The Town of Fenwick Island
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FINANCE COMMITTEE
JANUARY 26, 2018 AT 10:00 AM

MINUTES

In Attendance
Richard Mais, Richard Benn, Gardner Bunting, Vicki Carmean, Julie Lee, Mark Tingle, Bill Weistling, Roy Williams, Terry Tieman, Dean Gary

Richard Mais called the meeting to order at 10:03 AM.

Approval of Minutes
Two corrections were made to the minutes.
Motion – Vicki asked for a motion to approve the minutes (with corrections), from the December 8, 2017 meeting.
Second – Richard Benn.
Approved.

Discussion – Unallocated Reserve
Terry led the discussion on the unallocated reserve handout that was completed by all committee members (copy attached).

The first page was in regards to vulnerability to extreme events and public safety. The committee came up with the risks and rated the importance as 5 (very important).

The next page discussed revenue source stability. The committee came up with the top 3 revenue sources, the stability, and rated the importance as 3.5 (neutral/important). Terry added that of the revenues listed, property taxes are 34.5% of the total revenue, rentals are 14.7%, and permits are 32.25%.

The next page discussed expenditure volatility. The committee came up with the potential expenditure spikes, the costs, and rated the importance as 4 (important).

The next page discussed leverage. The committee agreed that there are no major sources of leverage and rated the importance as 1 (very unimportant).

The next page discussed liquidity. The committee came up with the major sources of cash imbalances, the risks of liquidity, and rated the importance as 3 (neutral).

The next page discussed other fund dependency. The committee came up with other funds that rely on RTT for their funding, identified the risks, and rated the importance as 4 (important).

The next page discussed growth. The committee agreed that there are no major sources of growth and rated the importance as 1 (very unimportant).

The final page discussed capital projects. The committee listed five potential capital projects, assessed the risks, and rated the importance as 5 (very important).

After all the pages were filled out, along with calculating the government size and borrowing capacity, it was determined that the Town falls under a moderate to high level of risk.

The committee then discussed setting the target for unallocated reserve. Since the current revenue is $2M, Terry suggested at least 26 – 35% of revenue should be for unallocated reserves. Richard Benn suggested not less than $1M (50%), but under $1.2M (60%). Mark suggested taking the current year budget amount, subtracting what revenue we know is coming in, then take that dollar amount and put it in reserves.

Richard Mais polled the committee on their thoughts. Gardner felt that $1.2M (60%) is better. Bill agreed with the 60%. Mark liked 50%, as well as Julie. Richard Benn suggested 50% but no greater than 60%. Richard Mais then asked if everyone was in agreement of the range of no less than 50% but not greater than 60% of total revenues as reserves.

Motion – Richard Benn asked for a motion to set 50%-60% of total revenues as reserves.
Second – Vicki.
Approved.

Richard Mais stated that he will recommend to Council at today's meeting for the approved percentage range. Bill suggested postponing the request until next month so a formal written proposal could be provided to all Council members. Terry agreed and will put the item on the February Council agenda.

<u>Next Meeting</u>
The next meeting will be held on Thursday, February 22nd at 3:00 PM. Revenue sources, to include rental fees, business license fees, parking fees, and building permits, will be discussed.

<u>Old Business</u>
In regards to the low taxed properties, Vicki questioned what happens to the tax amount when the property is sold. Mark responded that the tax amount stays the same and the tax amount only changes if the house is torn down and rebuilt.

Roy asked if there was a possibility to have a minimum fee in taxes. Terry responded that the Town cannot charge a minimum since it is like a capitalization tax and it's illegal. Gardner added that most towns have a flat fee.

<u>Adjournment</u>
Motion – Richard Benn asked for a motion to adjourn.
Second – Mark.
The meeting adjourned at 11:33 AM.

Vulnerability to Extreme Events

1. Identify Risks

What extreme events are you at risk for?

A	Hurricanes
B	Pollution in the bay
C	Noreasters
D	Coastal Flooding

2. Assess Risks

What is your vulnerability to each extreme event, given past experience?

A	Hurricane Sandy - $75,000
B	
C	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk (i.e., manage it without reserves)

A	Good insurance
B	FEMA reimbursement
C	Flood insurance

4. Considering the above, how important for you is it to retain the risks of extreme events through reserves ?

5 < Enter your score here

5 **Very important.** We are subject to extreme events of severe potential magnitude which would require a quick and decisive response from our government. There are few alternative risk management approaches.

4 **Important.** We are subject to extreme events of severe potential magnitude, but our government does not have an important disaster response role and/or we have other risk management alternatives.

3 **Neutral.** We do not face an unusually high or low level of risk from extreme events.

2 **Unimportant.** We are subject to one or two types of significant extreme events and we have other risk management options.

1 **Very unimportant.** We are subject to very few, if any, potential extreme events of significant potential damage

Revenue Source Stability

1. Identify Risks

What are your major revenue sources?

A	Property taxes
B	Rentals
C	Permits

2. Assess Risks

How stable are your revenue sources?

A	Property taxes - stable
B	Rental & permits - fluctuate with economy and extreme events
C	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk (i.e., manage it without reserves)

A	Increase borrowing power
B	
C	

4. Considering the above, how important for you is it to retain the risks of revenue instability through reserves ?

3.5 < Enter your score here

5 **Very important.** We rely on just one or two sources of revenue, and they are unstable

4 **Important.** We rely on unstable sources for a significant portion of our revenue and/or have particular unstable payers as part of our tax base (e.g., sales tax from an industry with volatile sales)

3 **Neutral.** We do not face an unusually high or low level of risk from revenue instability

2 **Unimportant.** While some portion of our revenue base has instability, the majority of revenues are pretty stable.

1 **Very unimportant.** Our revenues are very stable and diverse.

? Ad-Valorem 39%, Utility Taxes & Franchise Fees 32%, Intergovernmental 14%

Expenditure Volatility

1. Identify Risks

What are sources of potential expenditure spikes?

A	Natural disasters
B	Aging infrastructure
C	Employee benefits
D	Beach replenishment/dredging

2. Assess Risks

What is the potential cost of these spikes?

A	$100,000
B	$500,000
C	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of these potential spikes? (i.e., manage it without reserves)

A	Planning and continuing capital improvements
B	Grants
C	Borrowing power

4. Considering the above, how important for you is it to retain the risks of expenditure spikes through reserves ?

4 < Enter your score here

5 **Very important.** There are expenditure spikes with very high potential to open a significant hole in our budget.

4 **Important.** We are subject to important potential expenditure spikes, such that we need reserves but we also have other risk mitigation approaches available.

3 **Neutral.** We do not face an unusually high or low level of risk from expenditure spikes

2 **Unimportant.** There are one or a few potential spikes but the risk of them occurring is low, the impact not great and/or we have other risk management options.

1 **Very unimportant.** We have no important risk from expenditure spikes.

Leverage

1. Identify Risks

What are major sources of leverage you are subject to?

A	None
B	
C	
D	

2. Assess Risks

What are the implications of leverage for the organization's financial flexibility?

A	
B	
C	
D	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of leverage? (i.e., manage it without reserves)

A	
B	
C	
D	

4. Considering the above, how important for you is it to retain the risks of leverage through reserves ?

1 < Enter your score here

5 **Very important.** We are subject to significant leverage and have no other risk management approach

4 **Important.** We are subject to significant leverage and do not have equally significant offsetting risk management approaches.

3 **Neutral.** We do not face an unusually high or low level of risk from leverage

2 **Unimportant.** We have one or two sources of leverage, but these are largely addressed with other risk management strategies.

1 **Very unimportant.** We have no important sources of leverage that aren't already managed with out reserves.

Liquidity

1. Identify Risks

What are your major sources of potential intra-period cash imbalances?

A	Property taxes
B	Business licenses
C	Building permits

2. Assess Risks

How likely are these risks to occur and what is their potential magnitude?

A	Unlikely
B	None
C	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of liquidity? (i.e., manage it without reserves)

A	Reserves
B	Manage to the budget
C	Grants

4. Considering the above, how important for you is it to retain the risks of expenditure spikes through reserves ?

3 < Enter your score here

5 **Very important.** We have very important potential intra-period imbalances with few risk management alternatives.

4 **Important.** We have important potential intra-period imbalances, but do have some off-setting risk management alternatives.

3 **Neutral.** We do not face an unusually high or low level of risk from intra-period cash imbalances.

2 **Unimportant.** We have some minor potential intra-period cash imbalances.

1 **Very unimportant.** Our cash flows are very stable.

Other Funds Dependency

1. Identify Risks

What other funds rely on the RTT for an important part of their funding?

A	General fund
B	Capital fund
C	

2. Assess Risks

How likely is it that these funds will need the RTT to "backstop" them in an emergency?

A	Very likely
B	
C	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of other funds' dependency? (i.e., manage it without reserves)

A	Borrowing
B	Grants
C	Increasing general fund revenue

4. Considering the above, how important for you is it to retain the risks of other fund depedency through reserves ?

4 < Enter your score here

5 **Very important.** A number of funds rely on the general fund for backstopping, with few, if any, risk management alternatives.

4 **Important.** We have at least some funds that rely on the general fund and this includes reliance for backstopping.

3 **Neutral.** We do not face an unusually high or low level of risk from other fund dependency.

2 **Unimportant.** There are a small number of funds that rely on the general fund, and the potential for the general fund to need to backstop them is small.

1 **Very unimportant.** No other funds rely on the general fund for backstopping.

Growth

1. Identify Risks

What are potential major sources of growth in the next three to five years?

A	None
B	
C	

2. Assess Risks

What is the potential for these sources of growth to cause imbalances in the revenue received from the growth and the expenditures needed to serve it?

A	
B	
C	

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of growth? (i.e., manage it without reserves)

A	
B	
C	

4. Considering the above, how important for you is it to retain the risks of expenditure spikes through reserves ?

1 < Enter your score here

5 **Very important.** We expect significant growth with imbalances in the timing of revenues and expenditures

4 **Important.** We have some growth that will cause imbalances in the timing of revenues and expenditures.

3 **Neutral.** We do not face an unusually high or low level of risk from growth

2 **Unimportant.** We have a small potential for future growth and/or only minor potential imbalances in the timing between revenues and expenditures.

1 **Very unimportant.** We expect no growth or growth will fully pay for itself as expenditures are incurred.

Capital Projects

1. Identify Risks

What high priority capital projects don't have a funding source?

A	Dredging
B	Sidewalks
C	Beach replenishment
D	Building improvements
E	Drainage

2. Assess Risks

What is the likelihood that reserves will be looked to as a funding source for the project?

A	Highly likely
B	Highly likely
C	Moderate
D	Highly likely
E	Highly likely

3. Identify other risk mitigation approaches

What options do you have to avoid, reduce, or transfer the risk of capital projects using reserves as a funding source? (i.e., manage it without reserves)

A	Debt
B	Increased general fund revenues
C	

4. Considering the above, how important for you is it to retain the risks of expenditure spikes through reserves ?

5 < Enter your score here

5 **Very important.** There are very high profile projects with out a funding source and reserves are likely to be considered as a funding source.

4 **Important.** There are at least some high profile projects where reserves may be called upon to provide at least some of the funding.

3 **Neutral.** We do not face an unusually high or low level of risk from unfunded high-priority projects

2 **Unimportant.** High priority capital projects will probably have funding sources, if they don't already.

1 **Very unimportant.** All high priority capital projects have funding sources.

Guiding Your Selection of a Fund Balance Target

Step 1. Determine your total score from the risk factors

26.5	Your total score from the risk factors (calculated if you entered a score in other sheets)

Step 2. Preliminary Analysis
Compare your score from Step 1 to the guidelines below.

Your Score	*Analytical Guidance*
8 - 16	You face minimal risk to retain through reserves. Consider a target equal to the GFOA minimum recommended reserve of 16.6% of revenues/expenditures.
17-24	You face a low to moderate level of risk to retain through reserves. Consider adopting a reserve target somewhat higher than the GFOA minimum (e.g. 17-25% of revenues/expenditures). Since risk is low, do not invest excessive analytical effort in determining an exact target amount. Consider a short, informal benchmarking study with peer agencies to provide guidance.
25-31	You face a moderate to high level of risk to retain through reserves. Consider adopting a target amount of reserves significantly higher than the GFOA recommended minimum (e.g., 26 - 35%). Consider a short, informal benchmarking survey as a starting point, but then analyze your most significant risk factors to make sure they are adequately covered by what the survey suggests is reasonable.
32 - 40	You face a high level of risk to retain through reserves. Consider adopting a much higher target than the GFOA minimum (e.g., greater than 35%). Consider performing a more indepth analysis of the risks you face to arrive at target level of reserved that provides sufficient coverage.

Step 3. Consider Impact of Government Size, Budget Practices, & Borrowing Capacity
For each driver pick which description best fits you and enter the appropriate number of points.

2	**Government Size**
+2	We are under 50,000 in population
0	We are between 50,000 and 300,000 in population
-4	We are over 300,000 in popultion

0	**Budget Practices**
-3	The budget has a formal contingency beyond what is being considered for this reserve.
-2	The budget has informal contingencies beyond what is being considered for the reserve.
0	The budget is lean and has no contingencies in it.

-3	**Borrowing Capacity**
-3	We have excellent external and internal borrowing capacity, including a good rating, little existing debt, and political will to use it.
-2	We have some external and/or internal borrowing capacity and political will could be mobilized to use it.
0	We have little or no borrowing capacity.

Step 4. Consider Impact of Commitments/Assignments, Outsider Perceptions & Political Support
Place an "X" next to each statement that applies to you.

Commitments and Assignments

	We we have commitments or assignments that designate fund balance for uses other than retaining the types of risk described in this analysis. If so, these commitments/assignments should not be included in the total reserve used to reach your target.

Outisder Perceptions

	Rating agencies have given us a target level of reserve for getting a good rating. If so, use that target in place of or in addition to a benchmarking survey to provide guidance on starting point for your target.
x	The public is likely to question reserve levels as too high. If so, be sure to document your analysis findings in the other sheets.

Political Support

	The governing board places great weight on the policies of comparable jurisdictions. If so, conduct a benchmarking survey that includes governments the board preceives as relevant.
	The board places great weight on rating agency recommendations. If so, tie the reserve target recommendation to rating agency recommendations or standards.
x	The board places great weight on GFOA recommendations. If so, use this analysis and GFOA's Best Practices to support your recommendation.

Step 5. Putting it All Together

A. Consider your adjusted risk score and re-consult the analytical guidance.

25.5	< Your adjusted risk score (risk score modified with results from Step 3)

B. Review results of Step 4.
Review each item you checked from Step 4 and add the advice to your analytical guidance.

C. Proceed with finalizing target
Proceed with setting a final reserve target based on analytical guidance.