

Town of Brunswick Maine General Fund - Fund Balance Policy

Purpose of this Policy

The purpose of this policy is to establish target levels of fund balance for the general fund and to establish a process and criteria for the continued evaluation of those target levels as conditions warrant. This policy shall also establish a process for reaching and maintaining the minimum targeted level of unassigned fund balance, guidelines for maintaining a range of balance above the minimum, and the priority for the use of amounts in excess of the minimum and maximum unassigned fund balance targets. Finally, this policy shall provide a mechanism for monitoring and reporting the Town's general fund balance. This policy applies only to the general fund. The general fund includes both municipal and school annual operations.

Definitions and Classifications

Fund Balance is a term used to describe the net assets of governmental funds. It is calculated as the difference between the assets and liabilities reported in a governmental fund.

Governmental fund balance is reported in five classifications that comprise a hierarchy based primarily on the extent to which the Town is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The five classifications of fund balance for the General Fund are defined as follows.

- *Non-spendable* – resources which cannot be spent because they are either a) not in spendable form or; b) legally or contractually required to be maintained intact.
- *Restricted* – resources with constraints placed on the use of resources which are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.
- *Committed* – resources which are subject to limitations the government imposes upon itself at its highest level of design making, and that remain binding unless removed in the same manner.
- *Assigned* – resources neither restricted nor committed for which a government has a stated intended use as established by the Town Council, or a body or official to which the Town Council has delegated the authority to assign amounts for specific purposes.
- *Unassigned* – resources which cannot be properly classified in one of the other four categories.

The General Fund should be the only fund that reports a positive unassigned fund balance amount because it is the primary, unrestricted fund used for general operations, while other funds have specific restrictions or designations that prevent them from having unassigned fund balances.

The committed, assigned, and unassigned classifications are often referred to, in the aggregate, as the *unrestricted fund balance*. *GAAP* means generally accepted accounting principles in the United States.

Background and Considerations

Fund balance is intended to serve as a measure of financial resources in a governmental fund. The Town's management, credit rating services, and others monitor the levels of fund balance in the general fund as an important indicator of the Town's economic condition. While the credit rating services have always analyzed fund balance as part of their evaluation of credit-worthiness, these services have recently focused increased attention on evaluating appropriate fund balance levels due to concerns reflected in the

credit markets. The Government Accounting Standards Board (GASB) also brought increased attention to fund balance with its fund balance project. This project culminated in GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The Government Finance Officers Association issues “Best Practice” guidance documents as amended from time to time. The most recent was issued in 2015 entitled, *Fund Balance Guidelines for the General Fund*.

In establishing an appropriate level of fund balance, and the appropriate level within the established range for unassigned fund balance, the Town of Brunswick has considered the following factors:

- *Property tax base.* The property tax is the largest revenue source of the Town’s general fund. It is the source of revenue for debt backed by the Town’s general obligation pledge. In analyzing the health of the tax base it is necessary to look at the diversification of the tax base and its potential for growth.
- *Non-property tax revenues.* These resources must be considered in terms of the percentage each comprises of the total budget, as well as the reliability and stability of these resources. The Town’s largest non-property tax revenues have historically come from the State of Maine for municipal and school uses, and are vulnerable to state budget appropriations.
- *Exposure to significant outlays.* The Town shall consider its potential exposure to significant one-time outlays, either resulting from a disaster, severe weather, immediate capital needs, or other events potentially affecting both municipal and school expenditures.
- *Economic outlook.* To the extent possible, the Town shall use available economic indicators to assess upcoming financial challenges to its citizens and the operations of the Town. This consideration should be used in determining fund balance levels.
- *Debt profile.* It is essential that the Town have sufficient capacity to make its debt service payments. Sufficient capacity must be maintained in the event of interruptions or reductions in revenue flow, or in the event of unforeseen expenditures. In determining the appropriate capacity, the Town will consider its existing debt service profile as well as its future debt service profile as developed in the Town’s capital improvement program. Debt service shall be reviewed in total as well as net of any other revenues that may be used to result in a net amount to be funded from property taxes.
- *Liquidity.* An adequate level of fund balance should be maintained to ensure sufficient liquidity. The potential drain on general fund resources from other funds, as well as the availability of resources in other funds, should be considered.
- *Budget management.* Budgetary variances are an indicator of an ability to manage the Town’s financial affairs. A consistent pattern of positive budgetary variances along with moderate increases in the growth of the annual municipal and school department operating budgets can be viewed as evidence of strong budgetary management. Evidence of weak budgetary management would necessitate higher levels of fund balance.
- *Future uses.* The Town’s adopted capital improvement program anticipates future uses of fund balance to fund minor capital improvements. Those planned uses should be considered in evaluating the appropriate level of fund balance.
- *Employment base.* Although the Town does not have any revenues directly tied to payroll, its revenues are indirectly affected by the strength and diversity of its employment base. A review of the employment base should be considered in the development of an appropriate fund balance target.
- *GFOA Best Practice.* The Government Finance Officers Association (GFOA) has established a best practice that recommends, “... at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.” GFOA’s best practice also states, “... governments may deem it appropriate to exclude from

consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance rather than unrestricted fund balance.”

Policy

It is the policy of the Town of Brunswick to maintain a minimum unassigned fund balance in the general fund at 16.67% of general fund revenues (approximately two months of operating revenues) measured on a GAAP basis. General fund revenues includes both municipal and school department annual general fund revenues. In the event that the unassigned fund balance drops below this minimum level, the Town will develop a plan, implemented through the annual budgetary process, to bring the unassigned fund balance to the target level over a period of no more than three (3) years. The policy also sets a desirable range above the minimum, of up to a level of 25% of general fund revenues (approximately three months of operating revenues).

The Finance Director, in accordance with GAAP, shall report fund balance in the appropriate classifications and make the appropriate disclosures in the Town’s financial statements. Unless classified as restricted or committed, the following balances shall be classified as assigned per GAAP or as required by this policy.

- *Encumbrances.* Amounts encumbered at year-end by purchase order or another means shall be classified as assigned.
- *Budget Appropriations.* Amounts appropriated in the annual budget resolve (including use of unassigned fund balance in the next year’s budget), or in any supplemental budget resolves, for expenditures in an ensuing fiscal year shall be classified as assigned. For example, use of fund balance in the next year’s budget adopted before June 30th, will be classified as assigned as of June 30th.
- *Capital Budget.* Amounts designated in the first year of the Town’s capital improvement program (“CIP”) as either appropriations or advances to other funds shall be classified as assigned.
- *Compensated Absences.* These are not typically recorded as liabilities in the governmental funds, unless they are paid out immediately following the close of the fiscal year. However, the obligation for compensated absences can be significant. Therefore, the Town will assign the amount equal to the estimated amount required at year end to pay the compensated absence obligation for those who meet the eligibility criteria for payment and can be expected to terminate employment with the Town in the ensuing fiscal year. This amount shall exclude any amount recorded as a liability. The amount of compensated absences not recorded as a liability shall be classified as assigned.
- *Professional Judgment.* Amounts the Town Manager and Finance Director determine, in their professional judgment, represent the Town’s intended use of fund balance shall be classified as assigned.

Amounts in excess of the unassigned fund balance minimum target shall first be used for capital improvements or other one-time expenditures, within the following year, as recommended by the Town Manager and approved by the Town Council. Such expenditures can be for municipal or school needs consistent with this policy.

In recognition that the unassigned fund balance is an accumulation of unspent tax revenue, this policy establishes the upper limit of the range to indicate the maximum amount of unassigned fund balance to be held without an identified use. Amounts in excess of the upper limit of the unassigned fund balance range

may be used for capital improvements or one-time expenditures, within the following year, or to offset taxes in a period of up to three (3) years or longer as circumstances may allow.

Policy Administration

Annually the Finance Director shall report the Town's fund balance and the classification of the various components in accordance with GAAP and this policy.

The Finance Director shall annually review this policy and the considerations used in establishing the unassigned fund balance minimum and maximum targets.

The Finance Director shall annually present the policy to the Finance Committee for review, and report whether changes in those considerations or additional considerations have been identified that would change the recommended level of unassigned fund balance.

Should the Town fall below the minimum target level, the Finance Director shall prepare a plan to restore the unassigned fund balance to at least the minimum target level within three (3) years.

Should the Town fall above the maximum target level, the Finance Director shall prepare a plan to reduce the unassigned fund balance to below the maximum target level within three (3) years.

Proposed to Town Council: October 18, 2010
Adopted by Town Council: October 18, 2010
Finance Committee adopted amendment: August 15, 2024
Adopted by Town Council: September 3, 2024

Appendix
General Fund - Fund Balance Policy

Fund Balance as % Revenues – General Fund
For the Fiscal Years Ended June 30,

	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>
General Fund Balance	\$ 8,426,288	\$ 7,507,802	\$ 6,034,017	\$ 6,680,850	\$ 6,944,897	\$ 7,484,220
Total Revenues	48,305,683	51,605,198	53,688,754	56,335,242	57,284,003	55,250,920
As a % of Revenues	17.44%	14.55%	11.24%	11.86%	12.12%	13.55%

	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>
Unassigned						
General Fund Balance	\$ 8,508,525	\$ 9,028,572	\$ 10,001,974	\$ 8,488,177	\$ 8,670,334	\$ 10,316,603
Total Revenues	53,398,716	53,034,602	53,777,437	55,316,128	56,991,482	58,833,107
As a % of Revenues	15.93%	17.02%	18.60%	15.34%	15.21%	17.54%

	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2021</u>	<u>2022</u>
Unassigned						
General Fund Balance	\$ 11,792,687	\$ 11,488,110	\$ 12,430,139	\$ 12,002,583	\$ 17,115,570	\$ 20,614,603
Total Revenues	61,517,380	62,944,607	65,228,364	69,477,394	75,394,600	79,937,572
As a % of Revenues	19.17%	18.25%	19.06%	17.28%	22.70%	25.79%

	<u>2023</u>
Unassigned	
General Fund Balance	\$ 21,155,502
Total Revenues	86,803,943
As a % of Revenues	24.37%