

Proposed Change to General Fund Balance Policy

The town's general fund balance policy requires that the Rainy Day fund balance equal 50% of operating expenditures for the current fiscal year. The Unassigned fund balance is set at 15% of operating expenditures. Because these requirements must be satisfied at the beginning of a new fiscal year, any increase in the budget from the previous fiscal year means that excess funds must be available from the previous year to satisfy current year balance requirements. For example, the FY2026 Rainy Day requirement is \$2,899,450, more than \$200,000 higher than the FY2025 requirement. Fortunately, these additional funds were available from FY2025 surplus.

The goal in the budget process is to develop a balanced budget, not one that includes substantial surplus. Even if the process included planning for a surplus, there would be uncertainty in how much to plan for because the operating budget for the next fiscal year is not determined until February.

To eliminate this uncertainty, a proposed alternative would set the initial Rainy Day fund balance at 50% of the previous fiscal year's balance. So, for example, the initial balance for FY2027 would equal the current FY2026 balance of \$2,899,450. The FY2027 budget would include monthly or other periodic contributions to the Rainy Day fund so that the March 31, 2027 balance would equal 50% of the FY2027 operating expenditures. The Unassigned balance would be allowed to increase gradually over the course of the year so that the end of FY2027 balance would equal 15% of FY2027 operating expenditures. This proposed change would alleviate any uncertainty about availability of surplus funds.

Town of Dewey Beach

TOWN OF DEWEY BEACH GENERAL FUND BALANCE POLICY

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The following policy focuses on funds within the General Fund that have not been designated for a specific purpose. The policy ~~thus excludes the Infrastructure Committed balance and the Legal and Litigation and Comprehensive Plan Assigned balances in the General Fund~~ sets requirements for an assigned fund intended to protect the town from serious adverse financial situations and an unassigned fund to provide short-term financial protection.

Policy Summary

The policy has two primary components.

- The first component is an Assigned Rainy Day fund balance equal to **at least** 6 months of operating expenditures. This Assigned balance is intended to protect the town financially from the effects of catastrophic events such as a hurricane or other event or condition that seriously impairs the town's revenues or causes significant unanticipated expenses. The balance at the beginning of each fiscal year shall be equal to 50% of the previous fiscal year's operating expenditures. The current fiscal year's budget shall include monthly or other periodic contributions to the Rainy Day fund so that the balance at the end of the fiscal year shall be equal to 50% of operating expenditures for that fiscal year.
- The second primary component is ~~to maintain~~ an Unassigned fund balance equal to **at least** 15 percent, or nearly two months of operating expenditures. This Unassigned balance provides protection against short-term imbalances in revenues and expenditures.

The Unassigned balance at the beginning of the fiscal year shall be equal to 15% of the previous fiscal year's operating expenditures and shall be allowed to increase as needed so that the balance at the end of the fiscal year is equal to 15% of operating expenditures for that fiscal year. Any remaining funds in excess of the required amount shall be available for allocation to other uses. ~~is a fixed amount set at the beginning of the fiscal year based on the approved budget for that year. Any excess funds resulting from monthly operations that increase the Unassigned balance above the set amount are transferred to the Assigned Rainy Day balance.~~ If the Unassigned balance falls below the targeted amount, it is replenished either from excess revenues the following month or by transferring needed funds from the Rainy Day balance. This replenishment process is managed by the Town's financial staff with Town Manager approval.

If any projected shortfall in revenue or excess expenditures exceeds one month's average budgeted expenditures, the Town Manager will propose for Commissioner approval a plan for using Rainy Day funds to address the problem. The proposal will also include a plan for replenishing the Rainy Day fund if use of these funds will result in a remaining balance less than ~~6 months of budgeted operating expenditures.~~ the required amount.

Implementation

~~Based on recent financial reports, the Unassigned balance is approximately \$2.9 million. This total includes the funds currently with Brown Advisory in short-term cash and cash equivalent investments (\$1.3 million) but excludes the proceeds from the~~

~~auction of surplus equipment obtained through the federal Law Enforcement Support Office (LESO) program (\$166K). The LESO funds have not been formally designated as Assigned, but they are reserved for police use. These funds are currently being tracked separately in the Town's financial reports and will continue to be tracked separately without formal designation as an Assigned balance.~~

~~The recently approved FY 2022 budget includes approximately \$3.7 million in projected expenditures. The Assigned Rainy Day balance will be set at \$1.9 million for FY 2022. The current investment with Brown Advisory will remain, and the Investment Committee will recommend a new plan for investment of these funds that is consistent with anticipated needs and the Town's investment policy. The remaining portion of the Rainy Day balance will remain available for unanticipated shorter-term requirements. The current budget allocation of 5 percent of transfer tax revenues to Brown Advisory will continue and serve to replenish and/or grow the Rainy Day balance.~~

~~The Unassigned balance will be established at \$600K. The approximately \$400K remaining from the current Unassigned balance of \$3 million will be transferred to a new Assigned Capital Improvement fund.~~