

OFFICE OF THE TREASURER
BRANFORD, CONNECTICUT



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2021 FEB 19 P 2:33

Isa E. Arpin
BRANFORD TOWN CLERK

(203) 315-0663
Fax: (203) 315-3736
www.branford-ct.gov

Date: February 19, 2020

To: Joseph Mooney
Chairman, Board of Finance

From: James P. Finch
Finance Director

Re: Request for a James Blackstone Memorial Library Sinking Fund

Background

As you are aware the recent cuts to the library combined with the high withdrawal rates on the endowment were a cause for concern which prompted multiple presentations to your board this fall. My take on our previous discussions, coupled with my read of the board, is that we should take measures to improve the endowment. As a result the board would initially fund a historically large budget increase in FY 2022 and then experience more moderate increases going forward.

The Blackstone trustees, in anticipation of receiving pushback from the appropriating bodies, were contemplating using windfalls from grants and donations as part of next year's budget request to reduce the town's contribution. I along with the First Selectman see this as "kicking the can down the road" and would like to avoid this outcome. We are also aware that the library has an immediate need to replace a chiller and duct cleaning at a cost of \$100,720. Finally, the library trustees and appropriating body liaisons have expressed an interest in exploring a sinking fund. Therefore, while the request before you is to address the chiller I believe it is also beneficial for the board to view this in the context of our previous discussions on the endowment and next year's budget request.

Chiller Duct Work and Non-Recurring Needs.

- 1) The Town establishes a sinking fund for the library.
- 2) The library writes a check to the town which we deposit in the sinking fund for the chiller and duct work so the work can be done in the current year.

Operating Budget

- 1) Request the library limit the endowment withdraw to 3.25% versus the 4% they would have originally proposed.
- 2) Request the library refrain from using its dollars (unspent funds) to balance the budget as relying on this one time revenue source is ill-advised.

Advantages

- The library endowment is placed on a stable path which is a goal of the town.
- This continues the philosophy of working with outside endowments and trusts to benefit town services (Foote).
- The establishment of the sinking fund provides for additional budget predictability as evidenced by the use of existing sinking funds for other needs.
- It avoids relying on one time revenue to balance the budget and instead uses the windfall for a one time need (Chiller).

Disadvantages

- The town's estimated contribution in FY 2022 will increase by approximately 11% or \$154,073.

Resolution

Resolved: The Board of Finance authorizes and recommends to the RTM the establishment of the James Blackstone Memorial Library Sinking Fund which will be initially funded through a contribution from the library.

I realize there is a lot of moving parts and I have attached the following schedules to provide background:

- Summary of what Blackstone was contemplating versus the recommendation we are considering.
- Outlines of previous BOF meetings with regard to the endowment discussion.
- A spreadsheet showing how the sinking fund could apply to the library with the fund being created in the current year.

Cc J. Cosgrove
L. Arpin
James Blackstone Trustees

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Wai E. Arpin
BRANFORD TOWN CLERK

Comparison of Funding Plans JBL versus Town Recommendations

Original Proposal (JBL)	20-21	21-22	Change	%
Expenditures	1,768,788	1,793,987	25,199	1.42%
Income				
Operations, Contributions, Grants, Fundraising	158,750	109,500	(49,250)	-31.02%
Expenses less Income	1,610,038	1,684,487		
Other Sources of Funds				
Endowment (4.0%)	121,213	106,403		
Transfer From Unspent Funds	44,863	83,583		
Subtotal	166,076	189,986	23,910	14.40%
Balance to be funded by the Town	1,443,962	1,494,501	50,539	3.50%

Revised Proposal (Ours)	20-21	21-22	Change	%
Expenditures	1,768,788	1,793,987	25,199	1.42%
Income				
Operations, Contributions, Grants, Fundraising	158,750	109,500	(49,250)	-31.02%
Expenses less Income	1,610,038	1,684,487		
Other Sources of Funds				
Endowment (3.25%)	121,213	86,452	(34,761)	-28.68%
Transfer From Unspent Funds (1)	44,863		(44,863)	
Subtotal	166,076	86,452	(79,624)	-47.94%
Balance to be funded by the Town	1,443,962	1,598,035	154,073	10.67%

Increase Factors	Amount	%
Flat Funding for 2021	45,000	29%
Endowment Change	34,761	23%
Unspent Funds	44,863	29%
Increases due to policy considerations	124,624	81%

(1) The transfer of unspent funds for FY 2022 will be used in concert with other library dollars to establish the sinking funds in the current year.

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Neil Arpin
BRANFORD TOWN CLERK

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BRANFORD, CONNECTICUT



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(203) 315-0663
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Date: October 22, 2020
To: Joseph Mooney
Chairman, Board of Finance
From: James P. Finch
Finance Director *[Signature]*
Re: Request for a Discussion on James Blackstone Memorial Library Endowment

Early this summer I was asked to attend a meeting of the Blackstone Library Board to provide an overview of the budget process. In advance of my presentation I reflected on the past year's budget cycle while taking the opportunity to revisit some thoughts regarding the library budget and the endowment. Generally my thoughts focused on the sustainability of the endowment in this low rate environment and the current withdrawal rates. Following a meeting to discuss these thoughts with the First Selectman, the Library Director, President and Treasurer the First Selectman felt this represented a strategic opportunity for the town and we should approach the Board of Finance. I want to acknowledge the assistance, support and input we received from the library Treasurer, Adam Spilka who will be joining me at the meeting.

I have attached a copy of my notes in advance of the meeting to assist you in the discussion.

Cc J. Cosgrove
L. Arpin
James Blackstone Trustees

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Noel E. Arpin
BRANFORD TOWN CLERK

James Blackstone Library Endowment Discussion

Library Funding Sources:

The Library is currently funded through the following sources:

- Grants, fundraising and fees.
- Drawdowns from the endowment.
- The expenditure requirements less the above sources initially determine the amount the library requests from the Town. The final contribution to the library from local property tax dollars is decided pursuant to the adoption of the RTM budget. Essentially the contributions from the endowment resembles the use of fund balance in the general fund in that it is used to offset tax requirements without considerable depletion.

Philosophical Approach for Funding the Library and Endowment Sustainability:

- Taxpayers receive library services at a discount (15% off coupon).
- The endowment represents the largest non-tax revenue source for the library.
- The Town encourages efforts that enhance the sustainability of the endowment so that it does not become a declining revenue source that ultimately results in the town funding 95% of operations.

Threats and Challenges to Sustainability:

- Volatile market returns, underperformance (lower than expected) and low interest rates.
- High withdrawal rates coupled with sequence risk in the near term.
- Erosion of support from appropriating body (RTM)

Measuring the Risks and Threats:

- Work with the library to review asset allocation to determine if portfolio construction is consistent with cash flow needs.
- Work with the library to test the withdrawal and return assumptions for the desired portfolio using a Monte Carlo Analysis. The analysis uses a variety of scenarios to estimate the probability that projected portfolio withdrawals are sustainable using the beginning balance, withdrawals, return assumptions and time frame.

Preliminary Test (Monte Carlo) Results:

- The current rate of portfolio withdrawals is more than likely to deplete the portfolio over a fifty year time horizon.

Future Steps and Considerations:

- Run additional Monte Carlo simulations using lower withdrawal amount and a shorter time period.
- Estimate the budgetary impact of lower withdrawal rates against future tax requirements (less non tax revenue = higher town contribution).
- Since the initial analysis assumed no deposits into the portfolio any non-recurring revenue deposits including but not limited to bequests, large donations and grants should be deposited in the portfolio.

Final thoughts and observations:

In many respects the approach outlined above is reflective of the careful consideration and planning the town exercises when funding pensions, other post-employment benefits, self-insurance and more recently coastal resiliency. But perhaps the best analogy was offered by the First Selectman when he mused that this approach resembles the actions to acquire Foote Park from the Foote Trust. As the Board may recall by acquiring the park in exchange for a small grant to maintain it, the town provided stability and sustainability to the Trust and its ability to support the remaining beneficiaries. In both of these scenarios the town sees the merit in preserving trusts that while outside of the town's control are nevertheless important vehicles for providing services to the town's residents.

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Wesley E. Arpin
BRANFORD TOWN CLERK

Follow Up to James Blackstone Library Endowment Discussion

Confirmation of Endowment Restrictions:

The Library's identified the following restriction (confirmed in their audit):

- A restriction of \$25,000 exists, as a result the balance of the endowment is largely unrestricted.

Updated Results of the Revised Monte Carlo Analysis:

- Review Hightower's Analysis of multiple withdrawal rates 3%, 3.25%, 3.5% (to be provided)
- Initial recommendation is to advocate for a 3% withdrawal rate as it provides a higher probability that withdrawals at the indicated rate may be made for 30 years.
- The recommendation is consistent with the Town's previously stated desire to promote efforts that enhance the sustainability of the endowment so that it does not become a declining revenue source.

Library Funding Approach (Smoothing) Vs. the Sustainable Withdrawal Methodology Used in the Analysis:

- The Trustees use a three year average of calendar year value as a base for their withdrawal percentage.
- The Sustainable Withdrawal Method applies a percentage against a beginning balance adjusted for inflation going forward regardless of market experience.
- The Sustainable Withdrawal method is less volatile while the Trustee Model will result in funding swings pursuant to large gains or losses in the portfolio.

Preliminary Budgetary Impacts:

- Distribute and discuss a spreadsheet showing the budgetary impact of the lower withdrawal rate against future library requests and town contributions.

The current year (FY 2021) budget as constructed will result in a deficit of approximately \$74,000. However as the Board of Finance is aware the year end results will be dictated by the actual revenues and expenditures. Additionally any additional one time grants or donations over and above the library's needs should be deposited in the portfolio.

Key Takeaways:

Income Distribution %	Probability of Money Lasting 30 years	Current Endowment Distribution	Monte Carlo Distribution	Difference Current vs Model
3%	86%	121,213	82,500	38,713
3.25%	81%	121,213	89,376	31,837
3.50%	75%	121,213	96,240	24,973

Questions and Comments:

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Ms. E. Arpin
BRANFORD TOWN CLERK



DRAFT

February 1, 2021

Mr. Joseph Mooney
Chairman, Board of Finance
Town of Branford
1019 Main Street
Branford, CT 06405

Dear Mr. Mooney,

The Blackstone Library requests placement on the agenda of the Board of Finance regular meeting scheduled for February 26, 2021 in order to present a request for emergency funding to replace our HVAC Chiller and duct cleaning.

The library's HVAC system was installed during the 1996 building renovation. The most recent renovation included additional HVAC components made necessary by the addition of a 2000 square foot entryway. The system installed in 1996 was deemed sufficient for the rest of the building's needs. Now, after 25 years the chiller has reached the end of its useful life and is need of immediate replacement. In addition the recent renovation uncovered the need for duct cleaning throughout the building.

The library has obtained a quote from its current HVAC contractor, Controlled Air for the chiller and a proposal for the duct cleaning both of which are attached.

On a positive note, the library was the beneficiary of unanticipated grants and donations within the past year and would like to use these funds to address these needs. As the Board of Finance is aware the library trustees and treasurer continue to work with the respective RTM and BOF representatives to improve communication and transparency with regard to the library funds. We believe these efforts are beneficial and we appreciate the support and feedback to date. As evidence of these efforts the trustees discussed the concept of setting up a sinking fund for smaller capital and non-recurring items. We shared these discussions with the Finance Director and both he and the First Selectman support the concept. As a result, the Finance Director will make a request to the Board of Finance to establish the fund. If the fund is approved the library will issue a check to the town for \$100,720 to be deposited in the sinking fund for these items.

Please contact me at 203.488.1441, ext. 312, or kjensen@blackstonelibrary.org to confirm our placement on the agenda.

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Noel Espino
BRANFORD TOWN CLERK

<u>Description</u>	<u>20-21</u>	<u>21-22</u>	<u>22-23</u>	<u>23-24</u>	<u>24-25</u>	<u>25-26</u>
<u>Opening Sinking Fund Balance</u>	-	-	2,000	11,000	8,740	3,740
<u>Sources of Funds</u>						
Blackstone Contribution	100,000	-	-	-	-	-
Town Contribution (1)	-	35,000	35,000	25,000	25,000	25,000
Funding Sources	100,000	35,000	37,000	36,000	33,740	28,740
<u>Uses of Funds</u>						
Technology Upgrades (2)	-	9,000	-	7,260	-	-
Security Cameras	-	-	-	-	-	-
Furniture	-	-	-	-	-	-
HVAC - Air Chiller (est)	80,000	-	-	-	-	-
Duct Work (est)	20,000	-	-	-	-	-
Phone System	-	15,000	-	-	-	-
Strategic Plan Initiatives	-	9,000	11,000	-	10,000	-
Contingency/TBD Projects	-	-	15,000	20,000	20,000	20,000
Total Uses	100,000	33,000	26,000	27,260	30,000	20,000
<u>Closing Balance</u>	-	2,000	11,000	8,740	3,740	8,740

- 1) Approved FY 2021 Budget was \$29,010
- 2) Smart Boards, Microfilm Scanner and Computers