

AGENDA REQUEST
° GENERAL DISCUSSION ITEM

Subject:

Discussion and possible action on the transfer of the Board of Education FY 21-22 operating budget audited surplus of \$448,253 to the BOE Capital Reserve Fund in accordance with the Town Council adopted resolution that created the funding mechanism. Not factored into the aforementioned surplus is the Board of Education Healthcare deficit for the same audit period of \$861,753.

Background:

The Town Council adopted a resolution on September 28, 1988 that established a separate line item within the Town Capital Reserve Fund for Capital Expenditures for the Board of Education. Per the resolution, all surplus funds returned to the General Fund by the Board of Education are to be deposited in the Capital Reserve Fund for the Board of Education. Surplus funds shall be defined as reserves accumulated by the Board of Education according to their year-end audit statement.

Department Comment/Recommendation

The general fund ended fiscal year 21-22 with an overall operating deficit of \$43,375. The deficit reduced fund balance at year end to \$4,971,207. The biggest factor leading to the deficit was the under budgeting of Board of Education Healthcare. *Healthcare for active employees was under budgeted by approximately \$350,000 and healthcare for retirees (\$512,000) was erroneously omitted entirely from the budget. In addition to the healthcare deficit, several Board of Education revenue sources fell well short of budget. Impact Aid fell short of budget by almost \$113,000 and tuition revenues fell short of budgeted projections by almost \$257,000.* It should be noted that Vo-Ag Stabilization Funding exceeded the budgetary estimate by \$302,00 but that excess was already transferred out of the general fund by previous Town Council action. The overall net impact to the general fund for all these items is a \$783,500 reduction to fund balance. Factoring in the transfer out of the prior year Board of Education surplus of \$566,000 and the reduction to fund balance increases to \$1,349,500. Budgetary savings and revenues in excess of budgetary estimates in the Town portion of the budget resulted in a positive impact to fund balance of \$1,305,500. The net of the aforementioned fund balance impacts make up the overall fiscal year 21-22 deficit of \$44,000.

The Town's fund balance policy calls for a minimum undesignated fund balance that equates to 7% of current year general fund expenditures with an ultimate goal of 10%. As of June 30, 2022, the undesignated fund balance was 6% of current year general fund expenditures. *Transferring non-budgeted funds out of the general fund will only further deplete undesignated fund balance.* Fund balance and compliance with the Town's fund balance policy is one of the areas of focus for the rating agencies. Falling below this threshold further could have a negative impact on the Town's bond rating.

The current resolution for funding the Capital Reserve Fund for the Board of Education will always have a negative impact on general fund undesignated fund balance as it's transferring funds to the Capital Fund that have not been factored into the budget. A potential alternative to this funding method would be budgeting for a capital contribution to the capital fund, similar to how the town funds its capital.

	Budget	Actual	Variance - Positive (Negative)
<u>Revenues</u>			
Impact Aid	1,500,000	1,387,082	(112,918)
Vo Ag Tuition	772,973	717,110	(55,863)
Special Education Tuition	179,072	82,089	(96,983)
Non-Resident Tuition	138,590	34,648	(103,942)
<u>Expenditures</u>			
Education	33,671,969	33,223,716	448,253
Healthcare - Board of Education	4,254,907	5,116,660	(861,753)
Overall fund balance impact before transfer of prior year surplus			(783,206)
Prior year surplus transfer to capital account			(566,000)
Total combined fund balance impact			<u>(1,349,206)</u>