

POLICY MEMORANDUM

SUBJECT: GENERAL FUND - FUND BALANCE RESERVE POLICY

DATE: 05/06/2024

BY: Dawn Norton, CFO

APPROVED: BoS 5/6/24

I. PURPOSE

The Town of Wilton has a successful history of responsible fiscal management. The purpose of this policy is to document the Town's practice with respect to the management of General Fund – Fund Balance Reserve in accordance with professional standards set by the Government Accounting Standards Board (“GASB”) and the following goals:

- Fund Balance is essential to preserve the credit-worthiness of the Town and meet the standards and expectations of rating agencies.
- Fund Balance reserves provide financial resources in the event of unexpected emergency situations such as natural disasters, economic uncertainty, or other similar condition in which additional reserves are needed to ensure continuity of operations and emergency response.

This policy is intended to provide for a fund balance which satisfies the cash flow and contingency needs of the community, support our superior bond rating with the rating agencies, and at the same time avoid over taxing the citizens through maintaining an excessively large fund balance.

Credit rating agencies determine the adequacy of the Town Fund Balance reserves using a complex series of financial evaluations. The size of the fund balance is an important, but not the only, consideration of the Town's rating. Other important factors include the reliability of a government's revenue sources, economic conditions, community wealth factors, cash position, debt ratios, management performance, and fiscal decisions made by the legislative bodies.

A towns ability to accurately plan and develop sufficient fund balance reserves is a common characteristic of a highly rated municipality.

This policy is also intended to codify the Town's compliance with GASB Pronouncement #54 which defines the components of Fund Balance as follows:

- **Non-spendable:** Amounts that cannot be spent either because they are not in spendable form (e.g. long-term receivables, prepaid expenses, inventory) or because they are legally required to be maintained intact (e.g. endowment fund).

- **Restricted:** Amounts that have legally enforceable constraints placed on their use by external parties or laws and regulations.
- **Committed:** Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.
- **Assigned:** Amounts intended to be used for specific purposes but are neither restricted or committed.
- **Unassigned:** Amounts that do not fall within any other classification.

II. POLICY RESPONSIBILITY

Board of Selectmen, (BoS)
 Board of Finance, (BoF)
 Town Administrator
 Chief Financial Officer, (CFO)

III. PROCEDURE

- The Town will strive to maintain a minimum level of General Fund Unassigned Fund Balance as of June 30th of each fiscal year with a target range of 15% to 17% of the current year’s General Fund budgeted operating revenues.
- The General Fund Unassigned Fund Balance may be appropriated subject to the provisions of the Town Charter regarding non-budgeted appropriations.
- The use of General Fund Unassigned Fund Balance will be limited to one-time, non-recurring purposes such as land acquisition, capital projects, emergency/storm response and other one-time, non-recurring uses determined by the relevant decision-making authorities, to be in the best financial interest of the Town of Wilton and in accordance with this policy and the Town Charter.
- The receipt of one-time, non-recurring General Fund revenues will not be used to finance ongoing operating expenditures, programs and activities or used to alleviate a mill rate increase or offset taxes.
- In the event that General Fund Unassigned Fund Balance is below 15% of current year budgeted revenues, any unused Charter Reserve expenditures will be used to increase the General Fund Unassigned Fund Balance until the balance is at the minimum 15% or higher, subject to the provisions of the Town Charter and State Statute.
- In the event that using General Fund Unassigned Fund Balance to provide temporary funding for an unforeseen emergency causes the General Fund Unassigned Fund Balance to fall below the minimum threshold of 15%, the Town Administrator in coordination with the CFO will develop a plan to replenish the General Fund Unassigned Fund Balance as part of the subsequent year’s budget proposal. This plan will seek to restore General Fund Unassigned Fund Balance to the minimum 15% level within two years following the year in which the emergency event occurred.