

Process for Developing General Fund Balance Policy

Recommendations in the two most recent town audits have included the need for a policy on the level of funds to be maintained in the town's General Fund. These recommendations suggested that the town's policy should be consistent with guidelines from the Government Finance Officers Association.

The process for developing the draft policy included:

- A March 8, 2021 joint workshop with the Town Commissioners and the Audit, Budget and Finance, and Investment Committees to begin development of the town's policy;
- Subsequent discussion among the three committee chairs, the two commissioner liaisons to those committees, the Town Manager, and the Town's auditors;
- Development of three options for consideration by the auditors;
- Discussion of the three options by the Town Manager and the auditors; and
- Based on the discussion with the auditors, development of a draft policy that combines two of the three options considered.

General Fund Balance Policy

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. It was approved by the Town Commissioners on DATE.

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 second primary component is to maintain an **Unassigned fund balance** equal to 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 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.

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

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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.

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