

General Fund Balance Ordinance – Town of Hollis, Maine

1. PURPOSE

The purpose of this ordinance is to establish a target level of fund balance for the General Fund and to establish a process and criteria for the continued evaluation of that target level as conditions warrant. This ordinance shall also establish a process for reaching and maintaining the targeted level of unassigned fund balance, and the priority for the use of amounts in excess of the target. Finally, this ordinance shall provide a mechanism for monitoring and reporting the Town of Hollis general fund balance. This ordinance applies only to the General Fund. Other funds shall be fully self-supporting to the extent that the fund balance or retained earnings of each fund shall be zero or greater.

2. 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 of Hollis 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 that can be used only for specific purposes determined by a formal action of the inhabitants of the Town. The inhabitants of the Town through Town meetings are the highest level of decision-making authority of the Town. Commitments may be established, modified, or rescinded only through a Town meeting vote.
- **Assigned** - resources neither restricted nor committed for which a government has a stated intended use as established by the Town of Hollis, or a body or official to which the Town has delegated the authority to assign amounts for specific purposes.
- **Unassigned** - resources that include all other spendable amounts. The General Fund is the only fund that reports a positive *unassigned* fund balance amount. Other governmental funds besides the General Fund can only report a negative *unassigned* fund balance amount.

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 of America.

3. BACKGROUND AND CONSIDERATIONS

Fund balance is intended to serve as a measure of financial resources in a governmental fund. The Town of Hollis's management, credit rating services, and others monitor the levels of fund balance in the general fund as an important indicator of the Town of Hollis's economic condition.

In establishing an appropriate level of fund balance, the Town of Hollis has considered the following factors:

- **Property tax base** - Property tax is the largest revenue source of the Town of Hollis's General Fund. The Town of Hollis receives payments twice a year. Special consideration will be given to taxpayer(s) whose assessment(s) represent a significant portion of the Town of Hollis's tax base.
- **Non-property tax revenues** (examples: excise tax, state revenue sharing, etc.) – consideration must be given to these resources in terms of the percentage each comprises of the total budget, as well as the reliability and stability of their cash flows.
- **Exposure to significant outlays** - The Town of Hollis shall consider its potential exposure to significant one-time cash outlays, either resulting from a disaster, immediate capital needs, state budget cuts or other events.
- **Debt service** - It is essential that the Town of Hollis have sufficient capacity to make its debt service payments. Principal and interest payments along with along with future debt services as developed in the Town of Hollis's capital improvement program.
- **Liquidity** - An adequate level of fund balance should be maintained to ensure sufficient liquidity to supplant the need for borrowing in anticipation of revenues. The potential drain on the general fund resources from other funds, as well as the availability of resources in other funds, should also be considered.
- **Government Finance Officers Association (GFOA) Best Practice** - The 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 three months of regular general fund operating revenues or regular general fund operating expenditure." GFOA's best practice further 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."

4. ORDINANCE

It is the intent of the Town of Hollis to maintain a minimum balance of 1 months, 8% of Town's general fund operating budget. The targeted balance is 2 months 16% of Town's general fund operating budget. The maximum balance is not to exceed 25% of the Town's general fund operating budget, so long as cash flow needs are met and the lowest point cash flow is not less

than one payroll and one warrant, combined. Any amount in excess of 25% is to be appropriated as assigned fund balance or other fund balance categories as outlined below. The Town of Hollis's Select Board may recommend transfers to the Town of Hollis that would reduce the balance below 25%, but no transfers shall be made that would reduce the balance to less than 16% of the Town general fund operating budget. In the event that the unassigned fund balance drops below the minimum level, the Town of Hollis will develop a plan, implemented through the annual budgetary process, to bring the balance to the targeted level over a period of no more than three (3) years.

5. TRANSFERRING OF EXCESS UNASSIGNED FUND BALANCE

The Town of Hollis Select Board may present at an Annual Town Meeting or Special Town Meeting, to the voters a transfer of the excess, above 25%, fund balance to other fund balance categories. Generally, excess unassigned fund balance should not be used to fund general or routine operating expenses of the Town. It should be used to fund foreseeable projects or goals, unforeseen emergencies, and to provide financial stability to the Town. The priority of transfers shall be as follows:

- a. **Encumbrances** - Amounts encumbered at year-end by purchase order or another means shall be classified as **assigned**.
- b. **Budget Appropriations** - Amounts appropriated in the annual budget resolve, or in any supplemental budget resolves, for expenditures in the following fiscal year shall be classified as **committed**.
- c. **Capital Budget** - Amounts designated in the first year of the Town of Hollis's capital improvement program (CIP) as either appropriations or advances to other funds shall be classified as **assigned**.
- d. **Self-Insurance** - Amounts designated in the Town of Hollis's self-insurance shall be classified as **assigned**.
- e. **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 of Hollis 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 of Hollis in the following fiscal year. This amount shall exclude any amount recorded as a liability.

6. ORDINANCE ADMINISTRATION

At the completion of the annual audit, the Treasurer or Finance Director shall submit to the Town of Hollis Select Board a report of the Town's fund balance and the classifications of its various components in accordance with GAAP and this ordinance. In addition, the Treasurer or Finance Director in accordance with GAAP, shall report fund balance in the appropriate classifications and make the appropriate disclosures in the Town of Hollis's financial statements.

Annually, the Treasurer or Finance Director shall review this ordinance and the considerations unassigned fund balance target. The Treasurer or Finance Director shall report whether changes in those considerations or additional considerations have been identified that would change the recommended level of unassigned fund balance.

Ordinance is as voted on under Article ____ at the Annual Town Meeting on June 11, 2024 at Hollis, Maine.

Hollis Select Board:

Mary Hoffman, Select Board Chair

John Rogala, Select Board Member

Roger Hicks, Select Board Member

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