



BASALT

101 Midland Avenue, Basalt, CO 81621

Meeting Date: Wednesday, July 22, 2020

Location: Zoom Meeting

Time: 5:00 – 6:00 PM

BASALT FINANCE ADVISORY BOARD MEETING

5:00 pm

1. Call to Order
2. Approve minutes of the July 15 Finance Advisory Board
3. Review additional information for creation of a Fund Balance Policy
4. Next meeting date - August 12

6:00 Adjourn

Finance Advisory Board Minutes
7/15/2020

1. Present at the meeting – Doug MacDonald, Ann Nichols, Simon Dogbe, Cheryl Ruppel. Non-Board –Christy Hamrick
2. The meeting was called to order at 5:02 by Ann.
3. Ann made a motion to approve the 6/10 and 6/17 meeting minutes, seconded by Doug, unanimously approved.
4. Christy reviewed the sales tax report for June and the summary financial update in detail. Sales tax increases drove the movement of projected revenue to close to budgeted levels. The sales tax increase year to date and for the month of June are perplexing but welcomed, however, we will still need to review finances monthly and monitor for estimated 2021 and 2022 impacts.
5. Christy reviewed the draft budget calendar. FAB had no comment on the calendar and liked the budget framework. Council will be reviewing the draft calendar on July 28.
6. FAB reviewed information for the creation of a Fund Balance Policy.
 - a. Christy included the current fund balance policy, GFOA guidelines, and samples of fund balance policies from other cities/towns. She explained that Council requested FAB review and come up with a recommendation for a new fund balance policy as a part of their strategic work plan.
 - b. Christy reviewed the components of fund balance policy
 - c. The FAB then started the discussion for the recommendation/starting point for what the Town's fund balance policy should be.
 - i. Recommendation – Christy suggested using a % of expenditures because that is the most important cash flow need indicator is % of expenses. FAB agreed informally.
 - ii. Another recommendation is to use unreserved fund balance on a modified accrual basis of accounting as the fund balance that is measured. This is the portion of fund balance that is legally and physically spendable on the needs of the Town.
 - iii. Cheryl asked about whether a maximum fund balance should be put in to place. Christy explained that if you have a maximum, then you need to denote where the excess funding will go (for example, to a Capital Fund). The Town isn't set up that way so a maximum fund balance policy doesn't fit with the Town's current fund structure.
 - iv. The FAB understood the differing needs of the General Fund and the Water Fund when setting minimum fund balance requirements for each. These two funds are the only funds in the Town that would be impacted by the fund balance policy. The Restricted Fund is not overspent by restriction, and is not overall impacted by operations, which is why it does not need a fund balance policy.
 - v. Christy then reviewed the general fund recommendation of a minimum 50% of unassigned fund balance, calculated as a rolling average of the most current 3 years of budgeted expenses. Christy noted that this would be an increase from 33% of revenues minimum fund balance to 50% of expenses fund balance. The reasons for the higher fund balance include: 1. A conservative approach

moving in to a COVID recession to assure that the Town can meet its expenses for essential services. The last recovery from the 2009 recession took 10 years. 2. The Town is relatively small at \$7.5 million in total operating expenses, requiring a higher % fund balance, 3. The 50% gives Council more latitude available for needed projects (the fund balance will be available if needed, with Council approval).

1. The FAB members present (Simon had to leave) discussed that the 17% swing in fund balance may be too much, and believed the additional requirement could be burdensome and not productive to have it that high.
 2. Ann requested Christy to bring back at the next July 22 special meeting some data that may be useful in making this decision, including % of expense/fund balance for the last 10 years, and a short description of the advantages and disadvantages of the 33% vs. the 50% of fund balance.
7. Next Meeting Date – July 22 at 5 pm., to convene the discussion regarding fund balance policy.
 8. Meeting adjourned by Ann at 6:24 pm.

Finance Advisory Board, Town of Basalt
Additional information requested for Fund Balance Policy discussion
7/22/2020

% Unrestricted Revenues and Expenses vs. Unassigned Fund Balance - General Fund

	2010	2011	2012	2013	2014	2015	2016	2017 (NOTE A)	2018	2019 (NOTE B)
Total Unrestricted expenses - Have data starting 2017								\$ 7,583,649	\$ 8,216,903	\$ 8,703,610
Total Unrestricted revenues - Have data starting 2017								\$ 6,851,858	\$ 7,493,972	\$ 9,278,942
Unassigned Fund Balance	\$ 5,168,692	\$ 3,134,031	\$ 3,156,977	\$ 4,598,842	\$ 3,714,368	\$ 3,820,722	\$ 3,444,244	\$ 438,127	\$ 1,068,201	\$ 5,833,564
% of Unrestricted Expenses								5.8%	13.0%	67.0%
% of Unrestricted Revenues								6.4%	14.3%	62.9%

NOTE A: 2017 was restated to reflect short-term debt that was not previously recorded on the financial statements, resulting in a lower fund balance.

NOTE B: Fund balance for 2019 was increased due to the sale of an affordable housing property and COPs issued on behalf of the Town. The Town may enter in to another COP issuance for new property, but no additional room exists currently for existing property.

Other Data/Notes regarding Minimum Fund Balance Policy for the General Fund:

% Payoff of total Operational 2020 Budget	51.7%
% Capital of total Operational 2020 Budget	14.1%
Total Asset Value, 2019 Audit	\$ 50,807,085
2019 Fiscal year Depreciation	\$ 988,529
2019 General Fund Long-term Debt	\$ 2,200,000 (COP's)
2019 Fund Balance as a 5 of 3 yr exp avg	81.3% (excluding financing sources/uses)
33% minimum 3 year of exp avg fund bal	\$ 2,368,985 (excluding financing sources/uses)
50% minimum 3 year of exp avg fund bal	\$ 3,589,371 (excluding financing sources/uses)
# of years recovery from last recession	10 years

Advantages/Disadvantages of 33% of Revenues Fund Balance vs. 50% of Expenses General Fund Minimum balance:

33% fund balance Advantages and Disadvantages:

1. 4 months operating reserve for operations;
2. Roughly \$2.5 million in fund balance (33% of 2020) is less than the Town has kept in reserves except when there was a large restatement for 2017 and 2018.
3. Would assure Town is insulated against small recessions.
4. Adds flexibility in the additional available funds for the short-term.
5. Would not insulate the Town against long-term recessions/recoveries/economic depressions - such as the current economic unknowns due to COVID.
6. Does not allow for much room for a capital asset purchase or repair needed on an urgent basis.

50% fund balance Advantages and Disadvantages:

1. 6 months of operating reserve for operations assures the Town leadership/Council has time for necessary expense adjustments within budget years.
2. Less flexibility for use of fund balance up to the 50%, could balance that out through a repayment of fund balance clause for certain circumstances
3. Adds more insulation for the Town's small operating budget against long-term recessions/depressions/economic recoveries.
4. Allows potential for strategic or emergency purchases when necessary with Council approval and repayment of fund balance over time.
5. Similar to the amount the Town has kept in its actual reserves over the past 10 years, except for the large restatement for 2017/2018.
6. Rolling average of 3 years of expenses usually decreases the benchmark compared to the current budget, requiring a higher % fund balance.