

Town of Westbrook Financial Policy

Policy #2011-03: General Fund Balance Policy

GENERAL FUND BALANCE

The General Fund Balance should be maintained in a range of an amount between 12 and 15 percent of the annual General Fund Revenue budget. The range should periodically be reviewed by the Board of Finance to determine compliance with bond rating agencies recommendations.

The Town of Westbrook has a constant flow of revenue from which it is able to fund local government operations. Property tax levies and state aid comprise the majority of Town revenue. The Town receives the first half of property taxes in late July and the second half in January. Given this flow of revenue, the Town's General Fund balance is the primary source of working capital available for operating expenses during the first five months of the year. An adequate fund balance provides the cash flow required to finance general fund expenditures throughout the course of the year.

In recognition of these factors the Town of Westbrook adopts this Fund Balance Policy. This Policy states that the Town will strive to maintain an unreserved General Fund balance at each fiscal year-end equivalent to a minimum of 12% of the total annual operating budget of the following year. However, under limited circumstances the fund balance may be allowed to drop below 10%. A fund balance of less than 10% will create a risk of a credit downgrade by the credit rating agencies. It is important that if the fund balance drops below the minimum 12% in the current fiscal year, an appropriation will be made in the next year's budget to bring it back to the 12%.

Fund Balance will only be used:

- In the case of a significant financial or other emergency as determined by the Town Board of Finance.
- To provide a cushion against unexpected revenue interruptions.
- To provide working capital by ensuring sufficient cash flow to meet the Town's needs throughout the year.
- The Board of Finance may allocate a portion of fund balance in excess of the upper limit of 15 percent to offset the subsequent year's appropriations or may transfer it to the Town's Capital and Non-recurring Expenditure Fund.

Issue /Revision Date	Approved by
December 21, 2011	Board of Finance