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Revised Proposed Financial Management Ordinances

The City of Norwich would benefit from having formal financial management policies adopted by the City Council. Such formal policies will bring more predictability and stability to the budget process and, over the long-term, improve the City's chances for future bond ratings upgrades.

At the November 3rd and November 17th City Council meetings, some members of the public and City Council expressed their concerns about raising taxes for the purpose of building unrestricted fund balance (UFB) to the target level identified in this policy. As a result, I revised that section of the draft ordinance so that taxes will not be raised for the initial accumulation of UFB.

General Fund Unrestricted Fund Balance

In order to get some context for what an appropriate level of fund balance is and what other aspects should be considered in formulating an UFB policy, I looked to the best practices published by the Government Finance Officers Association (GFOA), the criteria used by bond ratings agencies, and a 10-year history of general fund operating results.

Government Finance Officers Association Best Practices

The GFOA is a professional organization for public finance officials in the United States and Canada. Their mission is to "enhance and promote the professional management of governmental financial resources by identifying, developing, and advancing fiscal strategies, policies, and practices for the public benefit" (Government Finance Officers Association).

The GFOA identifies three major points that should be covered in a fund balance policy:

1. The appropriate size of UFB
2. How financial resources are set aside for UFB
3. Methods of utilizing UFB

Size of UFB

The GFOA best practice recommends a minimum unrestricted fund balance of two months of general fund operating revenues or expenditures – or 16.6%. The GFOA further states that this is a baseline and that governments may consider risk factors such as natural disasters and volatility in revenue streams and other drivers like budget practices, government size, and outsider perceptions before they settle on a target range.

Risk Analysis

Similar to the risk-based analysis that the GFOA performed on Colorado Springs, I looked at the sources of risk in Norwich's general fund operations (Kavanagh, A Risk-Based Analysis of General Fund Reserve Requirements, 2013) by utilizing the GFOA's *Risk Analysis Template* which is available on its website. The complete results are included in Appendix A – GFOA Risk Analysis Template. I have summarized the major points below.

Liquidity

Liquidity is the largest source of risk for Norwich's general fund. The City receives much of its revenues in July and January from property tax collections which causes large swings in available cash from month to month. The City of Norwich mitigates some of this risk by pooling cash for nearly all of the city's funds with the exception of Norwich Public Utilities. Pooling cash also maximizes interest earnings and minimizes bank fees. Over the last four fiscal years, the difference between the high and low ending monthly cash balances averaged around $26 million. Over those four years, the lowest ending monthly cash balance was in April 2011 with a total of $9.5 million and the largest single month net decrease in cash balance was $10.7 million in March 2012-13.

Other Funds Dependency

The deficit in the Ice Arena Authority is "backstopped" by the reserve levels of the general fund. There are a few much smaller examples of dependency of other funds on the general fund, but the Ice Arena Authority's $700,000+ deficit is by far the largest and will take the longest to reverse itself.

Other Risk Factors

In my analysis, Liquidity and Other Funds Dependency were the largest factors. A review of the 10-Year History of General Fund Operating Results has shown that Norwich has been able to deal with the risks from Vulnerability to Extreme Events, Revenue Source Stability, and Expenditure Volatility with the Contingency line item. As for the Leverage risk factor, the proposed Pension and Other Post-Employment Benefits Funding policy takes care of one large portion of the risk and the city has been successful in building assets to meet the obligations of our Health and Workers' Compensation Self-Insurance Funds.

Drivers

In addition to the risk analysis, the GFOA recommends considering budget practices, benchmarking, and outsider perceptions. The budget practice of using the Contingency line item will be discussed in the 10-Year History of General Fund Operating Results.

The table below compares the fiscal year ended 2012 information for Connecticut towns with populations between 30,000 and 50,000 (Intergovernmental Policy Division, 2014). As you can see, most of these towns have a bond rating at least as good as Norwich's Aa2 and most of the towns have UFB in the 11 to 12% range. The two Aaa-rated towns on this list, Glastonbury and Wallingford, have UFB's of 10.87% and 13.67%, respectively.

	Population	**Moody's Bond Rating**	**UFB as a % of Expenditures**
Torrington	35,808	Aa3	4.42%
Groton	39,896	Aa2	8.94%
Norwich	**40,502**	**Aa2**	**9.41%**
Glastonbury	34,698	Aaa	10.87%
Enfield	44,660	Aa2	11.10%
Naugatuck	31,774	Aa2	11.25%
Shelton	40,261	Aa2	12.01%
Trumbull	36,514	Aa2	12.14%
Middletown	47,325	Aa2	12.34%
Southington	43,434	Aa2	12.38%
Wallingford	45,179	Aaa	13.67%
Newington	30,602	Aa2	17.14%

As far as outsider perceptions are concerned, what I hope to accomplish through this process is to demonstrate to the taxpayers that the target range recommended is necessary for the efficient operation of the government.

How Financial Resources are Set Aside

Some governments use a dedicated revenue stream to build up an adequate level of UFB. Others appropriate a certain percentage of annual operations in their budget process. Still others merely state that any operating surpluses are set aside towards UFB.

Methods of utilizing UFB

Governments should state what the appropriate uses of UFB are once it reaches a certain level. Some examples might be:

- Pay-as-you-go capital improvements
- Neighborhood revitalization
- Retirement of existing debt
- Additional pension or OPEB contributions

Bond Rating Agencies Ratings Criteria

FitchRatings, Moody's Investor Services, and Standard & Poor's Ratings Services are the three largest firms that provide credit ratings and research on government issuers. One of the primary factors that these firms consider in judging a government's credit ratings is the financial flexibility of the government

– and the general fund balance level is a prime measure of financial flexibility. The bond rating agencies look favorably on governments which have formal policies which cover the three points identified by the GFOA (see above), but differ on what should be the appropriate size of UFB. This point is discussed further in the following paragraphs.

FitchRatings does not provide a specific range in its criteria but instead states that “amount Fitch considers satisfactory varies based on such factors as economic or tax base concentration, revenue and/or expenditure volatility, and flexibility to adjust revenues and spending” (FitchRatings, 2012). In its September 2013 affirmation of Norwich’s AA rating, Fitch deemed our 9.4% general fund balance as a percentage of expenditures to be “sound reserve levels” (Huang, 2013).

In a recent report by Moody’s Investor Services on the ratings methodology for local US governments, they indicate that Aa-rated governments typically have fund balance as a percentage of revenues of 15 to 30% (Seymour, 2014). However, in a summary of median metrics for Connecticut and National ratings provided to us by Moody’s in January 2014, the median reserve levels for Aa to Aaa-rated Connecticut towns and cities were in the 9 to 14% range compared to the reserve levels for Aa to Aaa across the Nation of 30 to 35%. Moody’s considered our fund balance levels to be “modest” and listed it as a weakness in its 2014 affirmation of Norwich’s Aa2 rating (Kutcher, 2014).

Standard & Poor’s Ratings Services considers fund balances between 8 and 15% of expenditures to be “Strong” and greater than 15% to be “Very Strong” (Standard & Poor's Ratings Services, 2013). When S&P upgraded Norwich’s rating in 2014 to AA, it considered the city’s fund balance to be “strong” and noted that a further upgrade may be possible in the future if “over time, if Norwich’s budgetary flexibility improves significantly to levels we consider very strong” (Daley, 2014).

10-Year History of General Fund Operating Results

I reviewed a 10-year history of General Fund revenues and expenditures to identify the following items that are most likely to use up the Contingency line item appropriation or cause a reduction in UFB (in no particular order):

- Revenue Variances
- Police, Fire, and Public Works Overtime
- Fuel & Utilities
- Retirement Payouts
- Bargaining Unit Contract Negotiations

I adjusted the numbers for inflation and came up with an average likely negative variance of $1,006,000. These variances are often partially offset by positive variances in other parts of the budget, however the analysis supports the continued funding of a Contingency line item in order to hedge against large fluctuations in UFB.

Recommendation

After reviewing the GFOA’s publications on general fund balance policy, performing the risk analysis, looking at the guidance from bond ratings agencies, and reviewing the 10-year history of general fund

operating results, I have come up with the following recommendations which are included in the proposed unrestricted fund balance policy for the general fund.

Size of UFB

The Appendix A – GFOA Risk Analysis Template indicates that Norwich should use the minimum of 16.6%. However, with the benchmarking from the Municipal Fiscal Indicators and Moody's medians, I believe that a minimum of 12% would put Norwich in a good position to reserve against our risk factors and remove an obstacle from future bond ratings upgrades.

How Financial Resources are Set Aside

The City has used the Contingency line item in the budget to hedge against extreme events, fuel & utilities increases, etc. Based on the information gathered in the 10-Year History of General Fund Operating Results, the proposed policy would recognize this portion of the budget as an important tool in maintaining UFB.

As shown in Appendix B – 15-Year History of Budgeted and Actual Changes in UFB, the City has either balanced the budget with UFB or made additional appropriations during the year in 13 out of the last 15 fiscal years. However, the City has had positive net budget variances in each of the last 15 fiscal years – 11 of the years resulted in additions to UFB and the other four years resulted in lower-than-anticipated decreases to UFB. Because of the track record of positive budget variances, the City should be able to reach the 12% target in a reasonable amount of time.

After the initial build-up to the 12% minimum level, in the event that the UFB falls below the 12% minimum, the policy provides timelines for replenishing UFB by increasing the appropriation in the Contingency line item.

Methods of utilizing UFB

UFB may be used to absorb operating deficits caused by unanticipated, unbudgeted revenue shortfalls or expenditure overages which cannot be mitigated by utilizing the Contingency line item. However, UFB shall not be used in the place of normal operating revenues in the annual budget process.

From the information gathered from the GFOA Risk Analysis Template, benchmarking from the Municipal Fiscal Indicators and Moody's medians, it appears that 17% should be the top end of the range for UFB. Therefore, to the extent that UFB exceeds 17% of the current fiscal year's budgeted expenditures and operating transfers, I recommend that the excess be allowed to be used for one or more of the following purposes:

- Additional capital improvements beyond those required by the Charter which can be demonstrated to reduce the future operating expenses of the city
- Make transfers to a bonded projects fund to pay for projects with authorized, but unissued debt
- Retire existing debt early
- Make employer contributions to the Pension or Other Post-Employment Benefits Trust Funds above the amount required by the Pension and Other Post-Employment Benefits Funding policy.

- Pay for projects and other expenditures for which the City of Norwich is authorized to incur indebtedness in the Charter

Each of these five purposes will have the effect of reducing the City's long-term costs; thereby further stabilizing future budgets.

Pension and Other Post-Employment Benefits Funding

The recently issued Governmental Accounting Standards Board (GASB) statements 67 and 68, the perception of bond ratings agencies, and the best practices recommended by the GFOA provide many reasons for having a formal funding policy for pension and other post-employment benefits (OPEB).

GASB 67 and 68

Prior to GASB 67/68, the City would report an asset or liability on its audited financial statements for the cumulative difference between what the actuaries recommend that the City contributes and what the City actually contributed. GASB 67/68 now requires the Net Pension Liability (NPL) to be presented on the balance sheet. The NPL is the net present value of projected benefit payments for employees' past periods of service less the amount of the pension plan's net assets.

In order to arrive at the net present value, GASB 68 puts a couple tests on what discount rate may be used:

- Must be able to determine that the plan's net assets are sufficient to pay future benefit payments
- Investment strategy must be able to support the rate of return

Bond Ratings Agencies

The three major bond ratings agencies all take into consideration the extent to which a municipality funds its pension and OPEB obligations. If a municipality's pension and OPEB obligations are not well funded, they want to see the municipality make a plan to fund them (preferably a formal plan) and then stick to that plan.

GFOA Best Practices

In its best practice document "Core Elements of a Funding Policy," the GFOA recommends that governments adopt a formal policy which includes:

- Obtaining an actuarially determined contribution (ADC) to serve as the basis for its contributions no less than biennially.
- Calculating the ADC in a manner that fully funds the long-term costs of promised benefits, keeping contributions relatively stable, and equitably allocating the costs over the employees' period of active service. In order to meet this criteria the following methods should be used:
    - Actuarial cost method which conforms to actuarial standards of practice and allocates normal costs over a period beginning no earlier than the date of employment and should not exceed the last assumed retirement age

  - Unbiased asset smoothing method over a fixed period of no longer than 10 years; ideally 5 years or fewer
  - Amortization of the unfunded actuarial accrued liability (UAAL) over no longer than 25 years, but ideally fall in the 15-20 year range
  - Shorter amortization period for plans closed to new entrants
- Committing to fund the full amount of the ADC each period. A reasonable transition period may be necessary before this objective can be accomplished.
- Demonstrating accountability and transparency by communicating all of the information necessary for assessing the government's progress toward meeting its pension funding objectives.

Recommendation

By amalgamating the requirements of GASB 67/68 with the recommendations from the bond ratings agencies and GFOA, I have developed these provisions in the proposed pension and OPEB funding policy:

- Actuarial valuations at least biennially
- Actuarial cost method which conforms to actuarial standards of practice and allocates normal costs over a period beginning no earlier than the date of employment and should not exceed the last assumed retirement age
- Unbiased asset smoothing method over fixed period of no longer than 5 years
- Amortization of UAAL that existed as of the last published valuation date prior to the adoption of this ordinance shall be amortized over no longer than 25 years. Changes in UAALs that occur after this date shall be amortized over no longer than 20 years
- For plans closed to new entrants with no remaining active members, the amortization of the UAAL shall be amortized over no longer than 10 years
- The City shall contribute the ADC each period unless the ADC is more than 15% higher or lower than the previous year. If the ADC is more than 15% higher, then the City will contribute 115% of last year's contribution. If the ADC is less than 85% of last year's contribution, it will contribute 85% of last year's contribution.

As far as the GFOA recommendation regarding transparency is concerned, the City discloses the funding progress in its budget document and annual audited financial statements.

The City, through the Personnel & Pension Board and 2014-15 budget process, has already set much of the bulleted items above in motion already. For the July 1, 2013 biennial valuations of the pension and OPEB funds, we made the following changes:

- Reduced the assumed rates of return on the pension plan from 8.25% to 7.75% and the OPEB plan from 8.00% to 7.75%
- The pension plan uses a five-year asset smoothing period. The OPEB plan uses market values (no asset smoothing).

- For both plans, the amortization of the UAAL was reduced from 30 years to 25 years for liabilities that existed as of 7/1/2013 and new liabilities will be amortized over 20 years.
- Because the other changes listed above increased the ADC for the pension plan by 66.71%, we are phasing it in by including a 15% increase to the pension contribution for 2014-15.

Summary

These proposed general fund unrestricted fund balance and pension and OPEB funding policies are intended to send the message that the City formulates plans methodically and sticks to them. The City often approaches problems in this manner; but, without formal public legislative actions, it goes unrecognized.

When we conferenced with analysts from Moody's and Standard & Poor's before the issuance of our February 2014 bonds, we said that we are seeking to have a formal fund balance policy and told them about the approach we were taking on our pension and OPEB plans – using more conservative actuarial assumptions and phasing in the contribution with 15% increases each year until we reach the full ADC. I believe that the analysts gave this some weight when assessing our creditworthiness.

Over the next few years, with your support and the support of my colleagues, I intend to research and develop proposed financial policies for your consideration for other items, such as capital asset management and economic development incentives.

Please let me know if you have any questions.

Sincerely,

Joshua A. Pothier

Comptroller

Appendix A – GFOA Risk Analysis Template

City of Norwich
GFOA Risk Analysis Template
Norwich's Target

Guiding Your Selection of a Fund Balance Target

Step 1. Determine your total score from the risk factors

17	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

-3	**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.

-2	**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.

City of Norwich
GFOA Risk Analysis Template
Norwich's Target

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

X	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

X	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.
X	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.

14	< 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.

City of Norwich
GFOA Risk Analysis Template
Extreme Events

Vulnerability to Extreme Events

1. Identify Risks

What extreme events are you at risk for?

A	Hurricanes/ Tropical Storms
B	Blizzards
C	

2. Assess Risks

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

A	Our Emergency Management, Fire, Police, Public Works, and Public Utilities departments coordinate very well together and we rarely have outages or other disruptions that last more than a few days. The cost of these events, net of FEMA reimbursements, hasn't necessitated an increase in the total general fund appropriations in the last 12 years. According to a 2011-12 analysis by Sperling's Best Places, the Norwich-New London area was the 140th least risky areas out of the 379 American metro areas included in the study. Also, the Norwich-New London area was the least risky Connecticut metro area.
B	Same as A
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	Insurance may be available, but the cost of the premiums is likely to be cost-prohibitive. These impact events are taken into consideration when developing the annual Contingency line item appropriation.
B	Same as A
C	

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

2 < 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

City of Norwich
GFOA Risk Analysis Template
Revenue Stability

Revenue Source Stability

1. Identify Risks

What are your major revenue sources?

A	Property taxes - 58.68%
B	Intergovernmental transfers - 32.16%
C	Operating transfer from our Public Utilities Department pursuant to City Charter provision - 5.27%

2. Assess Risks

How stable are your revenue sources?

A	Very stable and predictable. Also, the base is fairly diverse. The top 10 taxpayers only account for roughly 6% of total property tax revenues
B	Fairly stable and predictable
C	Predictable, but not stable - dependent on utility usage and rates from previous fiscal year

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	No need to manage the risk
B	We have been lowering our revenue estimates for the more volatile items in this category
C	We know what revenues we will be receiving from this source at the time that we develop our budget for the next fiscal year

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

2 < 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.

City of Norwich
GFOA Risk Analysis Template
Expenditure Volatility

Expenditure Volatility

1. Identify Risks

What are sources of potential expenditure spikes?

A	Spikes in other overtime-intensive fire, police, and public works activity
B	Fuel & utilities increases
C	Retirement payouts

2. Assess Risks

What is the potential cost of these spikes?

A	These costs can be significant enough that a department often can't absorb them with its other line items. However, these payouts haven't necessitated an increase in the total General Fund appropriations in the last 12 years.
B	Same as A
C	Same as A

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	We mitigate these risks by budgeting an amount in the Contingency line item of the annual operating budget which is usually sufficient to absorb these costs.
B	Same as A
C	Same as A. Also, bargaining unit contracts have been negotiated to reduce these payouts for new employees.

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

2 < 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.

City of Norwich
GFOA Risk Analysis Template
Leverage

Leverage

1. Identify Risks

What are major sources of leverage you are subject to?

A	Pension & OPEB liabilities
B	Self-insurance funds
C	
D	

2. Assess Risks

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

A	In the last actuarial valuation, we reduced the assumed rates of return and used other more conservative assumptions and methods than had been used in the past. As a result, we have larger recommended contributions which we've developed a plan to fund over a series of 4 to 5 years.
B	We have been building up funds in the Health and Workers' Compensation Internal Service Funds as reserves for the incurred but not reported (IBNR) liabilities. The Health Insurance Fund IBNR is more or less funded, but the WC IBNR may take several more years before it is fully funded.
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	The funding strategy developed for the pension and OPEB liabilities, along with union negotiations to reduce or eliminate OPEB benefits for future employees, should mitigate this risk.
B	Our insurance advisors actively pursue risk management programs for health and WC and our union negotiations have been increasing the employees' percentage cost shares of health benefits.
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 without reserves.

City of Norwich
GFOA Risk Analysis Template
Liquidity

Liquidity

1. Identify Risks

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

A	Peaks and valleys in revenue collections from property taxes and large intergovernmental grants
B	Waiting for grant reimbursements
C	Holding off on permanently financing bonded projects

2. Assess Risks

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

A	Very likely. The average difference between the highest and lowest cash balance over the last 4 years is $27 million.
B	Norwich always has grants that are on a reimbursement basis. Some are small - like reimbursements for bullet-proof vests or police overtime. Others are large - like the Intermodal Transportation Center or school construction projects.
C	We have found it is most efficient and easiest to comply with IRS arbitrage rules if we permanently finance projects (issue bonds) primarily on a reimbursement basis and bundle the projects until we have a large enough issue. By doing so, we save money in interest and bond issuance costs.

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	One mitigating factor is that we pool cash and cash equivalents in the general fund for most of the other city funds. As a result, we have a larger amount of liquidity than we would otherwise have if we maintained several cash accounts.
B	Same as A
C	Using reserves is more efficient than issuing more frequent and smaller bonds.

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.** 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.

City of Norwich
GFOA Risk Analysis Template
Other Funds

Other Funds Dependency

1. Identify Risks

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

A	Ice Arena Authority
B	Public Parking Commission
C	Dog License Fund

2. Assess Risks

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

A	The Ice Arena Authority built up an operating deficit of over $700,000 from fiscal years 2005 through 2014 before the City entered into a management services agreement in August 2014.
B	The Public Parking Commission build up an operating deficit of over $65,000 through fiscal year 2013.
C	The Dog License Fund began declining once the pound was moved into a larger facility. The utilities costs went from roughly $5,000 per year before the move to $12,000 per year after the move. As a result, the deficit built to roughly $55,000 by June 2014.

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	Because of repairs needed to the rink, it could be 15 years before the payments from the management company erase that operating deficit.
B	This deficit will be eliminated in the next year or two as the GF no longer charges the PPC for the cost of parking lot and garage maintenance costs incurred by the Public Works department.
C	Starting in fiscal year 2014-15, the utilities costs of the Dog Pound will be charged to the Police budget in the General Fund. It should take roughly 5 to 7 years before the deficit in the Dog Fund will be cleared.

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

3	< 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	The population and school enrollment should be fairly stable.
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	N/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	N/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.

City of Norwich
GFOA Risk Analysis Template
Capital Projects

Capital Projects

1. Identify Risks

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

A	Wastewater treatment plant
B	Police station
C	

2. Assess Risks

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

A	The City's portion of the wastewater treatment plant will likely be funded through the issuance of debt.
B	If the City pursues the construction of a new police station, it will likely be funded through the issuance of debt or a long term lease.
C	

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	NPU is seeking Federal and State grants and contributions from surrounding communities to share in the total cost which could reduce the ultimate amount that the City will need to contribute.
B	It is very unlikely that general fund reserves would be used to fund the police station.
C	

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

2 < 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.

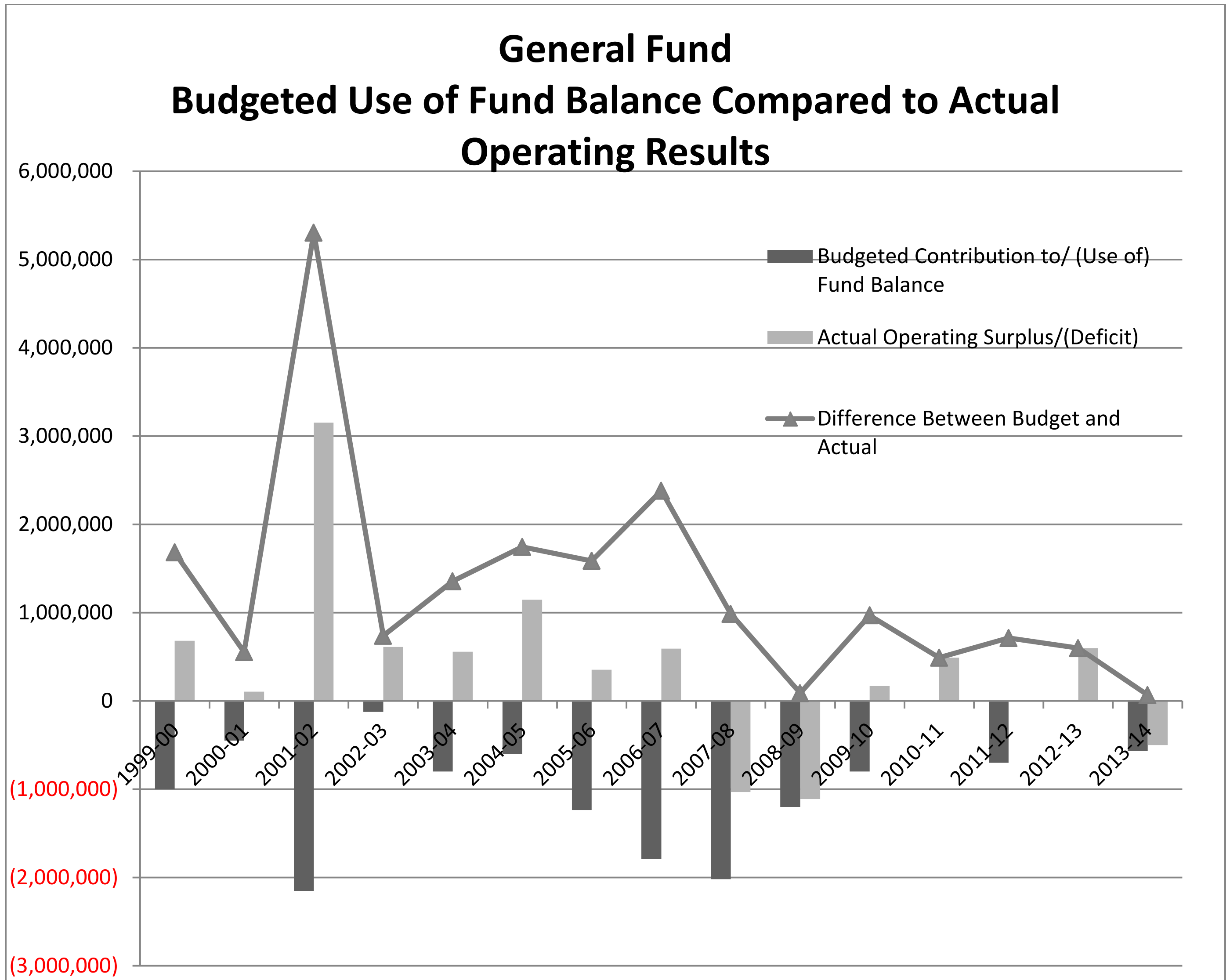
4 **Important.** There are at least some high profile projects where reserves may be called upon to provide at least some of the funding.

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.

Appendix B – 15-Year History of Budgeted and Actual Changes in UFB



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