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| Town of Franconia, NH |
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**Memorandum**

**From:** Jill Brewer, Eric Meth, Dan Walker – Board of Selectmen (BOS)

Kim Cowles – Town Administrator

**Subject:** Annual Risk Analysis Conducted for the Unassigned Fund Balance (UFB)

In 2021 the BOS created and put into effect a Policy and separate procedure to be followed for the Unassigned Fund Balance. Within the procedure there is a requirement to perform an annual risk assessment. The BOS held two public work sessions for this assessment, the first was held on Monday October 3, 2022 and the second was held on Monday October 17, 2022. The discussions were facilitated by Jan Cole who had assisted in drafting the Policy and procedure.

During the first session the following topics were reviewed as they all impact how the UFB increases (or decreases) and how the budgeting and spending of the Town impacts the fund.

* Based on the audited 2021 financial statements, what were the excess revenues and under spending from budgeted? (Excess revenues $72,064, under spending $170,098)
* How does 2021 excess revenues compare to the prior three years? (70% less than 2020, 55% less than 2019 and 79% less than 2018)
* Why was 2021 under spending so much lower than the previous three years?
  + Discussion focused on how over forecasting cost on a capital reserve project and underspending on the project impacts both revenues and spending
  + Discussed the need to better forecast capital expenditures and the source of funding for these projects
  + Discussed the need to review individual department operating budgets that also contain capital projects (i.e, Highway and the sidewalk project) to examine whether the department under or over spent their budget once you extract the separate capital project
* How is the Town doing year to date in 2022 budget versus actual spending
* A review of 2022 projects that have been ongoing in town (Welcome Center, Library roof, sidewalks, parking lot) actual costs and where have/will the funds come from
* Reviewed 2022 YTD revenues. Discussed any foreseeable changes in state or federal revenue sources
* Discussed budgeting for 2023 and capital projects that are known at this point including areas of the budget that would be impacted by inflation
* Discussed philosophy of appropriate uses of the UFB

During the second session, the BOS members identified areas that they felt would be impacted by inflation (health insurance, heating fuel) along with areas that they would consider appropriate areas to allocate UFB monies. The following are points from that discussion.

* One BOS member stated they felt it was their responsibility to return money already spent by the taxpayers to appropriate capital reserves and not request additional funding, if at all possible. This would mean allocating some of the excess UFB to identified capital reserve accounts.
* Water Department – has a number of capital projects that need to be addressed and while they have received some of the ARPA funds, there may be a need for additional monies
* Fire and Ambulance – a number of changes may be taking place in these departments. These two departments also have equipment that has increased significantly in price and will need to be replaced in the near future.
* There are four bridges and one under-pavement culvert. One bridge is in need of major repairs and this capital reserve should be reviewed
* Other infrastructure projects need to be reviewed
* Master Plan – this has recently been updated and from the public input the committee has identified short-term rentals (revenue source), broadband (expense) and Census information (expense)
* Revenues – There is a significant decrease forecasted in ambulance revenue based on the change in handling call-outs. All other revenue for 2022 is on track

At the conclusion of this second session, the BOS indicated that the Capital Improvement Planning Committee is working with the Town Administrator and meeting with all department heads to identify capital needs and timing of those needs. Their recommendations will be forwarded to the BOS and Town Administrator for budget planning and consideration will be given to which funds may need additional funding that could come from the UFB.

No final decisions were made during this session of where any excess money should be allocated, but the discussion did identify appropriate areas to fund and one-time funding to avoid.

Below is a snapshot of the current value of the UFB:

$1,377,973 – ending balance 2021 audited financials

($221,250) – voted from the UFB at 2022 town meeting

($115,000) – voted at special town meeting for highway truck

$1,041,723 – balance

$643,360 – 12% target based on last year’s total annual appropriation

$398,363 – excess UFB (before any 2022 excess revenues or under-spending amounts)