FINANCE POLICY
RECOMMENDATION

Balmer, Nan

Subject: FW: Your upcoming rating review

From: Clark Rowell [mailto:clark.rowell@unibank.com]
Sent: Monday, October 31, 2016 4:12 PM
To: Pierce, Zoe; Keveny, Brian
Cc: Kimberly Mooers; Kristy Genga
Subject: Your upcoming rating review

Zoe and Brian –

Thank you for the preview of your FY16 draft audit, and as I have expressed to both of you, I am very concerned about the likelihood of a downgrade in advance of your next bond issue.

In the Statement of Revenues, Expenditures and Changes in Fund Balance, the draft audit shows a $2,432,979 reduction to the General Fund balance. This is a substantial reduction, and notwithstanding the good results in FY15, this shows reductions in General Fund balance in four out of the past five years, from $22,949,006 as of June 30, 2011, to $13,644,810.

In addition, the measure of reserves that Moody's has cited (the unassigned, assigned and committed fund balances) has decreased from $21,443,629 or 30.01 percent of operating revenues, both figures as of June 30, 2011, to $12,652,789 or 18.69 percent of operating revenues, both figures as of the June 30, 2016, draft audit.

In addition, noting that Moody's cited their concern for a material increase in the debt burden, we will be going into the next rating review with an issue of approximately $15 million, to likely be followed by a subsequent issue of $21 million for the library and COA facility – I think they will consider these as material increases to your debt burden.

Without a spirited defense of the rating, I think you should expect, or at least not be surprised by, a downgrade in February. Looking back at the last four rating reports, Moody's continually cites their concern for continued reductions in fund balance, and I think they explicitly drew the "line in the sand" with the criterion of general fund balance falling below 20 percent of operating revenues. Yes, for your last rating review, you did state that your use of Free Cash would be $1,500,000 for the next few years. However, with this reduction in fund balance, I think your use of Free Cash has to be reduced well below the $1,500,000 figure, perhaps to zero.

I do not want the two of you nor Nan blindsided by a downgrade – nor do I want to preclude you from having the opportunity to prepare the defense of the rating. As I suggested before, I think we need a three to five year revenue and expenditure projection to show the restoration of the fund balance and the return to a structurally balanced budget in five years – and then we need the Finance Committee to endorse it and vigorously stand by it in front of Town Meeting.

I hope this makes sense. Please let me know if you have any questions or comments.

Thanks.

Clark