

# TOWN OF FALMOUTH

## ORDER

**BE IT HEREBY ORDERED THIS 14<sup>th</sup> DAY OF May, 2012, BY THE FALMOUTH TOWN COUNCIL, FALMOUTH MAINE, IN TOWN COUNCIL ASSEMBLED:**

To amend the Town's Fund Balance Policy.

### TOWN OF FALMOUTH FUND BALANCE POLICY

The purpose of this policy is to establish guidelines for preserving an adequate ~~Undesignated~~~~Unassigned~~ Fund Balance in order to sustain financial stability for the Town of Falmouth (Town) and to provide for prudent management of the Town's financial reserves. The Town's ~~Undesignated~~~~Unassigned~~ Fund Balance is a ~~surplus balance~~ of funds ~~which that~~ have accrued from unexpended operating budgets and unanticipated excess revenues.

The ~~Undesignated~~~~Unassigned~~ Fund Balance provides the Town with a "rainy day" ~~reserve~~ fund for use in unforeseen, unbudgeted emergency situations, such as rapidly declining real estate values and tax collection rates; the loss of a major taxpayer; sudden changes in revenues or spending requirements imposed by the state or federal government; natural disasters or emergency infrastructure failures; or unplanned litigation. The ~~Undesignated~~~~Unassigned~~ Fund Balance also provides proof of financial stability to bond holders and credit rating agencies. ~~This proof~~ ~~which~~ offers the potential for lower interest costs on long-term financings.

The Town ~~of Falmouth therefore~~ recognizes the importance of maintaining an appropriate level of ~~Undesignated~~~~Unassigned~~ Fund Balance. After evaluating the Town's operating characteristics, diversity of tax base, reliability of non-property tax sources, working capital needs, ~~current bond rating and~~ impact ~~on~~ ~~future~~ bond rating, State and local economic outlooks, emergency and disaster risk and other contingent issues, the Town establishes the following goals regarding the ~~Undesignated~~~~Unassigned~~ Fund Balance ~~for the Town of Falmouth, Maine:~~

The level of fund balance that the Town strives to maintain as ~~undesignated~~~~unassigned~~ is an amount equal to sixteen-point-seven percent (16.7%) of the Town's General Fund Budget, i.e., an amount equal to two (2) months operating expenditures from the current operating budget. The calculation will be based on the ~~Undesignated~~~~Unassigned~~ Fund Balance number as reported in the Town's ~~most current~~ audited June 30 fiscal year-end financial report. Additionally, the Town Manager shall report to the Town Council an

estimated, unaudited ~~Undesignated~~Unassigned Fund Balance amount as of December 31 during each fiscal year.

In addition the Town will retain \$1,000,000 of additional Unassigned Fund balance for as yet unidentified capital needs.

Once the Town achieves its goal of an appropriate level of ~~Undesignated~~Unassigned Fund Balance, 16.7% of General Fund Budget and \$1,000,000 for as yet unidentified capital needs, as specified above, any excess funds may be utilized for other municipal fiscal purposes, including, without limitation, ~~additional capital~~other capital improvement needs or debt reduction purposes.

In accordance with prudent budgeting practices, the ~~Undesignated~~Unassigned Fund Balance will not be used on a routine or one-time basis to lower taxes or to offset normal operating expenditures, unless done as part of a planned drawdown with a minimum drawdown period of five years.

This policy has been adopted by the Town to recognize the financial importance of a stable and sufficient level of ~~Undesignated~~Unassigned Fund Balance. However, the Town reserves the right to appropriate funds from the ~~Undesignated~~Unassigned Fund Balance for emergencies and other requirements the Town Council believes to be in the best interests of the Town.