

## **Undesignated Fund Policy**

### **Undesignated Fund Policy Rationale:**

A municipal budget must necessarily be built on certain assumptions and estimates, revenues and expenditures. Actual results of operations usually vary from the initial budget plan. Sufficient levels of Undesignated Fund balance can ensure the continued orderly operation of town government and provision of services to residents and the continued stability of the tax structure. Local governments that have sufficient levels of Unreserved Fund balance can avoid or reduce budget cutbacks or tax increases if budget shortfalls develop during the fiscal year.

State government support of local education expenses and other State grants and reimbursements has varied dramatically from year to year and has not kept up with inflation or unfunded mandates. Final State legislative action occurs after the local budget is approved; therefore the amount of estimated intergovernmental revenues may be different (and possibly less) than the amounts used to propose a balanced budget or on occasion, due to mid-year state revenue adjustments to aid for municipalities, or prorated grant revenues. If revenue is less, The additional appropriation or other actions shall be taken to offset the reduction in intergovernmental revenue.

### **Undesignated Fund Policy:**

The Town of North Stonington's Undesignated Fund Balance Policy is designed to maintain adequate unencumbered reserve funds to accomplish the following objectives:

- Maintain adequate reserves to support (at a minimum) one month's expenditures
- Maintain adequate reserves readily available for appropriation if unforeseen expenditures or unforeseen shortfall in revenue occur caused by economic down turns, natural disasters, or other unforeseen extenuating circumstances after adoption of the annual budget
- Maintain adequate reserves for mill rate stabilization and/or adjustments in subsequent budget years
- Reiterates an element of sound fiscal management required for sustaining a high credit rating and financial management flexibility allowing the Town of North Stonington to go to the debt market when needed.

The Undesignated Fund Balance Policy shall provide guidance on:

- Allowable upper and lower balance limits for the Undesignated Fund
- Actions required if Undesignated Fund balance is drawn below or exceeded set limits
- Approvals required for Undesignated Fund use

### **Undesignated Fund Balance Limits:**

The sum of all components of the budget identified for the Undesignated Fund balance shall be set at:

- Minimum level of 8.5% of the Annual Operating Expenditures
- Maximum level of 17% of the Annual Operating Expenditures

\*\*These Annual Operating Expenditures shall be based off the Annual Audit\*\*

## **Undesignated Fund Policy**

### **In The Event Of Undesignated Fund Balance Shortfall:**

If the Undesignated Fund Balance falls below the minimum level of the Annual Operating Expenditures as stated in this policy, the Board of Finance shall:

- Develop/Approve a recovery plan within 30 days of notice of the Undesignated Fund balance shortfall. This restoration of funds to the prescribed percentage of the Annual Operating Expenditures shall be completed within a minimum of 2 years.

### **In The Event Of Undesignated Fund Balance Overage:**

If the Undesignated Fund Balance exceeds the maximum level of the Annual Operating Expenditures as stated in this policy after 1 fiscal year, the Board of Finance shall:

- Refund to the taxpayers of The Town of North Stonington in the form of (Until overage is expelled):
  - Reduction of the Mill Rate
  - Reduction of Town Debt

### **Undesignated Fund Balance Annual Review:**

The Undesignated Fund Balance limits shall be reviewed annually (no later than January 1 of each year) by the Board of Finance to determine compliance with bond rating agencies recommendations and Annual Audit findings.

### **Undesignated Fund Balance Usage:**

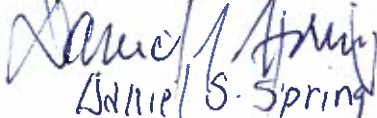
The Town of North Stonington is required by Connecticut State Statutes to adopt a balanced budget for each fiscal year.

Any expenditure of the Undesignated Fund by the Board of Selectmen for such purposes, per General Statutes of Connecticut, requires the approval of the majority of Board of Selectman members and be brought to the Board of Finance for approval.

- Any expenditures of the Undesignated Fund exceeding the amount of \$20,000.00 shall be brought before a Town Meeting after due notice.

**Undesignated Fund Policy**

**Policy Endorsement**

  
Daniel S. Spring

Chairman, Board of Finance Date

2-19-21

**Policy Acknowledgement**



3-11-21

First Selectman, Board of Selectmen Date

  
Mustafa R. Ratib.

Town Treasurer Date

3/16/2021.

**Reference:**

General Statutes of Connecticut Title 7

Municipalities Chapter 106 Town Boards of Finance