Town of Windham, Maine
Fund Balance Policy

Purpose:

The purpose of this policy is to establish a target level of fund balance for the General Fund and certain Special Revenue Funds, and to establish a process and criteria for the continued evaluation of that target level as conditions warrant. This policy shall also establish a process for reaching and maintaining the targeted level of unrestricted fund balance, and the priority for the use of amounts in excess of the target. Finally, this policy shall provide a mechanism for monitoring and reporting the Town's fund balance. This policy applies to the General Fund, Recreation Program Special Revenue Fund, and Sewer Special Revenue Fund.

These provisions are intended to function as dynamic fiscal management tools that establish meaningful, achievable, and measurable expectations, encourage compliance, discourage end-runs around adopted financial controls, and support a unified financial message in municipal decision-making.

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 is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The five classifications of fund balance are 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. Examples: inventory, long-term loans and notes receivable, principal amount of permanent funds.

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. Examples: grants, revolving loan fund, TIFs, impact fees.

Committed – resources which are subject to limitations the Town imposes upon itself at its highest level of decision-making authority, and that remains binding unless removed in the same manner. Examples: funds set aside by Council action to fund capital equipment and projects; Council actions to set aside funds for projects.

Assigned – resources neither restricted nor committed for which the Town has a stated intended use as established by the Town Council, or a body or official to which the Town Council has delegated the authority to assign amounts for specific purposes. Examples: year-end balance transfers to capital and encumbrances.

Unassigned – resources which cannot be properly classified in one of the other four categories. The General Fund should be the only fund that reports a positive unassigned fund balance amount.

A negative residual amount should not be reported for restricted, committed, or assigned fund balances in any fund.

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.

Policy:

It is the policy of the Town of Windham to maintain a combined unrestricted fund balance in the General Fund and the specified Special Revenue Funds at 16.67% of the subsequent year's budget, defined as the total of municipal appropriations, school district assessment, and county taxes. In the event that the unrestricted fund balance drops below the target of 16.67%, the Town will develop a plan, implemented through the annual budgetary process, to bring the balance to the target level. Once the target of 16.67% is reached, any portion of the unassigned fund balance above the target may be used to fund the capital needs of the community or reduce property taxes in any subsequent year as deemed appropriate by the Town Council.

The Town Council will consider using unrestricted fund balance for emergencies that cannot be addressed through a normal budget process. The Town Council will consider using unassigned fund balance first to address any emergency. However, the use of assigned or committed fund balances, in that order, will be considered only as a last resort.

Unassigned Fund Balance Policy

Purpose. The purpose of this section is to establish a temporary and declining use of unassigned fund balance to support the annual budget revenue while preserving the Town's long-term structural balance and financial flexibility. Use of unassigned fund balance for this purpose shall be treated as a one-time funding source and shall not be used in a manner that creates ongoing structural reliance beyond the period expressly authorized in this policy.

Amount. The Town shall establish an unassigned fund balance stabilization allocation in the total amount of $3,000,000.

Duration. This policy shall remain in effect for five (5) fiscal years, starting in fiscal year 2028 and shall expire automatically upon completion of the fifth fiscal year, fiscal year 2032, unless extended by formal Town Council action. This stabilization allocation is intended to be self-liquidating over that five-year period and accomplished through the Town budget process.

Funding Schedule. The stabilization allocation shall be appropriated according to the following schedule:

- FY2028 - Year One: $1,000,000

- FY2029 - Year Two: $750,000
- FY2030 - Year Three: $600,000
- FY2031 - Year Four: $400,000
- FY2032 - Year Five: $250,000

Conditions of Use: This allocation may be used only for addition to the annual budget revenue. Use of this allocation shall occur only if, after such use, the Town remains in compliance with its minimum unrestricted fund balance target of 16.67% of the subsequent year's budget, as defined in this policy. During each annual budget cycle, the Town Manager and Finance Director shall review whether decreasing reliance on this allocation is being offset by recurring revenue growth, expenditure adjustments, or other structural budget solutions. Any year-end surplus shall first be considered for restoration of the Town's primary unassigned fund balance to policy target levels before any further stabilization commitment is considered.

Community Center Reserve Policy

Purpose: The purpose of this section is to establish a dedicated reserve for the planning, design, acquisition, construction, furnishing, equipping, or related capital support of a municipal community center project.

Amount: The Town shall establish a Community Center Reserve in the amount of $2,000,000.

Fund Balance Classification: This reserve shall be classified as Committed Fund Balance if established by formal Town Council action or Assigned Fund Balance if established through delegated authority consistent with this policy.

Allowable Uses: Amounts in this reserve may be used for project planning and feasibility work; design, engineering, and permitting; land, building, site, construction, furnishing, and equipment costs; debt service support; or reimbursement of eligible project costs related to the community center project, if otherwise authorized and permitted by law.

Sunset Provision: This reserve policy shall terminate on June 30, 2028. Any balance remaining in the reserve after that date shall be returned to the appropriate fund balance classification or re-designated by the Town Council in accordance with this policy and the Town's then-current fiscal priorities.

Sewer Reserve Policy

Purpose: The purpose of this section is to establish a dedicated reserve to support sewer-related capital needs, infrastructure improvements, rehabilitation, regulatory compliance, and other substantial sewer system purposes identified by the Town.

Amount: The Town shall establish a Sewer Reserve in the amount of $2,000,000.

Fund Balance Classification: This reserve shall be classified as Committed Fund Balance or Assigned Fund Balance, as authorized through Town Council action consistent with this policy.

Allowable Uses: Amounts in this reserve may be used for sewer infrastructure improvements; major rehabilitation and replacement projects; sewer expansion and capacity needs; and regulatory, engineering, permitting, and project implementation costs related to sewer capital projects.

Sunset Provision: This reserve shall terminate on June 30, 2030. Any balance remaining in the reserve after that date shall be returned to the appropriate fund balance classification or otherwise re-designated by Town Council action.

Refunding / Replenishment: This reserve shall be refunded or replenished by TIF revenues as such revenues become available, subject to lawful availability, applicable TIF documents, and annual appropriation or other required municipal authorization.

Fiscal Management Compliance

These reserve provisions shall be administered in a manner consistent with the Town's overall fiscal management framework and with the fiscal management principles common to municipalities.

The Town shall administer these reserves as practical management tools with clear purposes, measurable targets, defined procedures, and transparent reporting.

Administration of these reserves shall encourage compliance with adopted policy, discourage ad hoc end-runs around established financial controls, and support consistency in municipal financial decision-making.

To the extent practical, reserve activity shall be presented using quantifiable measures, including opening balance, additions, uses, remaining balance, scheduled sunset, and any expected replenishment sources.

If the Town intends to advance monies for a project from reserves and later reimburse itself from the proceeds of tax-exempt financing, the Town should consider adopting a Declaration of Official Intent in accordance with applicable federal tax reimbursement rules before incurring non-preliminary project expenditures.

Policy Administration:

Annually the Town Manager shall report the Town's fund balance and the classification of the various components in accordance with GAAP and this policy. Such annual reporting shall also include, to the extent applicable, the balance, additions, uses, remaining term, sunset date, and replenishment status of each reserve established under this policy.

The Town Manager annually shall review this policy and the considerations used in establishing the unrestricted fund balance target with the Finance Committee. The Finance Director shall report whether changes in those considerations or additional considerations have been identified that would change the recommended level of unrestricted fund balance. The Town Manager and Finance Director shall also review annually whether the reserve provisions adopted herein remain aligned with the Town's current priorities, structural budget conditions, and adopted fiscal objectives.

Approved April 12, 2011
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Council Order ____________________