

# **TOWN OF ACTON FUND BALANCE POLICY**

## **PURPOSE**

To establish a target range for the town's General Fund's unassigned fund balance.

## **DESCRIPTION**

The General Fund's total fund balance is the accumulated surplus of inflows of resources (revenues and other financing sources) over outflows of resources (expenditures and other financing uses) since the town's inception. The General Fund's unassigned fund balance (UFB) is the portion of the total fund balance that is not restricted for use for designated purposes (either internally or externally restricted or non-spendable) and, thus, is available to be used in future years for municipal programs and services.

## **NECESSITY OF AN UNASSIGNED FUND BALANCE**

It is necessary to maintain some level of unassigned fund balance at all times to ensure both financial flexibility and financial stability, as well as for the town's long-term fiscal health.

### **Financial Stability**

An unassigned fund balance provides for financial stability because it allows the town to withstand variations in inflows and outflows of resources. For example, cash inflows for the town are seasonal, with the bulk of cash inflows occurring between the date of the tax commitment and the due date of tax payments. Similarly, while most of the cash outflows are evenly paced throughout the year (e.g., weekly payroll costs, monthly utility bills, etc.), there are many times throughout the year when large outflows of cash occur, such as when significant payments are due for paving, road construction, the county tax bill, and similar items. If the town has too low of an unassigned fund balance, it could run into cash flow issues and not be able to make payments to vendors when due or, in extreme cases, make payroll.

### **Financial Flexibility**

An unassigned fund balance also allows the town to be flexible enough to respond to unexpected expenditures or revenue shortfalls, or to take advantage of unexpected opportunities. Municipalities often run into emergency events where, for example, significant costs are incurred to re-open roadways and other infrastructure after significant weather events, and it could be several months to a year before state and federal FEMA reimbursements are received. A sufficient unassigned fund balance also enables the town to take advantage of unexpected grants, capital projects, or other strategic investments without an immediate tax increase.

### **Long-Term Fiscal Health**

An unassigned fund balance is also crucial in maintaining the town's long-term health because it can (a) help the town avoid short-term borrowings which avoids unnecessary interest expense, (b) improve its overall creditworthiness and bond ratings, which allows it to have lower interest rates on long-term borrowings than it otherwise would have, and (c) it can be used to help stabilize tax rates by avoiding the need for sudden tax increases or, worse, reductions in service when expenses increase faster than anticipated (as recently occurred post-COVID). The lower borrowing costs and the steady assessment of taxes makes for a more efficient and more predictable government for taxpayers.

Given these important reasons, it is folly to consider an unassigned fund balance to simply be idle and not have any particular use. The unassigned fund balance is being used (and is indeed necessary) to achieve these important financial management goals. It is, therefore, simply a question of how much of a balance is needed to achieve these aims.

**TARGET RANGE**

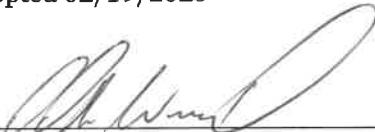
The Government Finance Officers Association (GFOA) recommends that municipalities maintain around two months' worth of expenditures in unassigned fund balance. This recommendation comports with recommendations from CPA firms around the state as well. This level of fund balance generally strikes a good balance between achieving the desired stability, flexibility, and fiscal health described above and taxpayers' general desire to not pay taxes to the government that are superfluous.

As the town's inflows and outflows become more volatile, a higher level of fund balance would be required and, likewise, the less volatile these resource flows become, the lower the level of fund balance is needed. Additionally, prudent management would mean that the unassigned fund balance generally grows during good economic times so the town is able to use the fund balance to help slow tax increases during economic recessions.

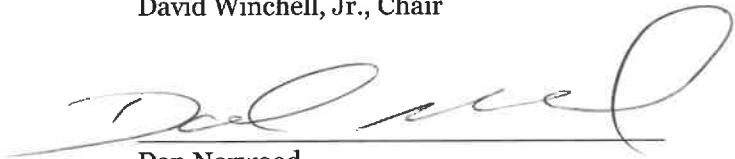
Two months' worth of expenditures is the equivalent of 16.7% of expenditures. So, for example, if the town's budgeted expenditures (including the General Fund's transfers to the school department) are roughly \$10 million, then two months of expenditures is approximately \$1.67 million. Also, a target range is more desirable and more practical to maintain than a specific target.

Therefore, the Town of Acton's target range is between 15% and 25% of General Fund expenditures and transfers out, with it being on the higher end of this range during good economic times.

Adopted 02/19/2025

  
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