

General Fund Balance Policy

The following policy is intended to establish minimum fund balance levels for the General Fund that define what resources are available and provide sufficient financial flexibility to meet obligations and plan for contingencies in unforeseen fluctuations in revenues and expenditures. It was approved by the Town Commissioners on May 14, 2021.

Policy Summary

The policy includes five categories of fund balance – Nonspendable, Restricted, Committed, Assigned, and Unassigned – but focuses on the latter three categories for which Town government determines spending and imposes any constraints on that spending. In addition to the Nonspendable and Restricted balances, the General Fund for FY 2022 includes the following balances:

- **Committed**
 - Committed for Streets
 - Committed LESO Funds for Police
- **Assigned**
 - Assigned for Comprehensive Plan
 - Assigned for Legal and Litigation
 - Assigned for Public Safety
 - Assigned for Beach Safety
 - Assigned for Broadband Infrastructure
 - Assigned for Capital Projects
 - Assigned for Rainy Day
- **Unassigned**

The policy requires that the **Assigned Rainy Day fund balance** equal 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 **Unassigned fund balance** will be maintained at 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

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if use of these funds will result in a remaining balance less than 6 months of budgeted operating expenditures.

Implementation for FY 2022

The estimated Unassigned balance is approximately \$3.130 million. This total includes the funds currently with Brown Advisory in short-term cash and cash equivalent investments (\$1.3 million) and the proceeds from the auction of surplus equipment obtained through the federal Law Enforcement Support Office (LESO) program (\$160K). The LESO funds will be formally designated as Assigned LESO Funds for Police. In April 2021, the Commissioners voted to establish a new Assigned Broadband Infrastructure balance to support consulting assistance and other work related to the siting of new 5G and other broadband poles and equipment. The initial balance for this account is \$40K. After deducting LESO auction proceeds and the funds for the Assigned Broadband balance, the remaining estimated Unassigned balance is \$2.930 million

The recently approved FY 2022 budget includes approximately \$3.8 million in projected expenditures. The Assigned Rainy Day balance will be set at 50% of budgeted expenditures or \$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 or grow the Rainy Day balance.

The Unassigned balance will be established at 15% of budgeted expenditures or \$570K. The approximately \$460K remaining from the remaining Unassigned balance of \$2.930 million will be transferred to a new Assigned Capital Projects balance. The Assigned Capital Projects balance will also receive half of the proceeds from the hotel and motel lodging tax which began on July 1, 2021.