

TOWN OF BERLIN  
REGULAR BOARD OF FINANCE MEETING  
June 9, 2020  
7:00 P.M.

<https://townofberlin.my.webex.com/townofberlin.my/j.php?MTID=m284a30e16b28abb0c74bb8fe3f0ba16e>  
Password: BOFJune2020

Call-in Option:	1-408-418-9388 United States Toll
Access Code:	132 270 9851
Passcode:	26358632

A. CALL TO ORDER

B. ROLL CALL

C. PUBLIC COMMENTS

D. APPROVAL OF PRIOR MINUTES

May 12, 2020 Regular Meeting

E. NEW BUSINESS

1. Move to transfer of \$22,981.85 from the Jail Cells account in the Police Station Construction Fund, \$14,834.31 from the Transfer to Other Funds account in the Griswold Portable Classroom Fund and \$16,183.84 from the In Lieu of Sick (retiree) account in the General Fund to the Police Station Construction Fund and appropriate to the Buildings & Renovations account within the Police Station Construction Fund.
2. Move to approve a non-budgeted appropriation of General Fund Unassigned Fund Balance of \$255,000 to the Pension/Actuarial Funding account in the General Fund.
3. Move to Transfer \$34,500, as detailed on the accompanying spreadsheet, to cover higher than budgeted expenditures in identified accounts.
4. Discuss S&P credit report.
5. Update on June 2020 bond sale.
6. Financial status update.

F. ADJOURNMENT

**TOWN OF BERLIN**  
**BOARD OF FINANCE BUDGET MEETING**  
**Tuesday, May 12, 2020**  
**Conference Call: (701) 802-5116 (Access Code: 6347691#)**  
**7:00 P.M.**

**A. CALL TO ORDER**

Chairman Lomaglio called the meeting to order at 7:00 p.m.

**B. PLEDGE OF ALLEGIANCE**

**C. ROLL CALL**

ATTENDANCE:

Members Present: Sal Bordonaro, Tim Grady, Mark Holmes, Sam Lomaglio, Gerald Paradis, John Richards

Staff Present:

Kevin Delaney – Finance Director  
Arosha Jayawickrema – Town Manager

**D. APPROVAL OF MINUTES:** April 9, 2020 Special Meeting

Mr. Richards moved to approve the April 9, 2020.

Seconded by Mr. Bordonaro.

Vote being 6-0. (MOTION CARRIED)

**E. NEW BUSINESS:**

1. Move to read the title of the following proposed ordinance and to waive the reading of the remainder of the ordinance, incorporating its full text into the minutes of the meeting.  
Move to adopt, “AN ORDINANCE APPROPRIATING \$1,000,000 FOR ATHLETIC FACILITY IMPROVEMENTS (2020) AND AUTHORIZING THE ISSUE OF \$1,000,000 BONDS OF THE TOWN TO MEET SAID APPROPRIATION AND PENDING THE ISSUANCE THEREOF THE MAKING OF TEMPORARY BORROWINGS FOR SUCH PURPOSE.”

Mr. Paradis moved to read the title of the following proposed ordinance and to waive the reading of the remainder of the ordinance, incorporating its full text into the minutes of the meeting.

Seconded by Mr. Richards.

Vote being 6-0. (MOTION CARRIED)

Mr. Paradis moved to adopt, "AN ORDINANCE APPROPRIATING \$1,000,000 FOR ATHLETIC FACILITY IMPROVEMENTS (2020) AND AUTHORIZING THE ISSUE OF \$1,000,000 BONDS OF THE TOWN TO MEET SAID APPROPRIATION AND PENDING THE ISSUANCE THEREOF THE MAKING OF TEMPORARY BORROWINGS FOR SUCH PURPOSE."

Seconded by Mr. Bordonaro.

Mr. Delaney stated that this action would authorize the bond. Based on Town Council feedback, the Town will only move forward with \$500,000 of bonding for the Sage 1 softball field on June 2, 2020. Last year, Berlin borrowed \$6,500,000 (including \$1,800,000 of notes rolled over). This June, Berlin plans to borrow \$4,500,000 (which includes \$500,000 for the Sage 1 softball field).

Vote being 6-0. (MOTION CARRIED)

**2. Move to transfer \$5,100 from the Fuel Account to the Tire Account in the Municipal Garage department.**

Mr. Paradis moved to transfer \$5,100 from the Fuel Account to the Tire Account in the Municipal Garage department.

Seconded by Mr. Bordonaro.

Vote being 6-0. (MOTION CARRIED)

**3. Move to approve the non-budgeted appropriation of the State of Connecticut Youth Services grant increase in the amount of \$10,734 to the Youth Grant expenditure account.**

Mr. Paradis moved to approve the non-budgeted appropriation of the State of Connecticut Youth Services grant increase in the amount of \$10,734 to the Youth Grant expenditure account.

Seconded by Mr. Bordonaro.

Vote being 6-0. (MOTION CARRIED)

**4. Discuss potential Board of Education surplus.**

Chairman Lomaglio stated that he and Mayor Kaczynski spoke via telephone with Board of Education members Mr. Tencza and President Aroian. The Board of Education is negotiating payment settlement with New Britain Transportation and working to complete negotiations as soon as possible. Board of Education anticipates surplus in its operating budget this year, although the amount is dependent upon the New Britain Transportation payment and other

expenses. Board of Education plans to return a meaningful amount to the Town and direct remaining funds into the 2% carryover account (which is intended for use on capital expenditures / projects), subject to approval of the Board of Finance.

Mr. Richards indicated that \$500,000 might be the surplus amount to be split between General Government and the Board of Education 2% carryover. (Expenditures / projects funded by the carryover account will be tracked along with the existing projects from last fiscal year's carryover.) Mr. Paradis encouraged the Board of Education Business Manager to use New Britain Transportation's actual expenses as well as layoff figures when considering negotiation. He added that the Board of Education may be responsible to pay employees whose salaries were initially planned to be covered by federal grants, even if initially while waiting for federal reimbursement. The New Britain Transportation compensation may need to be reserved in an accounting liability to ensure the costs are attributed to the correct fiscal year.

**5. Discuss potential Defined Benefit pension funding plan.**

Finance Director Delaney stated that one person retired on May 1, 2020 (payout pending) and another person requested liability calculation, which payout (likely near \$1,400,000) is highly probable in the July / August time frame. Historically, Berlin's closed Defined Benefit Pension has been underfunded and the Town is responsible to pay retirees their choice of either lump sum or monthly benefits upon their retirement.

Finance Director Delaney proposed a "hybrid" approach that would appropriate \$4,300,000 from the Fund Balance and \$700,000 of budget surplus from this fiscal year into the Defined Benefits Pension Plan Fund. This action would bring the Plan's funding level to almost 70% while leaving over 11% in Fund Balance.

Board of Finance members agreed that the Town should and will meet its obligations, but they are not comfortable reducing the Fund Balance at this uncertain time. The members prefer to pay retirees via Fund Balance appropriation as necessary.

**6. Discuss Farmington Avenue Boulevard project.**

Finance Director Delaney reported that things are moving along. The bid opening for construction of the Boulevard is scheduled for May 21, 2020. (The engineer indicates that cost may be about \$1,600,000 which is \$200,000 higher than the original estimate.) Once a Planning & Zoning decision appeal is resolved, properties at 903 and 913 Farmington Avenue can be sold to the Developer (Newport Realty) which will generate \$460,000 of revenue that will be directed towards Boulevard construction. Board of Finance members are concerned that Newport Realty might have difficulty securing financing for its full project given the current economic conditions. Members are cautious about the Town spending money to construct a Boulevard if the project may not move to completion. Board of Finance members are also concerned that the State of Connecticut may not be in a position to honor grant reimbursements which the Town is relying upon as a funding source that will not impact the mill rate.

Town Manager Jayawickrema will contact Newport Realty and ask for funding commitment letter(s). He will also advise Town Council of Board of Finance's concerns regarding the

economy's impact on Newport's ability to secure funding as well as the possible uncertainty of State grant reimbursement.

## **7. Financial status update.**

Finance Director Delaney stated that the Health insurance fund has improved but cautioned that most people haven't been able to see their doctors in the last several weeks. Claims are down substantially but will likely reverse in equal magnitude once people are able to visit doctors again. The fund should level off in Fall 2020.

Finance Director Delaney noted that the Town is experiencing increased costs (anticipated to total about \$300,000) due to the pandemic, including: Board of Education Information Technology overtime (related to distance learning) and cost to distribute food through the schools (students / family members can pick up food at the schools three days each week); Town laptop purchases and technology improvements, cleaning supplies. Staff is actively working to recoup money.

Revenue is good at Timberlin which has remained open and is attracting people from out of state. Interest income and back tax collections are suffering. VNA is fully operational and revenue is lower year-over-year, but it is unclear if that is related to Coronavirus or the new Medicare reimbursement system.

Finance Director Delaney added that Town Council elected to offer Berlin residents reduced interest for late taxes (not deferral of the payment due date) per State of Connecticut Executive Order 7S.

Town Manager Jayawickrema stated that the Town is planning to open Town Hall on May 26, 2020 by appointment only. Finance Director Delaney is working to schedule Board of Finance's next meeting via video conference.

Mr. Holmes stated that during the recent Board of Education meeting, President Aroian was flippant toward attendees and participants, assuring them that they should not worry about funding because there would be money in the 2% carryover account. Mr. Holmes noted that President Aroian has no say over the 2% account and should not imply otherwise.

## **F. Adjournment**

Mr. Bordonaro moved to adjourn at 8:28 p.m.

Seconded by Mr. Holmes.

Vote being 6-0. (MOTION CARRIED)

Submitted by,

Dana Borges

**Agenda Item No. E-1**  
Request for Board of Finance Action

**TO:** The Board of Finance

**FROM:** Arossha Jayawickrema, Town Manager

**DATE:** May 20, 2020

**SUBJECT:** Fund Transfers & Contract Amendment for Police Station Interview Rooms

**Summary of Agenda Item:**

As part of on-going discussions for building renovations at the Police Department, number of immediate needs were identified. Amongst them were air conditioning in the men's locker room, replacement of the doors on our jail cells, and the construction of two interview rooms, one off the lobby and another inside the building. The air conditioning and jail cell projects have been completed leaving the interview rooms as the remaining open item. Improvements to the current facility have and will address the police department's operational needs, reduce liability, and will ensure the safety & confidentiality of citizens and staff at police headquarters.

The current jail cell contractor Bismark Construction has provided an estimate to complete the two interview rooms per the design developed with the Police Department. Funding for the two interview rooms is proposed to come from three current sources. First, \$22,981.85 from unused contingency funds for the completed Jail Cell Replacement project (538.00.0000.0.10002.00000). Second, \$14,834.31 from the remaining balance in the Griswold Portable Classroom Fund (556.45.4567.0.59623.00000). Third, \$16,183.84 from the In Lieu of Sick (retiree) account (001.15.1532.0.51811.00000) in the General Fund. These funds are available because sick balance payouts to retiring officers during fiscal year 2020 were lower than projected. All of these funds will be transferred into the Police Station Construction Fund and appropriated to the Buildings & Renovations account (538.15.1532.0.54000.00300) within the Police Station Construction Fund.

**Action Needed:**

Move to approve the transfer of \$22,981.85 from the Jail Cells account in the Police Station Construction Fund, \$14,834.31 from the Transfer to Other Funds account in the Griswold Portable Classroom Fund and \$16,183.84 from the In Lieu of Sick (retiree) account in the General Fund to the Police Station Construction Fund and appropriate to the Buildings & Renovations account within the Police Station Construction Fund.

**Attachments:**

None

**Prepared By:**

Deputy Chief Chris Ciuci

**Agenda Item No. E-2**  
**Request for Board of Finance Action**

**TO:** The Board of Finance

**FROM:** Arosha Jayawickrema, Town Manager

**DATE:** May 22, 2020

**SUBJECT:** Non-Budgeted Appropriation of General Fund Unassigned Fund Balance  
for Defined Benefit Pension Payout

**Summary of Agenda Item:**

The Town has effectively implemented a pay-as-you-go funding strategy for the closed defined benefit pension plan. This method has utilized General Fund unassigned fund balance (either through a budgeted appropriation or a mid-year, non-budgeted appropriation) to fund payouts since FY2017. This method has allowed the Town to fund 6 payouts in the last three fiscal years. The Town Charter requires a public hearing for any non-budgeted appropriation over \$25,000; however, the Governor's Executive Order 7S, amended by 7CC, eliminated the public hearing requirement during the COVID-19 pandemic.

In June 2020, a seventh retirement payout will be greater than the pension fund balance at Prudential. In order to honor the Town's obligation to the retiree and maintain the required \$300,000 balance at Prudential, a \$255,000 non-budgeted appropriation is necessary during FY20.

With this transfer, the Town's projected pension fund balance at the end of July will be \$400,464. It should be noted that during FY21, an additional non-budgeted appropriation will be made to honor future payouts. However, the cash demand is not expected until April 2021, so the FY21 non-budgeted appropriation will be requested in January 2021, unless additional participants retire.

**Action Needed:**

Move to approve a non-budgeted appropriation of General Fund Unassigned Fund Balance of \$255,000 to the Pension/Actuarial Funding account in the General Fund.

**Attachments:**

None

**Prepared By:**

Kevin Delaney, Finance Director

**Agenda Item No. E-3**  
**Request for Board of Finance Action**

**TO:**            **The Board of Finance**

**FROM:**       **Aroscha Jayawickrema, Town Manager**

**DATE:**       **May 22, 2020**

**SUBJECT:**   **Budget Transfers to Clear Overbudget Accounts**

**Summary of Agenda Item:**

Over the course of the fiscal year some accounts exceed budget for different reasons. All the higher than budgeted costs are being funded with savings in other areas or contingency. No new money is being appropriated with this request. These items are summarized on the Budget Adjustments spreadsheet submitted with this action item.

**Action Needed:**

Move to transfer \$34,500, as detailed on the accompanying spreadsheet, to cover higher than budgeted expenditures in identified accounts.

**Attachments:**

Budget Adjustments spreadsheet

**Prepared By:**

Kevin Delaney, Finance Director

**Budget Adjustments  
June 2, 2020**

E-3

<u>Department</u>	<u>GL Account #</u>	<u>From</u>	<u>To</u>	<u>Explanation</u>
Town Manager/IT	001.05.0503.0.53208.00000		\$8,500.00	The Town is in the process of replacing desktop computers with laptops in support of the Slay Home order from the Governor and to enhance the opportunity to work from home in the future. To accommodate this initiative, additional funds are needed in the Computer Equipment account. Funds are available in the Town Manager Health Insurance account due to a different benefits election than was included in the FY20 budget.
	001.05.0501.0.52235.00000	\$8,500.00		
Public Works				The international refuse and recycling issues were addressed in the FY20 budget submission. However, the tonnage of waste has increased during the COVID-19 pandemic. The Town's actual refuse disposal costs will be very close to the budgeted amount and may exceed the budget. This transfer provides a small offset to the risk of exceeding the original budget.
	001.20.2036.0.53823.00000		\$10,000.00	
	001.05.0507.0.53927.00000	\$10,000.00		
Legal				The Town has been engaged in several legal matters during FY20. As year-end approaches, the legal bills are projected to exceed the budget. This transfer mitigates the risk of exceeding the budget and allows for the timely payment of various legal bills.
	001.05.0506.0.53828.00000		\$10,000.00	
	001.05.0507.0.53927.00000	\$10,000.00		
Finance			\$6,000.00	
	001.05.0502.0.53201.00000			Payroll currently stores all files in a standard, locked filing cabinet. In the event of a fire, critical payroll files will likely be lost. The Finance Department made adjustments during FY20 to generate savings in training, part-time help and health insurance to purchase two fireproof/waterproof filing cabinets to store critical payroll files.
	001.05.0502.0.53945.00000	\$2,000.00		
	001.05.0502.0.51510.00000	\$2,500.00		
	001.05.0502.0.52235.00000	\$1,500.00		
GENERAL FUND TOTAL		\$34,500.00	\$34,500.00	
WATER CONTROL TOTAL		\$0.00	\$0.00	
GRAND TOTAL		\$34,500.00	\$34,500.00	

Water Control

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## Summary:

### Berlin, Connecticut; General Obligation

**Primary Credit Analyst:**

Nora G Wittstruck, New York (1) 212-438-8589; nora.wittstruck@spglobal.com

**Secondary Contact:**

Christian Richards, Boston (1) 617-530-8325; christian.richards@spglobal.com

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## Summary:

# Berlin, Connecticut; General Obligation

### Credit Profile

US\$4.5 mil GO bnds ser 2020 due 12/01/2030

*Long Term Rating*

AAA/Stable

New

Berlin GO

*Long Term Rating*

AAA/Stable

Affirmed

## Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Berlin, Conn.'s general obligation (GO) bonds, issue of 2020. At the same time, we affirmed our 'AAA' long-term rating on the town's GO debt outstanding. The outlook is stable.

The town's full faith and credit secures the bonds. Proceeds from the bonds will fund various authorized capital projects throughout the town.

### Credit overview

Berlin recorded another surplus in fiscal 2019 (ended June 30), bolstering reserves to nearly \$16.6 million, or about 18% of operating expenditures. We believe the flexibility, coupled with reliance primarily on property taxes to fund the budget, somewhat insulates the town from a material deterioration in credit quality as a result of the economic effects of the pandemic and recession. However, as uncertainty remains over the ultimate economic fallout from recession, the stable outlook reflects our view of management's entrenched strong financial management policies and practices, which we believe will continue to result in positive financial results. Furthermore, the town's low fixed costs equal to 10.7% of total governmental expenditures limits debt service, pension, and other postemployment benefits from crowding out other operating costs.

We rate the town above the sovereign because we believe it can maintain better credit characteristics than the U.S. in a stress scenario, based on its predominantly locally derived revenue base and our view that pledged revenue supporting debt service on the bonds is at limited risk of negative sovereign intervention. The rating above the sovereign is based on our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect.

The rating reflects our view of the town's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area;
- Very strong management, with strong financial policies and practices under our financial management assessment methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 23.4% of total governmental fund expenditures and 2.6x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 9.1% of expenditures and net direct debt that is 76.9% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 71.8% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### **Environmental, social, and governance factors**

We analyzed the town's environmental, social, and governance factors relative to its economy, management, budgetary and financial measures, and debt and long-term liability profile, and consider them in line with the sector.

## **Stable Outlook**

### **Downside scenario**

While unlikely, if the town's finances become imbalanced, leading to a draw on reserves, with no plan to correct in a timely manner, we could lower the rating.

## **Credit Opinion**

### **Very strong economy**

We consider Berlin's economy very strong. The town, with an estimated population of 20,569, is located in Hartford County in the Hartford-West Hartford-East Hartford metropolitan statistical area, which we consider broad and diverse. The town has a projected per capita effective buying income of 142% of the national level and per capita market value of \$153,714. Overall, the town's market value grew by 0.8% over the past year to \$3.2 billion in 2020.

Berlin is a primarily residential community that over the past several years has experienced diversification through development in the nonresidential sectors, including an Eversource training facility and relocation of an aerospace component manufacturer. Perhaps most significant is the Town Center Project, which is in the final stage of permitting and will contain residential as well as commercial space. Various recent public infrastructure projects, including upgrades to the town's train station and tracks as part of the New Haven-Hartford-Springfield regional rail service expansion project, have increased interest in development in Berlin. Consequently, a new proposed transit-oriented development project around the train station could result in appreciable mixed-use development, which would add to the tax base.

Several initiatives are underway to support the business community's recovery following the sudden stop stemming from the governor's stay-at-home order to control the community spread of COVID-19. These include various marketing campaigns to encourage residents to buy locally. The management team has regularly engaged in conversations with business owners and reports that only one local restaurant does not expect to reopen. In addition, building permit activity remains steady as a result of video inspections and officials report that no projects underway have delayed or slowed development plans. Although we believe that the town's economy may be poised to remain

stable, the macroeconomic conditions as discussed in S&P Global Economics' report "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020 on RatingsDirect, may lead to some softening in the near term.

### **Very strong management**

We view the town's management as very strong, with strong financial policies and practices under our financial management assessment methodology, indicating our view that financial practices are strong, well embedded, and likely sustainable.

Management's use of conservative budgeting assumptions to determine revenue and expenditures demonstrates Berlin's financial policies and practices. Management uses five years of historical data to identify tax collection and growth trends, and uses the governor's proposed budget as a general guide to determine state aid revenue. On the expenditure side, management plans for year-over-year fixed costs and adjusts for growth in contractual obligations in its assumptions and then prioritizes appropriations based on community needs. The town also monitors budget-to-actual performance, delivering a report to the board of finance monthly to address variances and propose budget amendments when necessary.

Management's maintenance of a rolling 10-year, long-term capital improvement plan that identifies capital project priorities and internal and external financing sources strengthens policies and practices. Management presents the plan before the board of finance to inform annual budget discussions. Although state statutes strictly limit investment instruments that the town can utilize, management maintains an investment policy for short-term holdings and interest income, mirroring state law.

The town implemented a formal, five-year financial plan that details assumptions and that feeds into the annual budget. Berlin also adopted formal debt management and reserve policies. The former outlines uses for debt, along with setting debt limits (relative to the grand list and operating budget) and amortization requirements. The reserve policy calls for maintenance of unassigned general fund reserves at no less than 11% of budgeted expenditures and includes the acceptable use of reserves to cover expenditures as well as a replenishment clause. Officials report that it protects its information technology systems from cybersecurity breaches through the use of cloud-based data management, regular backup of servers, and network firewalls to prevent breaches.

### **Adequate budgetary performance**

Our assessment of the town's adequate budgetary performance reflects uncertainty over potential budget challenges facing the town stemming from the recession. Although the town has historically operated with surpluses, the unknown effect of the economic fallout could create weakness in fiscal 2021. The town had operating surpluses of 1.7% of expenditures in the general fund and of 4.6% across all governmental funds in fiscal 2019. General fund operating results of the town have been stable over the past three years, with a result of 0.8% in 2018 and a result of 0.3% in 2017.

We adjusted audited results to account for recurring transfers from the general fund to the capital projects fund while removing expenditures for capital projects funded with bond proceeds. Following three years of operating surpluses stemming from conservative budgeting and careful in-year monitoring, fiscal 2019 ended with a subsequent surplus resulting from one-time revenue derived from tax sales and personnel savings from unplanned vacancies.

The state has reduced intergovernmental aid to municipalities in prior periods of fiscal stress, and we expect that this could occur again in the face of the current recession. However, the town and school department previously established a working group to address the loss of state aid, and we believe these efforts position the town to undertake budgetary maneuvers to ensure fiscal balance as a result of its forward-looking planning and collaborative budgeting with the school board. Furthermore, the town's long-term financial plan includes ongoing reductions in state aid to offset the upcoming uncertainty.

Management reports that fiscal 2020 will likely end with a small surplus despite an amendment for a pension contribution from the unassigned fund balance to lower the net liability. As the budget is funded 85% with property taxes, a large portion of revenue was collected prior to March, when the stay-at-home order was implemented. Furthermore, with school facilities closed and very limited costs associated with the town's COVID-19 response, management believes that expenditure savings will offset any revenue loss or delay.

The fiscal 2021 adopted budget totals about \$91.5 million, a small decrease from the amended fiscal 2020 budget. The budget appropriates approximately \$425,000 in fund balance as revenue, primarily for debt service and pension funding. This amount is lower than in previous years, when the appropriation generally exceeded \$1 million. Intergovernmental aid is budgeted to decline to about \$13.1 million, or 13.3% of budgeted revenue, consistent with its strategy adopted in 2018. Although state budget conversations over the past several years have included shifting a portion of the teachers' pension system annual costs to local school departments, we do not believe this would materially affect Berlin's finances should it be enacted within the next several years.

Although we anticipate that uncertainty over the effect of the recession on the town's budget will remain a concern, as reflected in our publication "The COVID-19 Outbreak Weakens U.S. State and Local Government Credit Conditions," published April 2, 2020, we believe Berlin's financial management tools will result in at least adequate operating results within the outlook period.

### **Very strong budgetary flexibility**

Berlin's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 18% of operating expenditures, or \$16.6 million.

The town has maintained what we consider very strong budgetary flexibility through the maintenance of reserves in excess of 15% of expenditures over the past several years. Despite annually appropriating fund balance in the budget, the town has consistently outperformed and contributed to reserves at year end. Management reports that the same will occur in fiscal 2020. Although we believe the town's flexibility will remain very strong, management is pursuing potentially utilizing some reserves in fiscal 2021 to support the school board's fall reopening plan to prepare facilities to ensure students are healthy and safe.

### **Very strong liquidity**

In our opinion, Berlin's liquidity is very strong, with total government available cash at 23.4% of total governmental fund expenditures and 2.6x governmental debt service in 2019. In our view, the town has strong access to external liquidity if necessary given its regular issuance of debt over the past 20 years.

The town has no variable-rate or direct purchase debt, and management has confirmed it has no contingent liquidity

risks from financial instruments with payment provisions that change upon certain events. Investments are subject to strict state guidelines and cash is invested in low-risk assets, including the state's short-term investment fund or short-term certificates of deposit. For these reasons, we expect the liquidity profile to remain very strong over the next two years.

### **Strong debt and contingent liability profile**

In our view, Berlin's debt and contingent liability profile is strong. Total governmental fund debt service is 9.1% of total governmental fund expenditures, and net direct debt is 76.9% of total governmental fund revenue. Overall net debt is low at 2.8% of market value, and approximately 71.8% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Following this bond issue, Berlin has approximately \$79.3 million of total direct debt with no short-term debt outstanding. This also includes \$8.8 million remaining from a roughly \$10.4 million, 20-year capital lease for a multifaceted energy saving program. We note that the town expects to realize energy savings that it will use to finance the annual lease payments. Longer term, this program will help mitigate future cost increases associated with energy usage and consumption. The town also has approximately \$9.6 million in overlapping and underlying debt, primarily as a result of being a member of the Mattabassett District, which provides water pollution control.

The town continues with its debt reduction plan and may issue additional debt for ongoing school and infrastructure improvements. However, management expects to issue less than \$5 million annually and may de-authorize a portion of its authorized debt, as projects have come to completion. We do not expect the town's debt position to deteriorate given its long-term strategy to de-leverage and rapid amortization of debt.

### **Pension and other postemployment liabilities**

We do not believe the town's pension and other postemployment (OPEB) liabilities present a credit pressure. While the funded ratio of the town's single-employer plan is very low, the plan was closed to all employees in 2000 and the town has made additional contributions to the plan from its unassigned fund balance to reduce the pension exposure. Furthermore, the combined net liabilities for pension and OPEB are approximately \$15 million, which we view as manageable relative to the size of the town's budget.

As of June 30, 2019, Berlin administers pension benefits through a single-employer, defined benefit public employee retirement system.

- The plan is essentially funded on a pay-as-you-go basis with a funded ratio of 17% and a net pension liability of \$7.4 million.
- There were 19 retirees and 13 active employees in the plan.
- Retirees may also opt for a lump-sum payment, which can create some unpredictability in costs, but management reports that it would issue notes if needed for cash flow purposes.
- Teachers and other certified personnel are eligible to participate in the Connecticut State Teachers' Retirement, a cost-sharing, multiple-employer system. The state makes contributions to the plan.

Despite the low funded ratio of the single-employer pension plan, the town contributed more than 200% of its

minimum funding and 400% of its static funding, indicating of the low costs associated with the plan. Furthermore, with the plan closed to new members and low discount rate of 3.5%, we believe the cost trajectory is manageable, particularly given the town's budgetary flexibility to absorb higher costs.

Berlin provides single-employer, self-insured OPEBs to certain eligible retirees and their spouses. Eligible retirees are required to contribute 100% to the cost of receiving OPEB medical benefits, so the town's OPEB liability is an implicit rate subsidy. As of June 30, 2019, the net OPEB obligation was \$7.7 million.

### **Strong institutional framework**

The institutional framework score for Connecticut municipalities is strong.

## **Related Research**

### 2019 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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**Town of Berlin**  
**Financial Status Report**  
**Board of Finance Meeting on June 9, 2020**

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**GENERAL FUND**

	<u>FY 2020</u>	<u>FY 2019</u>	<u>Notes</u>
<i>(budgeted amount excludes assigned fund balance)</i>			
<b>Receipts</b>			
Actual Receipts	\$90,300,687	\$87,835,041	
Budgeted Receipts	\$89,034,164	\$85,329,542	
% to Budget	101.4%	102.9%	
Current Year Tax Receipts <i>(as of May 31st)</i>	\$77,989,797	\$74,288,324	
Current Tax Budget	\$77,159,891	\$73,924,173	
Current Tax Levy <i>(99.1%/99.1% collection rates)</i>	\$77,860,637	\$74,595,533	
% to Current Budget	101.1%	100.5%	
% to Current Levy	100.2%	99.6%	
Adopted budget target %	99.1%	99.1%	
<b>Expenditures</b> <i>(excludes capital expenditures)</i>			
Actual Expenditures	\$77,611,639	\$74,987,840	
Budgeted Expenditures	\$91,717,975	\$86,565,871	
% to Budget	84.6%	86.6%	
<b>Storm-related Overtime (\$1445)</b>	\$69,543	\$139,600	
<b>Legal (\$3828)</b>	<u>Encumbered</u>	<u>Actual</u>	
Ciulla & Donofrio	\$150,139	\$140,631	Monthly retainer (\$9,500) plus extra charges (e.g., time in court, mediation)
Shipman & Goodwin	\$15,630	\$13,625	Labor attorney's (e.g., union contracts, grievances)
LeclairRyan/Barclay Daman	\$30,000	\$26,416	Planning & Zoning (Atkins St.)
Pierce Atwood	\$2,396	\$2,396	BHS Construction mediation
Joseph Fasi	\$12,071	\$2,071	Bond counsel (e.g., Pistol Creek, Farmington Ave. development; June 2020 debt issue)
US Bank	\$2,750	\$2,750	June 2020 bond issue
Michael Delorenzo	\$200	\$185	Marshal services
Total	<u>\$213,186</u>	<u>\$188,074</u>	
Budget	\$215,250		
Budget Balance	\$2,064		Risk: Eversource tax appeal (court case), Atkins Street development; union contracts, grievances

	<u>Target Floor Fd Bal.</u>	<u>Actual Fund Bal.</u>	<u>Notes</u>
<b>INSURANCE FUNDS</b>			
Health Insurance Fund	\$2,199,759	\$1,246,269	The Health Insurance Fund balance is 2.0% of full year projected expenses - against a target reserve range of 25-50%. Although the fund balance is well below the floor, the cash balance is \$1,901,873.
General Insurance Fund	\$1,000,000	\$1,226,510	The fund is used to pay Liability & Worker's Compensation insurance premiums for both the Town and BOE, on-going heart & hypertension claims from police officers, "fronting" reimbursable environmental remediation costs, small equipment claims where Town elects to self-insure and deductibles. Town policy is \$1 million floor and ceiling at 5% of General Fund budget (or \$4,509,595 for FY20). Displayed fund balance is net of H&H reserve and encumbrances for self-insured claims.
<b>TOTAL INSURANCE FUNDS</b>	<u>\$3,199,759</u>	<u>\$2,472,779</u>	

**PENSION FUND**

		<u>Notes</u>
Total Liability (as of 7/1/2019) <i>(Adjusted for retirement payouts since 7/1/2019)</i>	\$14,789,628	The Town of Berlin Retirement Income (Defined Benefit) Plan was amended for the last time effective July 1, 2000. As a result of this final amendment no new Town employees (excludes BOE employees covered by the Teacher's Retirement Fund) were eligible to participate in the plan. As part of the amendment, participants in the DB Plan have the option to be paid out with an annuity or a lump sum. In recent years, all retiring participants have elected the lump sum payout.
Cash Balances:		
Prudential (as of 4/30/2020)	\$2,369,386	
ICMA Plus (as of 4/30/2020)	<u>\$5,425,614</u>	
	<u>\$7,795,000</u>	Currently, the Town is executing a pay-as-you-go program to manage new retirements. The plan includes 11 active participants, 3 inactive but eligible participants and 18 annuitants.
Funding % - Total	52.7%	
Funding % - DB	25.3%	
Unfunded Liability	(\$6,994,629)	<u>Anticipated retirements:</u> FY 2020: 2 active part. (\$1,085,618 proj. payout) retired; 1 active part. (\$376,513) started retire process Annual annuitant payouts: \$173,987 (updated from budget for two (2) deceased annuitants)

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ACTIVE CAPITAL PROJECTS

	<u>% Complete*</u>	<u>Project Balance**</u>	<u>Notes</u>
High Road Bridge	100%	\$0	Project is complete. Contractor has been paid. Awaiting final engineering invoice and State audit. After the State audit the Town will reimburse the State for excess amount advanced for the project - actual project cost was less than original estimate. Town has been advised that the State audit may take up to 10 years once the project is closed. Town has reserved for excess funds.
Town Hall Doors/Storefronts	83%	\$7,606	Town is working through a few scope changes utilizing project contingency. Once complete, the Town will seek reimbursement from OPM under the LoCIP program for the remaining receivable.
Police Jail Cells	100%	\$0	Architect signed off as substantially complete. There is one punch list item remaining and the change order has been signed to address the issue.
Security Vestibules	100%	\$0	Town has received final invoices and the invoices are being reviewed by Facilities. BOE is obtaining final sign-off and will formally accept the project once those are obtained. Once BOE accepts the project, the formal reimbursement request will be placed with the State.
Railroad Pond Dam	93%	\$0	Project is complete except for a few punchlist items that will be addressed in the spring. Grant reimbursement was received.

\* % complete represents invoices received versus total expected project cost - this metric will lag actual construction completion

\*\* Capital projects fund balance includes encumbrances.

2% Account Tracking:

	<u>Budget</u>	<u>Actual</u>	<u>Encumbrance</u>	<u>Uncommitted Balance</u>	
BLAST Classroom	\$200,000	\$186,138	\$14,459	(\$597)	Encumbrance is for appliances & furniture; additional cost for furniture (approx. \$1k) will be encumbered near term - funding will come from McGee Gym Painting line
Gym Floors	\$117,775	\$117,775	\$0	\$0	Complete - all POs closed
McGee Gym Painting	\$37,225	\$0	\$28,368	\$8,857	Bid came in lower than expected; portion of savings is being applied to BLAST Classroom furniture
Security Guard Equipment	\$25,000	\$12,467	\$4,258	\$8,274	Uniforms, weapons and amunition received and paid; remaining encumbrance relates to uniforms
TOTAL	<u>\$380,000</u>	<u>\$316,381</u>	<u>\$47,085</u>	<u>\$16,534</u>	

Risks			Opportunities		
Description	Projected Amt.	Probability	Description	Projected Amt.	Probability
2. Legal costs to defend P&Z and/or guide TC for Atkins St., defend Assessor against Eversource tax appeal, labor attorney to represent the Town in union negotiations (Police, Dispatchers, White Collar)	\$30,000	Medium/High	1. Higher than budgeted Education Cost Sharing Grant from the State.	\$264,000	High
3. Refuse Disposal - recycling market is volatile and State/Federal intervention is possible increasing uncertainty in the short-term	\$30,000	Medium	2. Lower debt service costs - retired BANA's instead of rolling, improved bond rating lead to lower interest costs for June 2019 GO Bonds	\$170,000	High
8. Tax refunds - supplemental motor vehicles recorded in Berlin but ownership is in another town - issues primarily driven by erroneous DMV records	\$20,000	Low	3. Higher than budgeted interest earnings	\$600,000-\$650,000	High
			4. Position vacancies - Town Planner, Police retirements	\$600,000+	High
			5. Higher than budgeted tax receipts (assumes Eversource is not settled or settled on terms favorable to the Town)	\$1,700,000	High
			6. Contingency funds are not needed - requires few or none of the risks to materialize & no new risks to appear	\$35,000	Medium
<b>TOTAL</b>	<b>\$80,000</b>		<b>TOTAL</b>	<b>\$3,200,000 - \$3,500,000</b>	

\* The outcome of the Eversource tax lawsuit & risks to the Farmington Ave. development project were excluded from the lists above.

\*\* Non-budgeted appropriations reduce the net result (Opportunities - Risks) above. In FY20, \$2.1 million (including requested \$255k) of non-budgeted appropriations were approved.

\*\*\* The Opportunities listed above do not include the impact of year-end transfers to capital accounts.