

Item 1



BEST PRACTICES

Fund Balance Guidelines for the General Fund

Governments should establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.

In the context of financial reporting, the term *fund balance* is used to describe the net position of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net position of governmental funds calculated on a government's budgetary basis.¹ While in both cases *fund balance* is intended to serve as a measure of the financial resources available in a governmental fund; it is essential that differences between GAAP *fund balance* and budgetary *fund balance* be fully appreciated.

1. GAAP financial statements report up to five separate categories of fund balance based on the type and source of constraints placed on how resources can be spent (presented in descending order from most constraining to least constraining): *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.² The total of the amounts in these last three categories (where the only constraint on spending, if any, is imposed by the government itself) is termed *unrestricted fund balance*. In contrast, budgetary fund balance, while it is subject to the same constraints on spending as GAAP fund balance, typically represents simply the total amount accumulated from prior years at a point in time.

2. The calculation of GAAP fund balance and budgetary fund balance sometimes is complicated by the use of sub-funds within the general fund. In such cases, GAAP fund balance includes amounts from all of the subfunds, whereas budgetary fund balance typically does not.
3. Often the timing of the recognition of revenues and expenditures is different for purposes of GAAP financial reporting and budgeting. For example, encumbrances arising from purchase orders often are recognized as expenditures for budgetary purposes, but never for the preparation of GAAP financial statements.

The effect of these and other differences on the amounts reported as *GAAP fund balance* and *budgetary fund balance* in the general fund should be clarified, understood, and documented.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance in the general fund.

GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund for GAAP and budgetary purposes.³ Such a guideline should be set by the appropriate policy body and articulate a framework and process for how the government would increase or decrease the level of unrestricted fund balance over a specific time period.⁴ In particular, governments should provide broad guidance in the policy for how resources will be directed to replenish fund balance should the balance fall below the level prescribed.

Appropriate Level. The adequacy of unrestricted fund balance in the general fund should take into account each government's own unique circumstances. For example, governments that may be vulnerable to natural disasters, more dependent on a volatile revenue source, or potentially subject to cuts in state aid and/or federal grants may need to maintain a higher level in the unrestricted fund balance. Articulating these risks in a fund balance policy makes

it easier to explain to stakeholders the rationale for a seemingly higher than normal level of fund balance that protects taxpayers and employees from unexpected changes in financial condition. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.⁵ The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.⁶ Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time. In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

1. The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
2. Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
3. The potential drain upon general fund resources from other funds, as well as, the availability of resources in other funds;
4. The potential impact on the entity's bond ratings and the corresponding increased cost of borrowed funds;
5. Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose). Governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance, rather than on unrestricted fund balance.

Use and Replenishment.

The fund balance policy should define conditions warranting its use, and if a fund balance falls below the government's policy level, a solid plan to replenish it. In that context, the fund balance policy should:

1. Define the time period within which and contingencies for which fund balances will be used;
2. Describe how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge;
3. Describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished.

Generally, governments should seek to replenish their fund balances within one to three years of use. Specifically, factors influencing the replenishment time horizon include:

1. The budgetary reasons behind the fund balance targets;
2. Recovering from an extreme event;
3. Political continuity;
4. Financial planning time horizons;
5. Long-term forecasts and economic conditions;
6. External financing expectations.

Revenue sources that would typically be looked to for replenishment of a fund balance include nonrecurring revenues, budget surpluses, and excess resources in other funds (if legally permissible and there is a defensible rationale). Year-end surpluses are an appropriate source for replenishing fund balance.

Unrestricted Fund Balance Above Formal Policy Requirement. In some cases, governments can find themselves in a position with an amount of unrestricted fund balance in the general

fund over their formal policy reserve requirement even after taking into account potential financial risks in the foreseeable future. Amounts over the formal policy may reflect a structural trend, in which case governments should consider a policy as to how this would be addressed. Additionally, an education or communication strategy, or at a minimum, explanation of large changes in fund balance is encouraged. In all cases, use of those funds should be prohibited as a funding source for ongoing recurring expenditures.

Notes:

1. For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.
2. These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.
3. Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.
4. See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).
5. In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.

6. In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues and/or expenditures, that decision should be followed consistently from period to period.

This best practice was previously titled Appropriate Level of Unrestricted Fund Balance in the General Fund.

Board approval date: Wednesday, September 30, 2015

FUND BALANCE POLICY

The Town of Weston is required by Connecticut State Statute to adopt a balanced budget for each fiscal year. However, many actual expense and reserve amounts are not known at the time the annual budget is approved at Town Meeting, and significant unforeseen expenses can occur at any time during the year. Accordingly, it is incumbent upon the Town to maintain an amount of unreserved funds to meet these contingencies and shortfalls.

The maintenance of undesignated levels is not to be construed as surpluses or over taxation by the town; rather it is an element of sound fiscal management required for sustaining a high credit rating and financial management flexibility. The Town's Fund Balance Policy shall be as follows:

- The Town shall endeavor to maintain an available balance in the General Fund as a cushion against potential revenue and expenditure volatility.
- The definition of available balance will be the Unassigned General Fund balance as of the end of the preceding fiscal year.
- The measure used will be available fund balance as a percentage of current year budgeted expenditures.
- The Board of Finance shall perform an annual review of the fiscal condition of the Town with the intent of determining the appropriate General Fund level. The determination of 'appropriate' shall take into account current spending levels, forecast operating and capital expenditures, potential contingent liabilities, outstanding debt levels and other items deemed material by the Board.
- Expenditure of any surplus Fund Balance amounts shall be either for one time capital appropriations or for transfer into dedicated accounts to meet unfunded Town/School liabilities.
- The Fund Balance of the Town may be committed for such specific purposes by formal action of the Board of Finance. Amendments or modification to the committed fund balance must also be approved by formal action of the Board of Finance. Unless otherwise approved by the Board of Finance, the Board delegates authority to assign fund balance only for encumbrances to the Town Administrator and Finance Director.
- The Board of Finance recognizes that good fiscal management comprises the foundational support of the entire Town. As such, the Board will endeavor to keep the Unassigned Fund Balance at a level adequate to maintain a AAA rating.
- Consistent with GASB Statement 54, Fund Balance Components are as follows: 1) Nonspendable – resources not in spendable form or are legally required to remain intact;

2) Restricted – constraint imposed or legally enforceable by external properties. For example, non-reimbursable state and federal grants, or unspent bond proceeds; 3) Committed – represents internal constraints and can only be used for specific purposes pursuant to formal action of the government’s highest level of formal action. For example, appropriations to offset following year’s budget; 4) Assigned – constraint is expression of intent by governing body or authorized official. For example, reserve for encumbrances; 5) Unassigned – no constraints.

- When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it.
- When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last; unless the governing board has provided otherwise in its commitment or assignment actions.
- Should events occur during the current fiscal year that bring the estimated General Fund Balance below the appropriate level, the Board of Finance, in concert with the Board of Selectmen and the Board of Education will take measures to restore the fund balance.

November, 2011



BEST PRACTICES

Debt Management Policy

The GFOA recommends that Governments adopt comprehensive written debt management policies that reflect applicable local, state, and federal laws and regulations. The GFOA also recommends that Governments review their debt management policies periodically for necessary updates.

The London Interbank Offered Rate (LIBOR) is scheduled to end by June 30, 2023. New contracts should not reference LIBOR. For more information, please reference GFOA's [LIBOR cessation website](#).

Utilizing municipal bonds and other types of debt (including bank loans and lines of credit) to fund public infrastructure is a valuable strategy for Governments to spread the cost of significant long-term assets over their useful life. It is important to involve all stakeholders in the decision to issue debt and to make sure resources are identified to prepare for the issuance of debt and to address on-going requirements throughout its term.

Various GFOA Best Practices provide a comprehensive overview of the requirements associated with the incurrence of debt, but it is also recommended that any government or authority considering entering into a debt obligation consult the expertise of bond counsel, disclosure counsel, and a municipal advisor to determine the best course of action for their specific project and to assist with the development of debt management policies.

Debt management policies are written guidelines, allowances, and requirements that guide the process of debt evaluation and debt issuance practices of Governments, including the

issuance process, management of a debt portfolio, adherence to various laws and regulations, federal tax compliance, and compliance with post-issuance continuing disclosure requirements. A debt management policy should improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning. Adherence to a debt management policy signals to rating agencies, lenders, and investors that a Government is well managed and therefore is likely to meet its debt obligations in a timely manner.

Debt management policies should be written with attention to the issuer's specific needs and available financing options and are typically implemented through more specific operating procedures. Finally, debt management policies should be approved by the issuer's governing body to provide credibility, transparency and to ensure that there is a common understanding among elected officials and staff regarding the issuer's approach to debt financing.

Debt Management Policies should include at least the following:

1. ***Debt Limits***. Governments should consider criteria for evaluating when debt should be issued and set specific limits or acceptable ranges for each type of debt in their debt policies. Limits generally are set for legal, public policy, financial restrictions, and planning considerations.

a. ***Legal restrictions*** may be determined by:

- State constitution or law,
- Local charter, by-laws, resolution, or ordinance,
- Bond indenture, resolution, trust agreement, lease, or similar document, and
- Bond referenda approved by voters.

b. ***Public Policies*** will address the internal standards and considerations within a Government and can include:

- Purposes for which debt proceeds may be used or prohibited,

- Types of debt that may be issued or prohibited,
- Relationship to and integration with the Capital Improvement Program, and
- Policy goals related to economic development, including use of tax increment financing and public-private partnerships.

c. *Financial restrictions or planning considerations* generally reflect public policy or other financial resources constraints, such as reduced use of a particular type of debt due to changing financial conditions. Appropriate debt limits can have a positive impact on bond ratings, particularly if the Government demonstrates adherence to such policies over time. Financial limits often are expressed as ratios customarily used by credit analysts. Different financial limits are used for different types of debt. Examples include:

- i. *Direct Debt, including general obligation bonds*, are subject to legal requirements and may be able to be measured or limited by the following ratios:
 - Debt per capita,
 - Debt to personal income,
 - Debt to taxable property value, and
 - Debt service payments as a percentage of general fund revenues or expenditures.
- ii. *Revenue Debt* levels often are limited by debt service coverage ratios (e.g., annual net pledged revenues to annual debt service), additional bond provisions contained in bond covenants, and potential credit rating impacts.
- iii. *Conduit Debt* limitations may reflect the right of the issuing Government to approve the borrower's creditworthiness, including a minimum credit rating, and the purpose of the borrowing issue. Such limitations reflect sound public policy, particularly if there is a contingent impact on the general revenues of the Government or marketability of the Government's own direct debt.

iv. *Short-Term Debt Issuance* should describe the specific purposes and circumstances under which it can be used, as well as limitations in term or size of borrowing.

v. *Variable Rate Debt* should include information about when using non-fixed rate debt is acceptable to the entity either due to the term of the project, market conditions, or debt portfolio structuring purposes (See GFOA Advisory: Using Variable Rate Debt Instruments).

2. ***Debt Structuring Practices.*** The Policy should include specific guidelines regarding the debt structuring practices for each type of bond, including:

- Maximum term (often stated in absolute terms or based on the useful life of the asset(s)),
- Average maturity,
- Debt repayment structure, such as equal annual debt service payments or equal principal amortization,
- Use of optional redemption features that reflect market conditions and/or needs of the Government,
- Use of variable or fixed-rate debt, short-term debt, and limitations as to when, and to what extent, each can be used,
- Considerations for the use of structural features to bolster ratings and credit assessment, such as debt service reserve accounts and bond insurance, and
- Other structuring practices should be considered, such as capitalizing interest during the construction of a revenue bond project and deferral of principal, and/or other internal credit support, including general obligation pledges.

3. ***Debt Issuance Practices.*** The Policy should provide guidance regarding the issuance process, which may differ for each type of debt. These practices include:

- Selection and use of professional service providers, including independent municipal advisors, bond counsel, and disclosure counsel,

- Criteria for determining the method of sale (competitive, negotiated, private placement, bank loan),
- Use of comparative bond pricing services or market indices as a benchmark in negotiated transactions, as well as to evaluate final bond pricing results, which is often done by, or in consultation with, a municipal advisor,
- Criteria for the issuance of taxable bonds,
- Use of credit ratings, minimum bond ratings, determination of the number of ratings, and selection of rating services, and
- Primary market disclosure practices and procedures.

4. ***Debt Management Practices.*** The Policy should provide guidance for ongoing administrative activities including:

- Investment of bond proceeds,
- Budgeting for and making debt service payments;
- Continuing disclosure procedures; including annual certifications as required by debt documents as well as those related to ensure compliance with any continuing disclosure undertaking (CDA),
- Tax law compliance monitoring, including arbitrage rebate monitoring and filing, and • monitoring the use of tax-exempt bond financed facilities for private use,
- Federal and state law compliance practices,
- Monitoring outstanding debt for refunding opportunities and establishing criteria for when to pursue a refunding, and
- Ongoing investor relations efforts.

5. ***Use of Derivatives.*** The Debt Management Policy should clearly state whether or not the entity can or should use derivatives. If the policy allows for the use of derivatives, a separate and comprehensive derivatives policy should be developed (see GFOA's Advisory: [Use of Debt-Related Derivatives Products](#)).

References:

- GFOA Best Practice: Post-Issuance Policies and Procedures, 2020
- GFOA Best Practice: Understanding Your Continuing Disclosure Responsibilities, 2020
- GFOA Best Practice: Refunding Municipal Bonds, 2019
- GFOA Advisory: Using Variable Rate Debt Instruments, 2010.
- GFOA Advisory: Use of Debt-Related Derivatives Products, 2010.
- GFOA Best Practice: Bank Loans and Direct Placements, 2020.
- GFOA Best Practice: Selecting Bond Counsel, 2008.
- GFOA Best Practice: Selecting and Managing the Method of Sale of Bonds, 2020.
- GFOA Best Practice: Selecting and Managing Municipal Advisors, 2014.
- GFOA Best Practice: Selecting Underwriters for a Negotiated Bond Sale, 2008.
- GFOA Best Practice: Primary Market Disclosure, 2020.

Board approval date: Friday, March 6, 2020

Item 2

DRAFT Board of Finance Regular Meeting
August 8, 2024 6:00 PM
Meeting held remotely

Chairman Michael Imber called the meeting to order at 6:02 pm. Also in attendance were Rone Baldwin, Theresa Brasco, Christopher Bryant, Amy Gare, Finance Director Rick Darling and Town Administrator Karl Kilduff. Absence noted for Jeffrey Farr and Jeffrey Goldstein due to travel.

Public Participation and comments: Mr. Imber welcomed online attendees and reviewed the procedure for public participation. No attendees had questions. Mr. Baldwin read a statement from one resident, Gregg Haythorn, who asked the BOF about tracking and auditing and publicly presenting project status and resource performance on a monthly basis. Mr. Haythorn had a second comment asking what the BOF strategy is for preventing a collapse of the real estate market since there has been no fundamental changes to TOW or to WPS operations.

Discussion regarding the Town's fiscal year 2024 financial report. Rick Darling, Finance Director/Treasurer: Mr. Darling reviewed the town's FY24 financial report compared to the last BOF meeting. Investment Income forecast increase as well as BOS surplus compared to the revised budget. Expenditures noted for pension and health insurance as the drivers of the surplus noting employer contribution rates went down. Capital budget forecast includes supplemental appropriations of \$1.2 million. Unassigned fund balance reflects spending on LMR with the grant approval of \$963,000 (will be reflected in FY25).

Discussion regarding the Town's recent BAN issue result, and update on the paving RFP and bids. Karl Kilduff, Town Administrator: Mr. Kilduff provided an update on the issuance of \$3,600,000 BAN's for the road paving project. TOW closed on the bonds with Fidelity end of July. Anticipated schedule is on track for putting out to bid. 9 firms received solicitation from TOW for bidding opportunity as well as being advertised. BOF asked questions on the timeframe for closing on bidders as well as starting the paving work. Roads are prepped with catch basins and ready once bidder is selected.

Discussion/Decision regarding approval of the July 11 minutes: Mr. Imber asked for a motion to approve the July 11, 2024 BOF minutes. Motion made by Mr. Bryant, seconded by Mr. Baldwin. Motion passes 4-0 with one abstention.

Adjourn: Mr. Imber asked for a motion to adjourn. Motion made by Ms. Gare, seconded by Mr. Baldwin. All in favor. Meeting adjourned at 6:28 pm.

Respectfully Submitted,
Shawn Amato, Recording Secretary