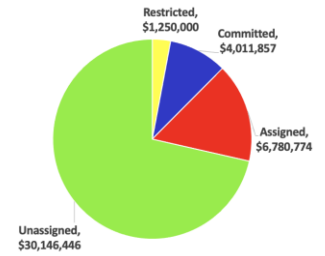


Inside Town Finances

Volume 6: Fund Balance

What is Fund Balance?

Fund Balance, also known as Available Reserves or Free Cash, is the accumulation of each fiscal year's actual surpluses and deficits. Changes to Fund Balance are the result of one-time occurrences such as budget turnbacks (which result in an increase to Fund Balance) or greater-than-budgeted expenses such as snow removal (which result in a Fund Balance decrease). When accumulated surpluses exceed deficits, Fund Balance increases. Conversely, when accumulated deficits exceed surpluses, Fund Balance decreases. The size of surpluses and deficits can vary from one year to the next.



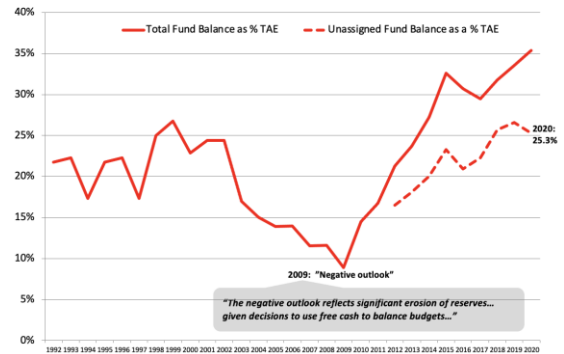
In conformance with accounting standards implemented in FY2011, Fund Balance is classified into five categories: Non-Spendable, Restricted, Committed, Assigned and, Unassigned. As of June 30, 2020, Hingham's Fund Balance totaled \$42.9 million. Unassigned Fund Balance totaled \$30.1 million. The chart above displays amounts by category. Hingham currently does not have any Non-Spendable obligations.

What size Fund Balance should the Town have?

The Town Financial Policy calls for the Town to “maintain Unassigned Fund Balance at a level of no less than 16% and as high as 20% of Total Annual Expenditures.”

Has the Town typically met its Fund Balance target?

The chart to the right shows historic Fund Balance levels for both Total and Unassigned Fund Balance. From 2003 to 2009, Fund Balance declined significantly as a result of the Town using Fund Balance to balance its operating budget. That practice caused Moody's Investor Services to issue a 'negative outlook' on the Town's credit rating in 2009.



As of June 30, 2020, Unassigned Fund Balance represents 25.3% of Total Annual Expenditures, which is \$6.3 million above the upper threshold of the Financial Policy range.

What are allowable uses of excess Unassigned Fund Balance?

In accordance with the Town Financial Policy, “When Unassigned Fund Balance exceeds 20% for a sustained period and is projected to remain in the range of 16% to 20% for the next five years, the Advisory Committee should consider recommending that Town Meeting apply such amounts in excess of 20% to items such as unfunded long-term liabilities, long-term and non-recurring capital expenditures, retirement of debt, or targeted tax relief. **Excess Unassigned Fund Balance should not be used to fund recurring operating budget items.**”

Why does the policy preclude using Fund Balance for recurring operating budget items?

Using a one-time drawdown of Unassigned Fund Balance to fund recurring expenses (which typically grow over time) creates structural deficits that can necessitate tax increases to maintain services, reductions in services, or—worst case—further erosion of Fund Balance reserves (which would have an adverse impact on the Town's credit rating). Nearly 80% of the Town's expenses are personnel-related, so service reductions would most likely trigger layoffs.

2009: Moody's Investor Services

“What could move the rating down: adoption of structurally imbalanced budgets ... significant appropriation of free cash without replenishment ...”

How has the Town used Unassigned Fund Balance during the pandemic?

In the spring of 2020, following State of Emergency declarations and the associated economic downturn, the Town revised its FY21 revenue assumptions downward, resulting in a projected budget deficit of \$3.3 million. Recognizing this revenue loss was temporary in nature, and after consultation with the Town's external financial advisors, Town Meeting authorized the use of up to \$3.3 million in Unassigned Fund Balance to offset the projected budget deficit. For FY22, the Town could again apply excess Unassigned Fund Balance to offset temporary revenue shortfalls or pay for non-recurring expenses related to the pandemic and still remain in conformance with its Financial Policy.