

TOWN OF WESTON FUND BALANCE POLICY
DRAFT – 12.11.24 recommended by Fund Balance Subcommittee
Edits suggested in redline but not approved by BOF 01.09.25

1. OBJECTIVE

Pursuant to Connecticut state law, the Town of Weston is obligated 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 the 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 that are not earmarked or legally constrained for specific purposes. In this connection, pursuant to Conn. Gen. Stat. § 7-359 et. seq. the State of Connecticut permits municipalities to establish an **Unassigned Fund Balance (“UFB”)** to among other things:

- (1) eliminate the need for short-term borrowing to handle cash flow between the start of the fiscal year and receipt of revenues from taxes;
- (2) serve as a contingency fund that enables the Town to respond to unanticipated emergencies or opportunities such as capital and nonrecurring expenditures (i.e., acquiring a specific piece of equipment or planning constructing, reconstructing, or acquiring specific capital improvement).

Additionally, the maintenance of undesignated levels is an element of sound fiscal management required for sustaining a high credit rating and financial management flexibility. In this connection, credit rating agencies determine the adequacy of an **UFB** using a complex series of financial factors. The size of the **UFB** is an important, but not the only consideration in the Town’s rating. Other important factors are the reliability of a government’s revenue sources, economic conditions, community wealth factors, cash position, debt ratios, management performance, and fiscal decisions made by the various town bodies.

This policy is intended to provide for an **UFB** which satisfies the cash flow and contingency needs of the community as well as ensuring that the Town maintains a high credit rating.

2. GOVERNMENTAL FUND TYPE DEFINITIONS

2.1. General Fund.

The General Fund is comprised of all resources that are not reported in another fund.

~~The General Fund includes among other things, the operating budget, taxes and police.~~

2.2. Special Revenue Funds.

The Special Revenue Fund is used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specific purposes other than debt and capital projects. Restricted or committed revenues are the foundation for a Special Revenue Fund ([e.g. Parks & Recreation Department](#)).

2.3. Capital Project Funds.

The Capital Project Fund accounts for financial resources that are restricted, committed or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital Project Funds can be designated for things such as renovations to the High School.

2.4. Debt Service Funds.

The Debt Service Fund accounts for financial resources that are restricted, committed or assigned to expenditures for principal and interest, including resources being accumulated for principal and interest maturing in future years.

2.5. Permanent Funds.

The Permanent Funds are used for the benefit of the government or citizenry, to account for resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government's programs. Permanent funds do NOT include private purpose trust funds. Permanent Funds are designated for things such as school lunch programs.

3. **FUND BALANCE CALCULATION**

In the context of municipal financial reporting, the term "**Fund Balance**" describes the Town's net positions of funds calculated in accordance with generally accepted accounting principles (GAAP). Pursuant to [Conn. Gen. Stat. §7-560 \(13\)](#) "**Fund Balance**" means the amount that assets and deferred outflow of resources of a municipality's general fund exceeds the liabilities and deferred inflow of resources of the general fund of the municipality, as of the fiscal year ended as reflected in the municipality's most recent audited financial statements presented in accordance with generally accepted accounting principles.

In other words, the **Fund Balance** is the difference between the Town's current assets (cash, short-term investments, receivables) expected to be available to finance operations in the immediate future and its current liabilities.

The **Fund Balance** is initially characterized as being **Restricted** and **Unrestricted**.

3.1. **FUND BALANCE DEFINITIONS**

Consistent with GASB Statement 54, Fund Balance Components are as follows:

3.1.1. Restricted Fund Balance Categories

3.1.1.1. Non-spendable.

Resources not in spendable form or are legally required to remain intact. These are amounts that cannot be spent because they are:

(a) not in spendable form (such as inventory, prepaid items, long term portions of notes receivables); or

(b) legally or contractually required to be maintained intact (such as the corpus of an endowment fund).

3.1.1.2. Restricted.

Resources constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government), through constitutional provisions, or by enabling legislation imposed or legally enforceable by external properties.

3.1.2. Unrestricted Fund Balance Categories

3.1.2.1. Committed.

Resources constrained to specific purposes by the Town itself, using its highest level of decision-making authority. To be reported as committed, resources cannot be used for any other purposes unless the government takes the same highest-level action to remove or change the constraint.

3.1.2.2. Assigned.

Resources the Town intends to use for a specific purpose. The intent can be expressed by the Town or by an official or body to which the Town delegates the authority. Appropriations of existing fund balances to future budgets are considered assigned fund balance.

The Town shall not report an assignment that will result in deficit in **UFB**. Negative fund balances cannot be considered assigned.

3.1.2.3. Unassigned.

Resources that are available for any purpose. These amounts are reported only in the general fund. In other governmental funds, if expenditures incurred exceeded the amounts restricted, committed or assigned it may be necessary to report a negative **UFB**.

3.1.2.4. The UFB calculation:

Total Fund Balance
Less Non-spendable fund balance
Less Restricted fund balance
Unrestricted Fund Balance

4. ADMINISTRATION

4.1. When an expenditure is incurred for purposes for which both **Restricted and UFB** are available, the Town considers the **Restricted Fund Balance** amount to have been spent first until exhausted and then any available **UFB**, unless not permitted by law.

4.2. When an expenditure is incurred for purposes for which **Committed, Assigned, or Unassigned** amounts are available, the Town considers the fund balance to be spent in the following order: **Committed, Assigned**, and then **Unassigned**.

4.3. 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.

4.3.4.4. The fund balance shall specifically not be used for paying recurring operating expenditures.

4.4.4.5. A positive balance in any Board of Education non-lapsing account must be fully expended –before the Board of Finance will consider any additional special appropriations.

5. GOVERNANCE

5.1. The Fund Balance of the Town may be committed for such specific purposes by formal action of the Board of Finance in accordance with this policy and the Town Charter. Amendments or modification to the Committed Fund Balance must also be approved by formal action of the Board of Finance.

5.2. Unless otherwise approved by the Board of Finance, the Board delegates authority to assign funds to the Assigned Fund Balance only for encumbrances to the Town Administrator and Finance Director.

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~~5.3. 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.~~

6. MINIMUM UNASSIGNED FUND BALANCE ADMINISTRATION

6.1. The Board of Finance recognizes that good fiscal management comprises the foundational support of the entire Town. Accordingly, to ensure that the Town maintains a high credit rating, the Town shall endeavor to maintain an available balance in the General Fund as a cushion against potential revenue and expenditure volatility. In this connection, the Board of Finance will seek to maintain a fiscal year end UFB of no less than 20% of the next year's budget.

~~6.1-6.1.1.~~ If the UFB falls below the 20% threshold as defined above, the Board of Finance will collaborate with the Board of Selectmen to replenish the deficiency over a period not to exceed the next three fiscal years.

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6.2. The Board of Finance shall review this policy annually at its January meeting. This review will include monitoring the minimum **UFB** requirements. During its annual review, the Board of Finance shall determine whether the minimum target levels for the **UFB** should be increased based upon factors including but not limited to:

- 6.2.1. Significant volatility in operating revenues or operating expenditures;
- 6.2.2. Potential drain on resources from other funds facing financial difficulties;
- 6.2.3. Exposure to natural disasters (e.g. hurricanes);
- 6.2.4. Reliance on a single corporate taxpayer or upon a group of corporate taxpayers in the same industry;
- 6.2.5. Rapidly growing budgets; or
- 6.2.6. Disparities in timing between revenue collections and expenditures

6.3. Exigent circumstances may justify the "spend down" of **UFB** below its minimum. Such exigent circumstances include but are not limited to:

- 6.3.1. Operating Emergencies
- 6.3.2. Unanticipated budgetary shortfalls



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Town of Weston, Connecticut Proposed Debt Management Policy

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I. Purpose

The purpose of the Debt Management Policy is to guide decisions related to financing capital improvements by the Town's available cash balances, current tax revenue, and issuance of debt in order to maintain the Town's long-term financial strength and retain the highest possible ratings from the municipal credit rating services. This policy is intended to ensure that debt is used responsibly. The policy also seeks to maintain a balance between the town's ability to meet service demands and the burden of debt on taxpayers.

II. Goals and Objectives

The goals of the Debt Management Policy are to establish parameters for issuing debt and managing a debt portfolio which encompasses the Town's specific capital improvement needs and its ability to repay financial obligations utilizing a long-range financial planning approach. Specifically, the policies outlined in this document are intended to guide the Town in:

1. **Establishing guidelines** for the issuance and management of debt.
2. **Minimizing debt service and issuance costs** to maximize the benefit of debt over cash purchase.
3. **Retaining the highest possible credit rating** and maintain transparency in financial disclosure.
4. **Ensuring compliance** with the Town Charter, state, and federal laws regarding debt issuance.
5. **Aligning debt management with long-term capital planning** and provide a mechanism to meet the town's infrastructure and capital project needs.

III. Use of Debt

A sound debt management program integrates "pay-as-you-go" financing with projects financed through the issuance of long-term debt. The Town's Capital Improvement Program (CIP) shall use this combined approach to fund capital projects. Therefore, it is important to integrate the Town's Debt Management Policy with both a long-range financial plan and the CIP. Debt issuance for capital projects should not be considered unless such issuance has been incorporated into the CIP, which is updated annually.

When considering how to fund capital improvements the Town will use the following criteria to evaluate whether to fund the improvement project on a "pay-as-you-go" basis versus the use of long-term debt financing:

Factors Favoring Pay-As-You-Go Financing

- Current revenues and adequate fund balances are available such that project phasing can be accomplished.
- Useful life of the capital assets is 10 years or less.
- Existing debt levels might have an adverse impact on the Town's credit rating.
- Market conditions are unstable or uncertain.

Factors Favoring Long-term Debt Financing

- Alternative funding sources such as Federal and State grants, loan programs, donations, proceeds from divestitures of capital assets, or a combination thereof, are not adequate or available.
- Revenues available for debt service are forecast to be sufficient and reliable such that long-term financings can be marketed such that the Town can maintain a AAA credit rating.
- Market conditions present favorable interest rates.
- The life of the project or capital asset to be financed is 10 years or longer.

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IV. Allowable Types of Debt

The Town may issue the following types of debt in accordance with Connecticut law:

1. **General Obligation Bonds (GO Bonds):** Used to finance capital improvement projects with a long-term benefit (e.g., school construction, infrastructure projects).
2. **Bond Anticipation Notes (BANs):** Short-term notes issued in anticipation of future bond issuance (e.g., as part of a multi-step construction program).
3. **Tax Anticipation Notes (TANs):** Short-term borrowing to cover operating expenses pending tax collection.
4. **Leases:** Capital leases used to finance equipment with a useful life shorter than 15 years.

This policy prohibits the use of variable rate demand bonds and floating rate notes, nor the issuance of any securities which would commonly be understood to be a “derivative”.

V. General Debt Limitations

Primary Debt Affordability Metric: There is a limit on the amount of debt that is affordable for the Town of Weston. The Town uses the following as the primary measure to define affordability:

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Annual Debt Service as a Percent of General Expenditures - measures the resources that debt uses in the annual budget. The Town of Weston will limit annual debt service (principal and interest) as a percent of general fund operating expenditures to no more than 10% at the time of new debt issuance, excluding debt supported by self-sufficient revenues.

Other Debt Affordability Metrics: Analytical review will be conducted by the Board of Finance in contemplation of the affordability of a new debt issuance which incorporates some or all of the ratios listed below. The ratios shall be reviewed in comparison to Weston’s financial history, as part of Weston’s long term financial projections, and in comparison to the ratios of other peer towns:

- Annual debt service payments as a percentage of expenditures
- Debt per capita
- Ratio of debt to net assessed value and to equalized net grand list
- Debt per capita as a percentage of per capita income
- Other debt related ratios utilized by rating agencies in assessing credit ratings for municipalities

- [Mill rate](#)
- [Tax burden on a median value house](#)

[Financial Projections: Any proposal for debt issuance and assessment of debt affordability must include financial projections that assess the impact on debt levels, debt service, future debt capacity, tax burden, mill rate and key debt ratios as noted above. The projections should incorporate the long term capital plan and any other potential future plans for issuing debt for capital projects, and assess the impact over the next 20 years after the proposed debt issuance.](#)

VI. Debt Structure

The Town follows the following practices in repaying the principal and interest on its General Obligation Bonds:

1. **Debt Term:** The town will issue debt with the shortest period practical, but in any case, does not exceed the **useful life of the asset** being financed, with a maximum maturity of **30 years**.
2. **Paydown Schedule:** The Town will utilize level principal payments where practical. This structure will allow adjusting payments to smooth out total annual debt service over time.
3. **Fixed Rate:** The town will issue **fixed-rate debt** to minimize budgetary uncertainty.
4. **Call Provisions:** Debt will include provisions for early redemption (call options) to allow flexibility in refinancing if interest rates decrease.

VII. Process to Issue Debt

The Town will issue long-term, fixed rate debt to permanently finance the acquisition of long-lived capital assets when current tax revenues or cash balances are not sufficient to finance these projects. The Town will consider key economic variables, local economic trends, revenue and expenditure projections (including future operating costs associated with new capital projects), tax impacts, and the overall debt burden on the community before issuing debt. Issuance of debt is guided by the following practices:

1. The Town shall **solicit and select a Municipal Advisor** when issuing debt obligations to advise on structuring and other options to improve the marketability of the bond offering.
2. The Town shall **authorize by resolution** a not to exceed issuance amount for the bonds in accordance with the provisions of the Weston Town Charter (Section 9.11 et al), as revised from time-to-time.
3. The Town shall **employ other outside financial specialists** to assist town staff in developing a bond issuance strategy, preparing materials for presentation to rating agencies, preparing bond documents, and marketing bonds to investors (e.g., Bond Counsel, paying agent/registrar, trustee, auditing, or printing services).
4. The Town will **generally issue debt obligations through a competitive sale process** unless conditions are more favorable for a negotiated process. Whenever possible, the Town will issue \$10 million or less in tax exempt securities per calendar year to receive the "Bank Qualified" status on the issue to minimize interest rates paid for bonded projects.
5. The Town shall **comply with all federal, state, and contractual restrictions regarding the investment of bond proceeds**. The Town will use bond proceeds within the established time frame pursuant to the bond contract or other documents in order to comply with federal tax

requirement to avoid arbitrage (interest earned on investment of bond proceeds above the interest paid on the debt).

VIII. Refinancing of Debt

The Finance Department, in consultation with the Town's Municipal Advisor, will annually evaluate opportunities to **refund existing debt** to achieve savings. Refunding will be considered only if a **net present value savings of at least 2%** of the refunded debt is achieved

IX. Monitoring and Ongoing Disclosure

The Town's long-term financial forecast, capital improvement program, debt obligations, and debt capacity will be evaluated together, in an integrated manner, on an annual basis by the **Town Administrator** and the **Director of Finance** and reported to the **Board of Finance**. Any changes that occur in capital plans, debt obligations, or debt capacity will be incorporated and highlighted for consideration in the Town's annual budgeting process.

The Town is committed to continuing disclosure of financial and pertinent credit information relevant to the Town's outstanding securities and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure. The Director of Finance, with assistance of financial advisors, shall prepare and submit comprehensive financial, economic, and demographic information on the Electronic Municipal Market Access (EMMA) service annually.

The Town will also maintain open communication with credit rating agencies, ensuring full financial disclosure of operations and providing accurate and timely information to maintain or improve the town's credit rating.

X. Policy Review

The Director of Finance is responsible for reviewing the Debt Management Policy annually and shall recommend to the Town Administrator and the Board of Finance any changes to this policy as required. This would include changes required to align the policy with best practices, ensure compliance with any covenants in any bond documents, or meet the requirements of federal tax, securities, or other applicable law.

Approved by the Weston Board of Finance: [Date]