

Town of Berlin Fund Balance Policy

Introduction: The Town of Berlin endeavors to follow best practices by maintaining adequate fund balances in order to mitigate current and future risks and to ensure stable tax rates. This policy covers the:

- General Fund;
- Pension Trust Fund;
- Health Insurance Fund;
- General Insurance Fund; and
- Capital Reserve Fund.

These policies shall be reviewed and adopted at least annually by the fiscal/budgetary and legislative bodies of the Town.

General Fund: The Town shall use its best efforts to maintain a budgeted unassigned fund balance of at least 11% of the budgeted year's total expenditures (including debt service and transfers). Any budgeted contingency shall be included in the current year unassigned fund balance when calculating compliance with this policy. This level of reserve is intended to be adequate to mitigate risks for:

- One-time outlays (disasters, emergencies or immediate needs);
- Potential depletion of General Fund resources from other funds; and
- Impact to the Town's bond rating.

The Unassigned General Fund balance shall not be used as a funding source for ongoing, recurring expenditures.

When the budgetary and legislative bodies of the Town approve using unassigned fund balance, the Finance Director shall report on the new unassigned fund balance as a percent of total expenditures after the approved use. If the new balance is below 11%, then the budgetary and legislative bodies shall develop a plan to restore the unassigned fund balance to 11% or greater. The plan shall include the timing and means by which the unassigned fund balance will be replenished – within a period not to exceed two fiscal years. Examples of sources for replenishing funds include nonrecurring revenue, budget surpluses and excess resources in other funds (that might be transferred into the General Fund).

Pension Trust Fund: Effective with fiscal year 2000, the Town of Berlin closed the defined benefit retirement plan to new members. However, the existing defined benefit members continue to accrue benefits under the plan, and, at the member's discretion, may elect a lump sum payout at retirement. As such, the Town of Berlin shall include the annual required contribution (ARC) - as determined by a licensed actuary – in the General Fund operating budget. The ARC calculation considers any existing fund balance in the Pension Trust Fund, so no additional policy is needed.

Health Insurance Fund: The Town of Berlin shall maintain a balance of 25% - 50% of projected full year claims (including IBNR) in the Health Insurance Fund. If the balance falls below this level, the following year's budgeted premiums (for employees and the Town) shall be sufficient to raise the projected balance to at least 25% of projected claims.

This balance is needed because of the Town of Berlin self-insures for medical & dental claims. The Town purchases individual stop-loss insurance, but effective in fiscal year 2016-17 the Town stopped purchasing aggregate stop-loss. The reserve in this fund mitigates the risk of claims requiring supplemental funding from the General Fund.

General Insurance Fund: The General Insurance Fund shall maintain a balance between \$1,000,000 and 5% of the General Fund budget. If the balance falls below \$1,000,000, the following year's budgeted expenditures for general insurance costs shall be adjusted to raise the Fund balance to at least \$1,000,000.

The balance is necessary to cover the cost of deductibles, heart & hypertension claims and small claims that the Town may decide to pay without insurance funds.

Capital Reserve Fund: The Town shall seek to maintain a capital reserve fund of \$1,000,000. This fund is intended to support a stable tax structure for the Town. This fund will supplement, not replace, the annual contingency budget which is intended to deal with unexpected operating events during the fiscal year.