

## **TOWN OF COLCHESTER**

### **Unassigned Fund Balance Policy**

The Town of Colchester (the "Town") shall maintain an Unassigned Fund Balance (the "Fund Balance") to improve and maintain the Town's financial stability. The Fund Balance provides a reserve to the Town in the event of unforeseen or unbudgeted situations, such as declining tax collection rates, loss of a major taxpayer, sudden changes in revenues or spending requirements, natural disasters, major infrastructure failures or unexpected litigation.

#### **DEFINITION AND TARGET**

The Fund Balance represents available financial resources of the Town that have not been designated for a specific purpose.

The Town strives to maintain a level of Fund Balance of 10% to 15% of its annual operating expenditures (including debt service). The level of Fund Balance may exceed 15%, but it cannot be allowed to fall below 10% without a determination of a specific urgent situation in accordance with this policy.

#### **USE OF FUND BALANCE FOR SUPPLEMENTAL APPROPRIATIONS:**

If the Fund Balance is in the Cautionary Zone of less than 10 percent, then it may be used only in the event of a specific urgent and unexpected situation as deemed by the Board of Finance and the Board of Selectmen through regular voting procedures; a supplemental appropriation shall then require approval by at least 4 members of the Board of Finance present at an official meeting. The Fund Balance shall not be used as part of the budget process in this zone.

If the Fund Balance enters the Confidence Zone between 10 to 12 percent or the High Confidence Zone between 12 and 15 percent, then the excess over 10 percent may be used for a supplemental appropriation outside of the normal budget process. The funds can be used for capital projects, repayment of debt, transfers to other designated accounts, and other one-time uses. This shall require approval by at least 3 members of the Board of Finance present at an official meeting. The Board should strive to avoid bringing the Fund Balance below 10 percent. However, if the appropriation does result in the Fund Balance falling below 10 percent, then the Board of Finance shall adopt a plan to restore the Fund Balance to greater than 10 percent.

If the Fund Balance enters the High Confidence Zone above 15 percent, then the Fund Balance may be used for capital projects, repayment of debt, transfer to other designated accounts, other one-time uses without restriction if the use does not bring the Fund Balance below 15 percent. If the appropriation would bring the Fund Balance below 15 percent, then the restrictions for supplemental appropriations within the Confidence Zone shall apply to the excess amounts.

#### **USE OF FUND BALANCE WITHIN BUDGET PROCESS:**

If the Fund Balance is in the Cautionary Zone of less than 10 percent or the Confidence Zone between 10 and 12 percent, then it may not be used within the budget process.

If the Fund Balance enters the High Confidence Zone greater than 12 percent, then the Fund Balance can be used as revenue in the next Fiscal Year Budget where temporary revenue shortfalls, temporary expense increases exist, or to achieve temporary mill rate relief. The Board of Finance shall identify a one-time expenditure, expected temporary revenue reduction, temporary expense increase, or temporary mill rate relief with approval by at least 4 members of the Board of Finance. The Board shall adopt a plan to restore the Fund Balance, the lesser of dollars used or to 15 percent, over no more than the next five fiscal years.

If the Fund Balance enters the High Confidence Zone greater than 15 percent, then the Fund Balance may be used as revenue in the next Fiscal Year Budget without restriction if the use does not bring the Fund Balance below 15 percent. If the use would bring the Fund Balance below 15 percent, then the restrictions for the High Confidence Zone greater than 12 percent shall apply to the excess amounts.