

TOWN OF COLCHESTER

Unassigned Fund Balance Policy

The Town of Colchester (the "Town") shall maintain an Unassigned Fund Balance (the "UFB") to improve and maintain the Town's financial stability. The UFB 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 Unassigned 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 UFB of 10% to 15% of its annual operating expenditures (including debt service). The level of UFB 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.

Declarations of an ongoing emergency by government entities other than the Town of Colchester can allow the Board of Selectmen and Board of Finance to jointly create adjustments to the policy for the use of funds and planned restoration schedules.

CAUTIONARY ZONE (UFB less than 10% of annual operating expenditures)

If the Unassigned Fund Balance is in the Cautionary Zone of less than 10%, then the UFB shall only be used in the event of a specific urgent and unexpected situation as deemed by the Board of Finance and Board of Selectmen through regular voting procedures. A supplemental appropriation shall then require recommendation by the Board of Selectmen and approval by at least four members of the Board of Finance. The Board of Finance shall adopt a plan that will restore the Unassigned Fund Balance to 10% over the next two fiscal years.

If the Unassigned Fund Balance is in the Cautionary Zone of less than 10%, then the UFB shall not be used as revenue in the next Fiscal Year Budget.

CONFIDENCE ZONE (UFB 10% to 12% of annual operating expenditures)

If the Unassigned Fund Balance is in the Confidence Zone of 10% to 12%, then the UFB may be used for a supplemental appropriation to fund capital projects, repayment of debt if permissible, transfers to other funds, and/or other one-time items. A supplemental appropriation in this zone shall require approval by a majority of the Board of Finance with at least three members voting to approve the appropriation.

Supplemental appropriations in this zone should avoid bringing the UFB below 10%.¹ If a supplemental appropriation would bring the UFB below 10%, then in addition to Board of Finance approval, it shall also require a recommendation from the Board of Selectmen through regular voting procedures. The Board of Finance shall adopt a plan to restore the UFB to greater than 10% over no more than the next two fiscal years.

If the Unassigned Fund Balance is in the Confidence Zone of 10% to 12%, then the UFB shall not be used as revenue in the next Fiscal Year Budget.

HIGH CONFIDENCE ZONE A (UFB 12% to 15% of annual operating expenditures)

If the Unassigned Fund Balance is in the High Confidence Zone of 12% to 15%, then the UFB may be used for a supplemental appropriation to fund capital projects, repayment of debt if permissible, transfers to other funds, and/or other one-time items. A supplemental appropriation in this zone shall require approval by a majority of the Board of Finance with at least three members voting to approve the appropriation.

Supplemental appropriations in this zone should avoid bringing the UFB below 10%¹. If a supplemental appropriation would bring the UFB below 10%, then it shall also require approval by the Board of Selectmen through regular voting procedures. The Board of Finance shall adopt a plan to restore the UFB to greater than 10% over no more than the next two fiscal years.

If the Unassigned Fund Balance is in the High Confidence Zone of 12% to 15%, then the UFB may be used for revenue in the next Fiscal Year Budget (Mil Rate Relief)². To use the UFB as revenue in this zone, the Board of Finance should identify a one-time expenditure, expected temporary revenue reduction, or temporary expense increase to occur in the next fiscal year. This shall not bring the UFB below 12% based on the UFB and expenses shown in the last Fiscal Year Audit.

If the UFB falls below 12% on subsequent Town audits, the Board of Finance shall adopt a plan to restore funds used to bring the UFB back to 12% over the next three fiscal years.

HIGH CONFIDENCE ZONE B (UFB above 15% of annual operating expenditures)

If the Unassigned Fund Balance is in the High Confidence Zone above 15%, then the Board of Selectmen and the Board of Finance shall identify for taxpayers possible future purposes for this money. The funds may be used for supplemental appropriations or as revenue within the budget (mil rate relief) based on regular voting procedures provided they do not bring the fund balance below 15%; procedures as described in the High Confidence Zone of 12% to 15% shall apply if the use of funds would bring the UFB below 15%.

Footnotes:

1. Based on the Unassigned Fund Balance and Expenses shown in the last Fiscal Year Town audit.
2. Because use of funds in the current year budget could create a need to replace these funds in the next budget through a tax increase, consideration should be given to allow these funds to be used in a way to allow potential availability over multiple budget years.