

STATE OF CONNECTICUT
MUNICIPAL ACCOUNTABILITY REVIEW BOARD
SPRAGUE SUBCOMMITTEE
REVISED SPECIAL MEETING NOTICE AND AGENDA

Meeting Date and Time: Monday, July 1, 2019 10:00 – 11:30 AM

Meeting Location: Office of Policy and Management, Conference Room 4A, 450 Capitol Ave., Hartford, CT

Please note the location. The building entrance and parking are located behind the 410-470 complex. Street parking is also an option. All visitors should be prepared to present photo identification.

Agenda

- I. Call to Order
- II. Approval of Minutes of April 26, 2019 Subcommittee Meeting
- III. Review, discussion and possible action re: FY 2020 Budget Assumptions
- IV. Review, discussion and possible action re: 5-Year Plan
- V. Review, discussion and possible action: Municipal Restructuring Funds/Support for Town of Sprague
- VI. Discussion: Subcommittee Scheduling
- VII. Adjourn

STATE OF CONNECTICUT
MUNICIPAL ACCOUNTABILITY REVIEW BOARD
SPRAGUE SUBCOMMITTEE
DRAFT MINUTES OF SPECIAL MEETING

Meeting Date and Time: Thursday, April 26, 2019 10:00 – 11:30 AM

Meeting Location: Sprague Town Hall, 1 Main Street, Baltic, CT

Members in Attendance: Deputy Treasurer Linda Savitsky, Mark Waxenberg, Stephen Falcigno

Local Officials in Attendance: First Selectwoman Cathy Osten, Melissa Sevigny, Superintendent Irwin, Rachel Moser

Staff: Alison Fisher, Julian Freund

I. Call to Order

The meeting was called to order at 10:00 AM.

II. Approval of Minutes of March 28, 2019 Subcommittee Meeting

A motion was made by Mr. Waxenberg with a second by Mr. Falcigno to approve the minutes of the March 28 special meeting. Superintendent Erwin noted two corrections regarding which staff had not received salary increases in the three prior years. The minutes reflecting the revision were approved with Deputy Treasurer Savitsky abstaining.

III. Review of information re: BOE Recommended FY 2020 Budget

Subcommittee members discussed the recommended Board of Education budget noting that most of the year to year increase is driven by salary increases. Grant funds have not been budgeted consistently in recent years. The current fiscal year budget includes a \$200,000 lump sum grant offset, in addition to grants that offset specific expenditure items. Mr. Waxenberg asked if the budget request includes grants or not. The BOE administration has constructed the budget for FY 2020 to be consistent with the current year budget. The approved budget for the current year and the budget recommended for FY 2020 are both net of anticipated grants.

Deputy Treasurer Savitsky suggested the Business Office provide the source documents along with the monthly financial reports. The Business Office will provide the source documents with future reports.

Subcommittee members and officials discussed the amounts and types of grants that could reliably be included in the budget. For subsequent years, it was recommended that all grant resources be represented in the budget. For certain grants that are not routine or predictable, they may be included in a separate exhibit or appendix with their corresponding expenses.

Members discussed Special Education costs. Superintendent Erwin explained that the Special Education budget is developed based on historical data, in vs. out of district placements, and recommendations from Special Education team. Members also discussed the tuition costs and the number of high school

choices available to students. Questions were raised as to whether the town has financial capacity to offer such a range of choices. The large number of choices drives both tuition and transportation costs higher. Superintendent Erwin said that the BOE is beginning to examine the issue. Any limitations on choices would have impacts on FY 2021 and beyond, but would not affect FY 2020.

Ms. Savitsky stressed that the budget should be a plan that is realistic and based on expectations of the real cost of government. Mr. Waxenberg suggested the Town needs to build its unallocated fund balance to be able to cover unexpected costs. The Town needs to start with a realistic, known budget. Mr. Falcigno also suggested adding some kind of buffer that the town will support. Otherwise, the Town will be back before the State requesting more assistance. Members discussed the possibility of conducting an enrollment audit to ensure that tuition billing is accurate.

IV. Review and discussion re: Town Recommended 2020 Budget Assumptions

As a Tier 2 community, the Town of Sprague will be required to obtain MARB approval of certain budget assumptions, including property taxes, collection rates and state revenues.

The Board of Finance working draft budget was shared with the subcommittee. It is based on a mill rate of 34.25 mills, an increase of 1 mill over current year. The tax calculation is based on the October 2018 Grand List. The tax collection rate is 97%. The last audited collection rate was 97.7%. State Aid amounts in the budget are consistent with the amounts in the Governor's proposed budget.

Ms. Savitsky offered the assistance of the Office of the Treasurer in helping the Town plan for its next bond issue. Ms. Osten indicated that she will be updating the 5-Year Plan as the Town progresses through the budget process.

V. Adjournment

11:35

MEMORANDUM
MUNICIPAL ACCOUNTABILITY REVIEW BOARD

To: Municipal Accountability Review Board
From: Julian Freund
Subject: Update: Town of Sprague FY 2020 Budget
Date: June 26, 2019

At the June 12 MARB meeting, the board approved the budget assumptions related to the Town of Sprague FY 2020 budget as required for a Tier II municipality. The FY 2020 budget, which relies on a mill rate increase of 2 mills, is the subject of a town-wide referendum on June 27.

While no further MARB action is required on the FY 2020 budget, it will serve as the baseline for the Town's 5-Year Plan which still requires MARB approval. During the June 12 meeting, the MARB tabled review of the 5-Year Plan pending the outcome of the June 27 referendum.

The following provides an update on the Education portion of the budget and adjustments made by the Board of Education.

Education Expenditures

Since the last MARB meeting, the Sprague Board of Education has revised its proposed FY 2020 budget to bring it into alignment with the budget going before the voters on June 27. Previously, the Superintendent's Office had outlined reductions of approximately \$225,000 to the original budget request of \$7.196 million. The most recent round of revisions included reductions totaling approximately \$385,000 resulting in a budget of \$6.58 million for FY 2020.

In total, the proposed FY 2020 Education budget has been revised downward by approximately \$614,000 compared to the original request submitted in March. Significant adjustments to the original request include the following:

1. *Removal of all budget enhancements:* The original request provided funding for several budget enhancements which were ultimately removed in subsequent revisions to the budget. The restoration of a 3rd grade teacher (\$69,478), increase in hours for the Social Worker (\$15,500), increase in front office support (\$20,753), and restoration of a sports season (\$16,300) totaled approximately \$118,800 which was ultimately removed.
2. *Mixed-age classrooms:* The implementation of mixed-age classrooms is expected to save approximately \$97,000 in Teacher salary and benefit costs. Initially, this figure was offset partially by anticipated unemployment compensations costs. However, the transition to mixed age classrooms is now expected be accomplished with attrition.
3. *Refinement of projected tuition costs:* The original budget request was based on known enrollments, including students enrolled in various special education programs out of district. The original projections also included tuition for two placeholders as a contingency in tuition costs. The revised budget is based on updated enrollment lists and has eliminated any contingency in this category of

costs. Overall, projected tuition costs are approximately \$145,000 less than the original budget request.

4. *Buildings and grounds reductions:* Reductions to buildings and grounds include reduced hours for custodial staff, repairs and maintenance costs, maintenance supplies, and utility costs. In the aggregate, these reductions total about \$34,000.
5. *Removal of technology investments:* The original request sought approximately \$43,000 in increased funding for technology compared to the FY 2019 budget. Much of the requested increase was attributable to replacement of student chromebooks, staff computers and infrastructure hardware such as network switches and firewalls. Reductions totaling approximately \$39,000 result in a budget for this category that is slightly higher than the current year budgeted amount.
6. *Inclusion of Private School Health & Welfare Grant:* Prior versions of the budget did not include this State grant which offsets the cost of nurse and social worker costs at private schools. The inclusion of this grant reduced net expenditures by \$29,959.

Additional adjustments reflecting updated staffing information, such as staff turnover and open enrollment for benefits, has also been incorporated into the revised budget. For example, one retirement of a veteran teacher being replaced by a teacher at a lower step of the salary schedule will save approximately \$36,000. Similarly, turnover in Special Education Instructional Aides has resulted in reductions of about \$18,700 compared to the original FY 2020 request.

The resulting Education budget provides for a 4% increase over the current year budget. A summary of the Board of Education budget comparing the current year budget to the original and revised requests for FY 2020 is attached.

Town Expenditures

No revisions to the municipal portion of the budget have been made since the MARB review on June 12. Overall Town expenditures increase by 3.0% in FY 2020, as presented at the previous MARB meeting.

Sprague Board of Education
Budget

Expenditures	FY 2019		Original Proposed FY 2020			Approved by BOE FY 2020 (as proposed for 6/27 referendum)			Change FY 2020 vs. FY 2019 Original		Change FY 2020 vs. FY 2019 Projected	
	Original Budget	Projected	Total Budget	Anticipated Grants	Net BOE Budget	Total Budget	Anticipated Grants	Net BOE Budget	\$\$ Change	% Change	\$\$ Change	% Change
Regular Instruction	1,498,591	1,429,496	1,715,340	103,818	1,611,522	1,486,513	103,818	1,382,695	(115,896)	-7.7%	(46,801)	-3.3%
Special Education	736,453	817,226	1,094,861	151,968	942,893	1,054,690	152,968	901,722	165,269	22.4%	84,496	10.3%
Adult Education Cooperative	16,733	13,683	32,368	15,000	17,368	32,368	15,000	17,368	635	3.8%	3,685	26.9%
Stipends Extracurricular	10,152	8,300	10,152	-	10,152	10,152	-	10,152	-	0.0%	1,852	22.3%
Summer School	5,900	3,797	9,959	-	9,959	9,959	-	9,959	4,059	68.8%	6,162	162.3%
Tutoring	26,790	15,117	27,150	-	27,150	18,700	-	18,700	(8,090)	-30.2%	3,583	23.7%
Sports Teams	-	-	16,301	-	16,301	-	-	-	-	-	-	-
Social Work Services	64,308	64,880	80,814	-	80,814	64,981	-	64,981	673	1.0%	101	0.2%
Health Office	115,729	113,050	125,605	-	125,605	130,052	29,549	100,503	(15,226)	-13.2%	(12,547)	-11.1%
Psychological Services	56,585	49,157	82,198	-	82,198	63,201	-	63,201	6,616	11.7%	14,044	28.6%
Speech and Audiology	11,067	18,763	64,164	-	64,164	64,164	-	64,164	53,097	479.8%	45,401	242.0%
PT/OT Services	2,245	16,830	53,550	51,000	2,550	50,000	50,000	-	(2,245)	-100.0%	(16,830)	-100.0%
Improvement of Instruction	7,200	3,618	9,000	-	9,000	14,000	-	14,000	6,800	94.4%	10,382	287.0%
Library Media Services	-	-	-	-	-	-	-	-	-	-	-	-
Technology	131,457	117,793	174,677	-	174,677	135,229	-	135,229	3,772	2.9%	17,436	14.8%
Board of Education	102,862	93,769	104,903	-	104,903	103,545	-	103,545	683	0.7%	9,776	10.4%
Superintendent's Office	86,858	79,831	88,885	-	88,885	87,513	-	87,513	654	0.8%	7,682	9.6%
School Administration Office	171,788	172,326	199,715	-	199,715	183,616	-	183,616	11,827	6.9%	11,290	6.6%
Business Office	185,391	164,843	165,221	-	165,221	154,870	-	154,870	(30,521)	-16.5%	(9,973)	-6.0%
Buildings and Grounds	323,958	290,089	325,044	-	325,044	291,076	-	291,076	(32,881)	-10.1%	987	0.3%
Student Transportation	606,788	634,331	666,500	-	666,500	653,000	-	653,000	46,212	7.6%	18,669	2.9%
HS Tuition	1,922,011	1,954,680	2,267,975	110,000	2,157,975	2,132,131	85,000	2,047,131	125,120	6.5%	92,451	4.7%
Elementary Tuition	245,801	294,414	313,513	-	313,513	279,150	-	279,150	33,349	13.6%	(15,264)	-5.2%
Total Education	6,328,668	6,355,993	7,627,894	431,786	7,196,108	7,018,908	436,335	6,582,573	253,905	4.0%	226,580	3.6%

**MUNICIPAL ACCOUNTABILITY REVIEW BOARD
MEMORANDUM**

To: Members of the Municipal Accountability Review Board
From: Julian Freund
Date: June 25, 2019
Subject: Town of Sprague 5-Year Plan

Background

The MARB statute requires Tier II municipalities to obtain MARB approval of a multi-year recovery plan. In addition, any municipality seeking Municipal Restructuring Funds is required to submit a five year recovery plan as part of its request for funding. The Town of Sprague administration submitted a proposed 5-Year Plan in January that has since been updated to reflect the FY 2020 budget proposed by the Board of Finance. The current version of the 5-Year Plan is attached.

At its June 12 meeting, the MARB approved the budget assumptions related to the FY 2020 budget as required of a Tier II municipality. The 5-Year Plan was tabled until after the June 27 town-wide referendum on the FY 2020 budget. The FY 2020 budget represents the first year of the 5-Year Plan and the baseline for subsequent years.

Revenues

Property Taxes: Property Taxes account for 62% of total budgeted General Fund revenues in the current (FY 2019) budget year, increasing slightly to 63% of total revenues in FY 2020 and the remaining years of the plan. The plan reflects the proposed FY 2020 budgeted mill rate increase of 2 mills followed by a half mill increase in FY 2021 which contributes to a 2.2% rise in Property Tax revenues. Subsequent mill rate increases gradually moderate to a one tenth mill increase in the final year of the plan.

Fiscal Year	2019	2020	2021	2022	2023	2024
Mill Rate	33.25	35.25	35.75	36.00	36.25	36.35

The proposed mill rate of 35.25 for FY 2020 is an increase of 2 mills, or 6%, over the current mill rate of 33.25. This would be a larger mill rate increase than any other in the previous ten years with the exception of a 3.25 mill increase in FY 2014 that corresponded with a revaluation year in which the total net assessment fell by about 13%.

Last year's mill rate increase of 1.25 mills (for FY 2019) was approved by referendum after an initial vote on a mill increase of 3 mills (9.75%) failed. The table below is taken from data in Appendix A of the 5-Year Plan. It shows that between FY 2009 and FY 2018, the voters of Sprague supported mill rate increases of one mill or less on four occasions. During this period a mill rate increase of 1.5 mills (or 5%) was also rejected by voters in FY 2015.

	FY09	FY10	FY11	FY12	FY13	FY14 ¹	FY15 ²	FY16	FY17	FY18	FY19 ³
Approved Mill Rate	25.75	25.75	26.75	26.75	26.75	30.00	31.00	31.00	31.50	32.00	33.25
Change vs. Prior Year		-	1.00	-	-	3.25	1.00	-	0.50	0.50	1.25
% Change vs. Prior Year		0.0%	3.9%	0.0%	0.0%	12.1%	3.3%	0.0%	1.6%	1.6%	3.9%

1. Revaluation year. Total net assessment declined by 12.94%

2. First referendum with 1.5 mill increase failed.

3. First referendum with 3 mill increase failed.

Grand List Trends: Appendix A of the 5-Year Plan depicts historical mill rate and grand list data including year by year changes in the grand list by property type. With the exception of two revaluation years (FY 2014 and FY 2019), year to year changes in the Grand List have ranged from -0.9% to 3.12%. The analysis by the Assessor's Office (appendix B) indicates that for FY 2021, net taxable grand list growth of just under 1% is achievable based on current and anticipated development activity. However, based on historical construction activity (primarily single family residential construction shown in appendix C), the assumption for grand list growth in subsequent years moderates to 0.3% per year.

Tax Collection Rate: Property tax collections in each year of the 5-Year Plan are based on a tax collection rate of 97.0% which has been the budgeted collection rate for several years. The accompanying table depicts the Town's collection rates over the past 8 years.

Fiscal Year	Collection on Current Levy
2018	97.70%
2017	91.80%
2016	90.70%
2015	93.40%
2014	97.50%
2013	96.70%
2012	96.80%
2011	96.50%

After routinely achieving collection rates in the 96.5% to 97.5% range, collection rates declined to 90.7% and 91.8% in FY2016 and 2017 respectively. The Town attributes this largely to the 2014 foreclosure on the Fusion Papermill property and the resulting large write-off of unpaid taxes. For FY 2018, the collection rate on the current levy rebounded to 97.7%.

State Aid: State Aid accounts for 35.5% of total budgeted revenues in the current fiscal year. The plan assumes level funding for all sources of State Aid, except for the ECS grant which increases by \$49,000 each year after FY 2020. The FY 2020 revenues estimated for ECS and other major sources of State Aid are consistent with the State Aid estimates from the recently adopted State budget. (Note: Town by town funding levels for some major sources of State Aid are available. For ECS, estimates are based on current law funding levels. Bond funded grant estimates, such as MRSA-Special Projects, are not yet available).

Other Revenues: Other revenues in the plan account for about 2.3% of total budgeted revenues in FY 2019. After an upward adjustment to Building Permit fees and interest income in FY 2020, all of these sources remain flat over the remainder of the plan except for reimbursements from the Sewer Fund for scheduled interest payments on sewer related debt. These payments decline slightly each year.

Expenditures

The FY 2020 budget reflects expenditure increases of 3.0% and 4.1% respectively for Town operations and the Board of Education. Overall expenditures fluctuate slightly in years 2 through 5 with projected expenditures in FY 2024 slightly below those budgeted for FY 2020.

While the FY 2020 budget provides a significant increase in the Education budget, projections for Education expenditures in subsequent years are considerably more modest showing increases of 0.7% per year (\$49,000, which corresponds to the projected increases in the ECS grant). The Five Year Plan also outlines various strategies that will be evaluated for managing growth in the Education budget in the out years. The outcome of these efforts will determine what levels of growth in Education spending will be sustainable.

Town operating expenses are driven by projected increases in salaries of 2.0% to 2.2%, adding approximately \$20,000 to \$22,000 in total expenditures annually. The Town has one bargaining unit representing 6 employees in the Public Works department. The current contract which is effective through 6/30/2020 provides for general wage increases of 2.2% per year. Projected increases in the cost of various insurances adds roughly \$9,000 to \$11,000 per year.

Contributions to the Capital Non-Recurring account increase from the current year budget of \$9,000 to \$18,500 in FY 2020. Contributions in subsequent years are programmed at \$22,000 per year.

Debt

Principal and interest payments on the town’s existing debt, budgeted at approximately \$761,000 in the current fiscal year, declines over the course of the five year plan to about \$537,000 in the final year. The Town also has BANs of \$3.58 million on other authorized projects maturing in the fall of 2019. The Town’s current plan is to permanently finance those notes when they are due in September. The 5-Year Plan includes estimates for debt service payments related to this authorized/unissued debt in each year of the plan. These estimates will need to be refined after issuing bonds in September. No new authorizations are contemplated in the plan which will limit any new capital investment during this period to pay-as-you-go contributions. While not reflected in this five year plan, debt service requirements on existing debt declines by more than \$200,000 in FY 2026 compared to FY 2025.

Fund Balance

The Town saw its fund balance decline from roughly 7% of expenditures to just 1.4% of expenditures in a three year span from FY 2014 to FY 2017. During this time, annual budget deficits ranging from about \$40,000 to \$308,000 were driven primarily by shortfalls in property tax collections, and to a lesser extent by lower than budgeted state aid.

General Fund Balance History							
Year ending	6/30/2012	6/30/2013	6/30/2014	6/30/2015	6/30/2016	6/30/2017	6/30/2018
Ending Fund Balance	445,136	438,316	703,796	490,646	181,755	141,037	(1,084,244)

For FY 2018, an operating deficit of about -\$1.225 million was largely the result of Education expenditures exceeding appropriations by approximately \$835,000 and ECS receipts that were \$354,000 lower than budgeted.

The town’s projected opening negative fund balance of -\$1.084 million for FY 2019 is roughly 12% of budgeted expenditures. A surplus of about \$189,000 for FY 2019 is projected, based on updated projections from the Town. Although mill rate increases in each year of the plan, coupled with modest expenditure growth, allows for increasingly large surpluses each year, the Town still projects a negative fund balance by the end of the five year period absent any Municipal Restructuring Funds.

Municipal Restructuring Funds in the amount of \$851,000 are presented in the Five Year Plan in FY 2020. This would virtually eliminate the negative fund balance carried forward from the prior year and would result in fund balance climbing to 0.4% of expenditures by the end of FY 2021, and 7.6% by the final year of the plan.

General Fund Balance Projections						
Year Ending	6/30/19	6/30/20	6/30/21	6/30/22	6/30/23	6/30/24
Without MRF	(\$895,186)	(\$870,773)	(\$816,994)	(\$624,081)	(\$375,389)	(\$112,575)
With MRF	(\$895,186)	(\$19,773)	\$34,006	\$226,919	\$475,611	\$738,425

Key Assumptions in Five Year Plan

Grand List Growth	FY20: 0.94% FY21 – FY24: 0.3%
Mill Rates	FY20: 35.25 FY21: 35.75 FY22: 36.00 FY23: 36.25 FY24: 36.35
Tax Collection Rate	97.0%
State Aid	ECS: Increase \$49,000/year Other: Level funding
Salaries	Public Works: 2.2% Year 1 2.0% Years 2 through 5 Other Town: 2.0%
Resident Trooper Program	2% per year
Employee Health	FY20: 8.9% FY21-24: 5.0%
Other Insurances	5% per year
Education Expenditures	\$49,000 increase per year (corresponds to ECS projection)

DRAFT
Conditions for Municipal Restructuring Funds or Other Financial Assistance
To the Town of Sprague: FY 2020

- Approval of FY 2021 budget by MARB by June 30, 2020
- Approval of updated 5-Year Plan by MARB by June 30, 2020
- Integration of financial operations and consolidation of financial system: Town and BOE
- Monthly financial reporting by Town and BOE
 - Monthly reports in a format to be approved by OPM
 - To include, at a minimum, the following columns: Budget, YTD Actual Expended; Encumbered; YTD Actual as %; Balance; Projected End of Year Actual; Projected Balance; Prior YTD Actual for same period
 - Cover memo highlighting existing or anticipated significant variances and plan for mitigating any potential deficits
- Corrective action plans for audit findings to be submitted for OPM approval
 - Implementation of corrective action plans for each finding
 - Tracking of progress on implementation
 - Monthly status reports to subcommittee
- Contracts for review