information to Michael Izadi on my staff at michael.izadi@ct.gov by August 16, 2017.

Sincerely,

Benjamin Barnes
Secretary

Cc: Carl Erlacher, Director Of Finance & Revenue
Michael Izadi, Office of Policy and Management
Kerry Kelley, Office of Policy and Management



OFFICE OF THE MAYOR

City of Middletown

CONNECTICUT 06457

Daniel T. Drew
MAYOR

8/16/2017

Dear Secretary Barnes
Office of Policy and Management
210 Capitol Ave.
Hartford, CT 06106

Dear Secretary Barnes,

I write in response to your letter to the City of Middletown dated August 7, 2017 requesting information from our Finance Department about the potential impact of a continuing state budget impasse on the City of Middletown and its residents. Per your request, we have enclosed estimated FY 17 and projected FY 18 total fund balance and unassigned fund balance figures. As you can see from these numbers and our prior numbers for FY 15 and FY 16, the City of Middletown has managed our city finances in an extremely responsible, effective and efficient way during a time of difficulty for many local, state and federal government entities. Despite the fiscal challenges, Middletown has improved its credit rating to AAA, kept property taxes relatively low, and maintained and improved services for its residents. We have also been aggressive about economic development to grow the grand list, and creative in our approaches with neighboring communities to find efficiencies and savings through regionalism efforts.

However, the current State of Connecticut budget impasse and budget deficit places the fiscal progress we have made locally in jeopardy. So far, the unavailability of previously available State grant funding for education programs has resulted in layoff notices for next school year being issued to eleven teachers and a projected increase in elementary school class size of as much as 44% (from 18 pupils per class to 26 pupils per class). Because of

potential State funding cuts, we've denied all requests for new positions by various departments in the FY 18 budget, including rejecting 2 additional Police Officers, a professional City Planner, two IT staff, and part time staff in the Library, Health Department and Youth Services Department. The Middletown Common Council also reduced the Police Department's request for funds which were needed to allow for a minimum of two Police Officers to respond to all calls in order to improve public safety. That cut was a 42% cut.

As Mayor of Middletown, I am committed to enforcing the written city policy (enclosed) which requires our City to maintain between 12% and 15% of our operating budget as a fund balance and am not amenable to reducing our fund balance below that level to absorb additional State reductions in municipal aid. If the potential municipal aid cuts to Middletown recently highlighted in the CT Mirror were to come to fruition, our projected unassigned fund balance for FY 18 would be short somewhere between \$6,655,000 and \$12,272,500 of the required 12% to 15% of operating budget which council ordinance requires and the credit agencies consider to assess the fiscal health of Middletown.

If these projected State funding cuts are enacted, which the CT Mirror recently suggested may be nearly \$6,000,000 to the City of Middletown in pilot cuts, we would likely be forced to propose significant regressive property tax increases or do additional layoffs and lose critical, core service positions. The City of Middletown has already absorbed disproportionately significant Pilot cuts of \$4,741,061.00 each of the last two years. The council already reduced my proposed budget spending in the FY 18 budget by 30 percent and there is simply nowhere else to cut. Any state funding cut will likely result in tax increases and layoffs.

Because of the hard work of my office, the Finance Department and our Common Council, we are proud to have achieved AAA credit rating from the rating agencies by being fiscally responsible, living within our means and making difficult decisions. We suggest the Office of Policy and Management consider using the "Adjusted Equalized Net Grand List per Capita" standard as a tool to assess a municipality's ability to absorb State budget cuts rather than the current and projected fund balance numbers. Based on the "Adjusted Equalized net Grand List per Capita" model, Middletown ranks 131st out of 169 municipalities in Connecticut in our ability to pay for and absorb additional State funding cuts. Simply put, Middletown is a poor community that has managed its finances extremely well and lived within its means, and the policy implications of penalizing relatively poor communities for being fiscally responsible with local budgets sets a dangerous precedent for the future.

Sincerely,

A handwritten signature in black ink, appearing to read 'D. Drew', written over a horizontal line. The signature is stylized and somewhat cursive.

DANIEL T. DREW

Mayor

Cc: Representative Joseph Serra
Senator Paul Doyle
Representative Matthew Lesser
Senator Len Suzio
City of Middletown Common Council
Michael Izadi, Office of Policy and Management
Kerry Kelley, Office of Policy and Management
Geoff Luxenberg, Chief of Staff
Carl Erlacher, Director of Finance
Diana Doyle, Assistant Director of Finance
Tanya Oliver-Perry, Assistant Director of Finance
Tina Gomes, Chief Management Analyst
Dr. Patricia Charles, Superintendent of Schools

CITY OF MIDDLETOWN GENERAL FUND BALANCE POLICY

The objectives of this policy are to preserve the credit worthiness of the City; provide working capital for the City to meet cash flow needs during the year; funding of reserves; to ensure a stable tax rate; and to fund one-time, emergency, unanticipated expenditure requirements or revenue shortfalls.

Credit rating agencies determine the adequacy of the Unassigned fund balance using a complex series of financial evaluations. The size of the Unassigned fund balance is an important, but not the only consideration in the Town's rating. Other important factors are the reliability of a government's revenue sources, economic conditions, community wealth factors, cash position, debt ratios, management performance, and fiscal decisions made by the various town bodies.

This policy is intended to provide for a fund balance which satisfies the cash flow and contingency needs of the community at the same time avoid over taxing the citizens through an excessively large fund balance.

In order to achieve the objectives of this policy, the following guidelines will be adhered to:

1. Maintain minimum unassigned General Fund balance of 12-15% of the previous year's audited operating expenditures.
2. In the event the Unassigned fund balance is greater than 12% at the end of any fiscal year, the excess may be used in one or a combination of the following ways:
 - a. Transfer such excess to the Town's Internal Service Fund, Pension Fund(s) and/or Other Post-Employment Benefits (OPEB) Fund(s).
 - b. Transfer such excess to the Capital or Nonrecurring Fund for future capital projects.
 - c. Use directly to reduce the tax rate in the subsequent year provided that care is taken to avoid a major fluctuation in the tax rate in succeeding years.
3. Withdrawal of any amount of Unassigned General Fund balance in excess of the targeted minimum of the amount budgeted under (2) above, for the sole purpose of reducing the ensuing year's property tax levy, may be made only upon a specific vote of the City Council.
4. The City Council, by vote, can use Unassigned General Fund Balances for operating emergencies, unanticipated budgetary shortfalls and unanticipated shortfalls in the Internal Service Funds. Any such action must also provide a plan to restore Unassigned General Fund balance to the minimum balance within a two year period.
5. This policy will be reviewed by the Finance & Government Operations Committee every three years following adoption or sooner at the direction of the City Council.

6. Fund balance will be reported in governmental funds under the following categories:
 - a. Non- Spendable fund balance - Amounts which cannot be spent either because they are not in spendable form or because they are legally or contractually required to be maintained intact.
 - b. Restricted fund balance - These amounts are restricted to specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislations.
 - c. Committed fund balance - This represents amounts constrained prior to year-end for specific purpose by a government using its highest level of decision-making authority.
 - d. Assigned fund balance - Amounts constrained for the intent to be used for a specific purpose by a governing board or a body or official that has been delegated authority to assign amounts. The City Council delegates the Finance Director the authority to assign amounts to be used for specific purposes as per the City Charter.
 - e. Unassigned fund balance - The residual amount not allocated to any other fund balance category in the General Fund and any residual deficit balance of any other governmental funds.
7. Unassigned fund balance will be used only after items 6a,6b,6c & 6d have been exhausted.

Status: APPROVED
by Common Council, City of Middletown
at its meeting held on: FEBRUARY 1, 2016