

## Resolution #17-21 – Fund Balance Policy

- Determine appropriate level of fund balance;
- Target amount to be transferred to Capital Reserve Funds;
- Not necessary to deplete fund balance after retention level reached and CRF funded.

# Resolution #17-21 – Fund Balance Policy

Difference between 8-10% UFB retention is the amount available for discretionary uses:

Summary of Unassigned Fund Balance Policy Options				
Policy Option	Retainage	Additional Funds Available after		CRF Actually Funded
		CRF Funded	Total Available	
8% only	\$ 7,048,560.00	\$ 2,112,026.00	\$ 9,160,586.00	\$ 1,500,000.00
9% only	\$ 7,929,630.00	\$ 1,230,956.00	\$ 9,160,586.00	\$ 1,500,000.00
10% only	\$ 8,810,700.00	\$ 349,886.00	\$ 9,160,586.00	\$ 1,500,000.00
Current Policy of 12.5%/13%**	\$ 11,013,375.00	\$ -	\$ 11,013,375.00	\$ -
** Only \$297,211 available to stabilize taxes (\$650K for all other scenarios)				

(No reserves for completing Exit 4A (Council prefers bonding) or Economic Development Fund)



## STAFF REPORT

AGENDA ITEM #: 17-57  
COUNCIL MTG OF: May 16, 2017  
FROM: Dave Caron, Town Administrator  
OFFERED BY: Administration  
PREPARED BY: Dave Caron, Town Administrator  
SUBJECT: Fund Balance Policy

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**INTRODUCTION:** Administration is seeking a change in the Town's Fund Balance Policy to better meet the needs of the organization and to also address Council concerns and flexibility.

**TOWN ADMINISTRATOR COMMENTS:** The Council is urged to support a revised policy which addresses the fiscal needs of the community as set forth below

### BACKGROUND

In FY13, the Town Council approved a Fund Balance Policy which diverted all Unallocated Fund Balance (UFB) above 13% of the sum of the Town budget and the school and county tax commitments to various Capital Reserve Funds. More recently, the Town Council has utilized UFB to address immediate capital needs such as the 4A project and conservation land. Also, staff has reviewed the Town's cash needs and advises that the current policy results in excess funds held by the organization. Lastly, the results of these policies/Council actions result in uneven contributions to CRF and the need for a more managed approach to UFB.

### DISCUSSION

During Council discussions of this policy during the course of reviewing the proposed FY18 budget, several goals were identified as they relate to UFB:

- 1) Identify the appropriate percentage of fund balance to meet organizational needs;
- 2) Provide a responsible stream of revenues to fund Capital Needs ;
- 3) Maintain flexibility for Council to address capital/visionary projects which arise on occasion.

### FISCAL IMPACT

Staff has reviewed scenarios which plan on no additions to fund balance for FY17 (conservative); no use of the NHDES reimbursement for either 4A or Economic Development (so one, both or neither would come from excess UFB as identified in category 3 below), a \$1.5M target to CRF annually and use of \$650K of UFB annually to stabilize the tax rate. The UFB status with retention levels at 8%, 9% and 10% are as follows:

<b>Summary of Unassigned Fund Balance Policy Options</b>				
<b>Policy Option</b>	<b>Retainage</b>	<b>Additional Funds Available after CRF Funded</b>	<b>Total Available</b>	<b>CRF Actually Funded</b>
8% only	\$ 7,048,560.00	\$ 2,112,026.00	\$ 9,160,586.00	\$ 1,500,000.00
9% only	\$ 7,929,630.00	\$ 1,230,956.00	\$ 9,160,586.00	\$ 1,500,000.00
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Current Policy of 12.5%/13%**	\$ 11,013,375.00	\$ -	\$ 11,013,375.00	\$ -
<b>** Only \$297,211 available to stabilize taxes (\$650K for all other scenarios)</b>				

You can see that the total amount available in Column 4 for the first three options is the same; the difference between those policy options is the amount officially retained and that amount which is available at the discretion of the Council; the first three options also fully fund both the CRF for FY18 and \$650K for tax rate stabilization for the 2017 tax rate.

**RECOMMENDED ACTION BY COUNCIL**

It is recommended that the Council embrace a retention policy at 8%; this option provides the Council with maximum flexibility moving forward to 1) address other projects as necessary; 2) allows the Council to maintain a higher retention by not using the available funds in Column 2; 3) meets the CRF funding goal and 4) provides additional flexibility should it be needed after the FY17 audit is complete and replenishment may not be as anticipated.

**RECOMMENDED MOTION**

See Resolution #2017-21.

*TA OFFICE USE – Vote Required: Simple majority of Councilors present/*

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## RESOLUTION #2017-021

### To Revise the Town's Fund Balance Policy

WHEREAS, The Town Council on June 18, 2013 adopted a Fund Balance Policy which established a certain retention level of Unallocated Fund Balance and further directed that excess fund balance be transferred to capital reserve funds; and

WHEREAS, the Town's cash flow and fund balance status have been reviewed to ensure that the Town only retains those tax dollars necessary to maintain appropriate reserves and sustain the Town's solid financial condition;

NOW, THEREFORE, BE IT RESOLVED IN COUNCIL that the following changes to the Town of Derry Fund Balance Policy are hereby adopted:

- 1) Unassigned Fund Balance shall be targeted at 8% of the sum of the Town's general fund operating appropriations, the state education tax amount, the local school net tax commitment and the county appropriation (previously 12.5%);
- 2) Annually, the first \$650,000 beyond the 8% threshold shall be used to stabilize the tax rate;
- 3) Annually, Unallocated Fund Balance in excess of the 8% threshold and the \$650,000 allocated for tax rate stabilization shall be transferred without further action of the Town Council, to capital reserve funds for Fire, Information Technology, Fire, Public Works, and Buildings & Grounds Expendable Maintenance Trust, proportional to the proposed expenditures as set forth in the adopted Capital Improvement Plan. The amount of the transfer shall be limited to \$1.5M annually;
- 4) Any Unallocated Fund Balance available beyond those necessary to fulfill the directives within this policy shall be retained and managed pursuant to future Council resolutions.
- 5) For purposes of this Policy, Unallocated Fund Balance shall be defined according to Governmental Accounting Standards Board Statement No. 54, and shall further include any inter-fund transfers in the form of loans (e.g. Brady Avenue Sewer).

This Resolution shall take effect immediately upon its passage.

Adopted May 16, 2017.

Attest:

X \_\_\_\_\_  
Joshua Bourdon, Council Chair  
Date: \_\_\_\_\_

X \_\_\_\_\_  
Daniel Healey, Town Clerk  
Date: \_\_\_\_\_

Archival Ref:      Agenda Item #17-57