

•**Resolution 116-2019** to amend the Fund Balance Policy.

WHEREAS, the Town Board of the Town of Chatham has determined that it is essential that the Town government maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates, and

NOW, THEREFORE, BE IT RESOLVED that the Town Board amends, approves, and institutes the following Fund Balance Policy effective as of May 16, 2019 which shall supersede any existing or prior Policy:

PURPOSE OF POLICY

This **Fund Balance Policy** is based upon recommendations from the New York State Comptroller that each municipality have a written fund balance policy based on GASB 54 recommendations issued April of 2011. This **Fund Balance Policy** is to guide the Town Board in funding adequate reserves to provide the capacity to:

- ensure sufficient cash flow for daily financial requirements;
- guard against significant economic downturns;
- protect against unforeseen expenditures related to emergencies;
- maintain investment grade bond ratings; and,
- provide a framework to help guide budgetary decisions.

This **Fund Balance Policy** applies to the following funds:

- General Fund (A),
- General Town-Outside-Village Fund (B),
- Highway Town-wide Fund (DA), and,
- Highway Part-Town Fund (DB).

FISCAL SOUNDNESS: SURPLUS/DEFICITS and FUND BALANCE

The concept of “fund equity” represents the total of the Town’s assets, this includes **reserved** and **unreserved** fund balances. These fund balances are not shown in the annual Town budget document, but it is important to find out about them and their size relative to the budget as a whole.

Reserved fund balance represents assets (money) set aside for specific purposes. For example, snow removal equipment replacement and other specific capital expenditures. These funds are unavailable for any other use.

Unreserved fund balance represents the amount after subtracting the reserved fund balance from the total fund equity. Unreserved fund balances are used to manage short-term variations in actual revenues and expenditures from one year to another, to protect against risks and other potential budget shortfalls, and to assure a consistent cash flow for the Town so it can pay its bills throughout the year.

The amount of the unreserved fund balance is the bottom-line indicator of Town's fiscal health: if it dips below zero for any year, that means the Town does not have enough unreserved fund balance to cover all necessary expenses – even if the Town's total fund equity (including dedicated reserves) for that year is still positive.

This **Fund Balance Policy** is to guide the Town Board in maintaining reasonable **unreserved fund balance** in the **General Fund** and the **Highway Fund** against unanticipated expenditures or revenue shortfalls. The New York State Government Finance Officers' Association recommends that municipalities maintain an **unreserved fund balance** of at least two months of **annual total appropriations** as insurance against unanticipated expenditures or revenue shortfalls. [Note: 2 months is equal to 17% of annual total expenditures).

CLASSIFICATIONS

Nonspendable fund balance (806 & 807) consists of assets that are inherently nonspendable in the current period either because of their form or because they must be maintained intact, including prepaid items, inventories, long-term portions of loans receivable, financial assets held for resale, and principal of endowments.

Restricted fund balance consists of amounts that are subject to externally enforceable legal purpose restrictions imposed by creditors, grantors, contributors, or laws and regulations of other governments, or through constitutional provisions or enabling legislation. Examples: Capital Reserve; Reserve for Contingency and Tax Stabilization; Workers' Compensation Reserve; Unemployment Insurance Reserve; Retirement Contribution Reserve.

Committed fund balance (913) consists of amounts that are subject to a purpose constraint imposed by a formal action of the government's highest level of decision-making authority before the end of the fiscal year, and that require the same level of formal action to remove the constraint.

Assigned fund balance (914 & 915) consists of amounts that are subject to a purpose constraint that represents an intended use established by the government's highest level of decision making authority, or by their designated body or official. The purpose of the assignment must be narrower than the purpose of the General Fund, and in funds other than the General Fund, assigned fund balance represents the residual amount of fund balance.

Unassigned fund balance (917) represents the residual classification for the government's General Fund and could report a surplus or deficit. In funds other than the General Fund, the unassigned classification should be used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or unassigned.

PROCEDURES

1. When resources are available from multiple classifications, the Town spends funds in the following order: restricted, committed, assigned, unassigned.
2. The Town Board is the decision-making authority that can commit fund balance. The action to commit fund balance must occur prior to the fiscal year-end in order to report such commitments in the financial statements of the respective period. The commitment may only be modified by a resolution authorized by the Town Board. [Note: <https://osc.state.ny.us/localgov/pubs/releases/gasb54.pdf> - page 4]
3. The Town Supervisor has been authorized to assign “unrestricted fund balance” amounts (defined as the total of the committed, assigned, and unassigned fund balance classifications) where the Town’s intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements. [Note: <https://osc.state.ny.us/localgov/pubs/releases/gasb54.pdf> - page 4]
4. Whereas local governments may carry over a reasonable amount of “unrestricted fund balance” (defined as the total of the committed, assigned, and unassigned fund balance classifications) from one year to the next, the Town Board is to apply the following guidelines as they apply to assigned and unassigned fund balances:

General Fund (A) - Unassigned Fund Balance (A917)

The Town Board shall give consideration in striving to maintain an **Unassigned Fund Balance** (A917) of not less than 15% and not more than 25% of the of the appropriations of the current year’s General Fund budget.

In the event that the Unassigned Fund Balance (A917) be more than 25% of the prior year appropriations in the General Fund, the Town Board shall give consideration in placing the excess into one or all of the following Reserve Funds: 1) General Reserve Fund for Crellin Park (A870); 2) General Reserve Fund for Economic Development (A870: sub-A876); 3) Capital Reserve Fund for Municipal Buildings (A878); 4) Reserve Fund for Contingency and Tax Stabilization (A880); or, 5) other fund as appropriate.

In the event that the Unassigned Fund Balance (A917) be less than 8% of the prior year appropriations in the General Fund, the Town Supervisor shall make a recommendation to the Town Board to restore the balance to the minimum level over a period not to exceed three years.

General Town-Outside-Village Fund (B) - Assigned Unappropriated Fund Balance (B915)

The Town Board shall give consideration in striving to maintain an **Assigned Unappropriated Fund Balance (B915)** of not less than 15% and not more than 25% of the appropriations of the current year's General Town-Outside-Village Fund budget.

In the event that the Assigned Unappropriated Fund Balance (B915) be more than 25% of the prior year appropriations in the General Town-Outside-Village Fund, the Town Board shall give consideration in either: 1) placing the excess into a Reserve Fund for Contingency and Tax Stabilization (B880) or other fund as appropriate; or, 2) taking no action and leaving the excess as an Assigned Unappropriated Fund Balance.

In the event that the Assigned Unappropriated Fund Balance (B915) be less than 8% of the prior year appropriations in the General Town-Outside-Village Fund, the Town Supervisor shall make a recommendation to the Town Board to restore the balance to the minimum level over a period not to exceed three years.

Highway Town-wide Fund (DA) - Assigned Unappropriated Fund Balance (DA915)

The Town Board shall give consideration in striving to maintain an Assigned Unappropriated Fund Balance (DA915) in the Highway Town-wide Fund of not less than 15% and not more than 25% of the appropriations of the current year's Highway Town-wide Fund budget.

In the event that the Assigned Unappropriated Fund Balance (DA915) be more than 25% of the prior year appropriations in the Highway Town-wide Fund, the Town Board shall give consideration in either: 1) placing the excess into a Reserve Fund for Contingency and Tax Stabilization (DA880) or other fund as appropriate; or, 2) taking no action and leaving the excess as an Assigned Unappropriated Fund Balance.

In the event that the Assigned Unappropriated Fund Balance (DA915) be less than 8% of the prior year appropriations in the Highway Town-wide Fund, the Town Supervisor shall make a recommendation to the Town Board to restore the balance to the minimum level over a period not to exceed three years.

Highway Part-Town Fund (DB) - Assigned Unappropriated Fund Balance (DB 915)

The Town Board shall give consideration in striving to maintain an Assigned Unappropriated Fund Balance (DB915) of not less than 40% of the appropriations of the current year's Highway Part-Town Fund budget.

In the event that the Assigned Unappropriated Fund Balance (DB915) be more than 40% of the prior year appropriations in the Highway Part-Town Fund, the Town Board shall give consideration in placing the excess into one or all of the following Reserve Funds: 1) Capital Reserve Fund for Highway (DB878); 2) Reserve Fund for Contingency and Tax Stabilization (DB880); or, 3) other fund as appropriate.

5. The Town Supervisor shall report the amount and percentage of applicable fund unexpended surplus funds to the Town Board upon completion of the Annual Update Document (AUD) each year.

Motion Made by Councilman Richardson and seconded by Councilman Balcom.

VOTE

AYE: Lull Balcom, Richardson, Wapner, Weldon NAY: None Resolution adopted