

Municipal Rainy Day Funds

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Issue

How many Connecticut municipalities have rainy day funds?

Summary

Municipalities generally maintain reserves to ensure stable tax rates and mitigate current and future budgetary risks (e.g., revenue shortfalls and unanticipated expenses). But these reserves are not recognized in municipal finance law or in the municipal accounting system as “rainy day funds.” Rather, a conservative measure of municipality’s reserves is its “unassigned fund balance.” This figure represents the portion of the municipality’s fund balance that is not earmarked or legally constrained for specific purposes.

In FY 18, 165 of Connecticut’s 169 municipalities had an unassigned fund balance. As a percentage of each municipality’s annual expenditures, the fund balances ranged from 0.1% in Stamford to 39.6% in Warren. The median fund balance as a percentage of annual expenditures was 13.5% for FY 18.

Municipal Accounting

The municipal accounting system is operated on a fund basis. Funds are an accounting entity established in accordance with state statutes, municipal charters, and ordinances. A fund is accounted for so that a record of its resources, obligations, revenues, expenditures, and fund equities is continually maintained, showing the current financial condition of the fund.

Funds are segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with applicable regulations, restrictions, or limitations (Institute of Public Service, [Handbook for Connecticut Boards of Finance \(1992\)](#)).

Fund Balance Overview

In the context municipal financial reporting, the term “fund balance” describes the municipality’s net position of funds calculated in accordance with generally accepted accounting principles (GAAP). Municipal financial statements generally report up to five separate categories of fund balance based on the type and source of constraint placed on how the money can be spent. We briefly explain the categories below, in descending order from most to least constrained.

1. **Nonspendable fund balance:** amounts that cannot be spent either because the underlying resources are not in spendable form or because the municipality is legally or contractually required to maintain these resources intact
2. **Restricted fund balance:** amounts constrained to specific purposes by their providers (e.g., creditors, grantors, contributors, higher levels of government)
3. **Committed fund balance:** amounts constrained by the municipality itself
4. **Assigned fund balance:** amounts set aside (earmarked) by the municipality for a particular purpose
5. **Unassigned fund balance:** amounts available for any purpose, constitutes the difference between total fund balance and the other four components (Government Finance Officers Association, [Best Practices: Fund Balance Guidelines for the General Fund](#); Governmental Accounting Standards Board, [Fact Sheet about Fund Balance Reporting and Governmental Fund Type Definitions](#))

In the last three categories, the only constraint on spending, if any, is imposed by the municipality. Together, these three components constitute the “unrestricted fund balance.” Some might consider this fund balance to be equivalent to a municipality’s rainy day fund, as the municipality can opt to change how the resources will be directed, thus mitigating unanticipated expenses. However, according to the Office of Policy and Management (OPM), a municipality’s unassigned fund balance is the commonly accepted conservative measure of a municipality’s rainy day fund.

Municipal Reserve Funds ***(CGS § 7-359 et seq.)***

Frequently called capital reserve funds, municipalities may establish this type of fund to cover (1) capital and nonrecurring expenditures (i.e., acquiring a specific piece of equipment or planning, constructing, reconstructing, or acquiring a specific capital improvement); (2) property tax revaluation costs; and (3) costs associated with preparing, amending, or adopting a municipal plan of conservation and development.

The fund may be capitalized with (1) a general fund cash surplus at the end of a fiscal year, (2) an annual tax of up to four mills, or (3) existing surplus cash held in reserve.

The reserve fund balance, excluding interest and dividends earned, may not exceed the current tax levy, unless the fund belongs to fire district or borough, in which case the limit is three times the current tax levy.

Connecticut Municipalities' Unassigned Fund Balances

According to OPM's most recent [Municipal Fiscal Indicators](#) report (published January 2020), 165 municipalities maintained an unassigned fund balance in FY 18. The remaining four, Derby, New Haven, Shelton, and Sprague, ended FY 18 without an unassigned funds balance. In other words, these four municipalities, after accounting for expenses, did not have funds available to cover unexpected costs.

The below table shows the municipalities that maintained an unassigned fund balance in FY 18. It also shows what percentage of total expenditures (i.e., the budget) these funds constitute.

Table 1: FY 18 Unassigned Fund Balance as a Percentage of Annual Expenditures

	<i>Unassigned Fund Balance (FY 18)</i>	<i>Unassigned Fund Balance as a Percentage of FY 18 Expenditures (%)</i>
Andover	\$2,595,937	24.1
Ansonia	5,337,152	7.8
Ashford	1,796,923	12.3
Avon	9,594,498	10.1
Barkhamsted	1,431,043	11.4
Beacon Falls	2,827,421	13.8
Berlin	12,025,216	13.2
Bethany	4,382,859	18.5
Bethel	18,426,970	23.0
Bethlehem	1,496,738	16.1
Bloomfield	18,357,051	20.1
Bolton	746,002	3.3
Bozrah	801,341	9.1
Branford	27,124,681	23.6
Bridgeport	21,014,433	3.0
Bridgewater	1,279,446	18.9
Bristol	28,341,862	13.1

	<i>Unassigned Fund Balance (FY 18)</i>	<i>Unassigned Fund Balance as a Percentage of FY 18 Expenditures (%)</i>
Brookfield	5,555,820	8.0
Brooklyn	1,469,730	6.5
Burlington	4,234,213	10.5
Canaan	729,256	14.1
Canterbury	2,058,521	14.5
Canton	6,154,811	15.3
Chaplin	1,341,289	16.2
Cheshire	10,580,697	8.8
Chester	2,232,368	17.1
Clinton	9,176,717	16.3
Colchester	6,869,784	11.5
Colebrook	1,916,655	32.8
Columbia	3,479,526	20.0
Cornwall	1,556,751	23.3
Coventry	5,303,759	11.9
Cromwell	11,641,051	21.9
Danbury	24,283,723	8.9
Darien	22,433,872	14.2
Deep River	1,248,446	7.4
Durham	3,992,956	13.4
East Granby	2,799,982	12.0
East Haddam	4,941,533	14.9
East Hampton	5,435,624	11.0
East Hartford	20,111,000	9.3
East Haven	5,816,569	6.0
East Lyme	4,777,264	6.0

	<i>Unassigned Fund Balance (FY 18)</i>	<i>Unassigned Fund Balance as a Percentage of FY 18 Expenditures (%)</i>
East Windsor	9,559,820	24.3
Eastford	1,410,559	27.3
Easton	7,189,734	16.1
Ellington	2,059,204	3.4
Enfield	18,507,352	12.6
Essex	3,329,626	13.6
Fairfield	32,142,000	9.8
Farmington	14,428,990	12.9
Franklin	1,467,554	12.6
Glastonbury	23,876,227	13.7
Goshen	1,784,778	17.7
Granby	4,121,451	8.5
Greenwich	42,086,651	9.8
Griswold	3,763,949	9.8
Groton	18,888,114	14.0
Guilford	9,794,426	9.0
Haddam	4,886,482	16.1
Hamden	1,467,803	0.6
Hampton	1,412,201	25.5
Hartford	4,884,000	0.8
Hartland	817,416	11.3
Harwinton	3,676,009	20.2
Hebron	6,758,878	18.6
Kent	2,517,261	21.3
Killingly	8,986,061	14.5
Killingworth	4,500,797	21.5

	<i>Unassigned Fund Balance (FY 18)</i>	<i>Unassigned Fund Balance as a Percentage of FY 18 Expenditures (%)</i>
Lebanon	5,712,991	21.8
Ledyard	4,028,215	6.7
Lisbon	1,973,232	14.1
Litchfield	5,383,923	15.7
Lyme	1,834,817	18.0
Madison	10,034,487	11.8
Manchester	20,966,000	10.4
Mansfield	5,849,627	11.0
Marlborough	3,476,500	14.0
Meriden	14,822,351	6.7
Middlebury	4,111,440	13.0
Middlefield	2,300,291	14.5
Middletown	25,632,000	16.7
Milford	30,240,000	13.5
Monroe	12,749,121	13.6
Montville	9,866,374	15.3
Morris	1,404,538	15.6
Naugatuck	12,043,464	9.5
New Britain	17,239,000	6.4
New Canaan	25,995,141	16.2
New Fairfield	7,204,605	12.1
New Hartford	2,796,153	11.4
New London	12,821,728	14.2
New Milford	17,562,227	17.0
Newington	15,278,000	12.4
Newtown	12,826,790	10.5

	<i>Unassigned Fund Balance (FY 18)</i>	<i>Unassigned Fund Balance as a Percentage of FY 18 Expenditures (%)</i>
Norfolk	1,311,741	17.6
North Branford	8,587,645	13.5
North Canaan	2,048,006	17.8
North Haven	8,043,391	7.6
North Stonington	3,190,247	15.7
Norwalk	57,676,454	16.0
Norwich	15,303,000	11.9
Old Lyme	8,681,456	24.8
Old Saybrook	6,206,910	12.9
Orange	13,046,682	18.4
Oxford	8,344,250	16.6
Plainfield	8,369,188	16.7
Plainville	8,380,480	13.1
Plymouth	1,683,452	3.9
Pomfret	1,599,867	11.9
Portland	6,019,037	17.6
Preston	2,549,775	14.7
Prospect	2,435,977	7.7
Putnam	5,415,597	21.4
Redding	8,595,402	16.5
Ridgefield	14,052,897	8.8
Rocky Hill	4,566,413	5.6
Roxbury	2,033,381	20.2
Salem	3,347,517	22.0
Salisbury	1,693,952	12.0
Scotland	641,543	10.8

	<i>Unassigned Fund Balance (FY 18)</i>	<i>Unassigned Fund Balance as a Percentage of FY 18 Expenditures (%)</i>
Seymour	1,727,644	2.7
Sharon	2,481,990	21.6
Sherman	2,822,781	19.4
Simsbury	14,380,222	13.5
Somers	6,200,725	18.0
South Windsor	11,247,314	9.0
Southbury	4,623,907	7.3
Southington	22,706,000	14.3
Stafford	5,332,883	12.3
Stamford	683,851	0.1
Sterling	3,501,465	29.5
Stonington	14,028,605	20.4
Stratford	3,590,793	1.5
Suffield	7,397,313	12.7
Thomaston	3,502,786	13.8
Thompson	2,394,998	8.7
Tolland	8,320,481	13.2
Torrington	13,736,339	10.0
Trumbull	22,194,138	11.7
Union	339,501	9.7
Vernon	18,645,480	19.8
Voluntown	1,359,420	14.8
Wallingford	17,126,000	9.6
Warren	2,083,629	39.6
Washington	4,257,429	28.7
Waterbury	20,425,000	5.0

	<i>Unassigned Fund Balance (FY 18)</i>	<i>Unassigned Fund Balance as a Percentage of FY 18 Expenditures (%)</i>
Waterford	13,979,558	14.6
Watertown	4,084,363	5.2
West Hartford	25,438,000	8.6
West Haven	989,627	0.6
Westbrook	5,505,046	16.9
Weston	13,883,633	17.3
Westport	25,134,366	10.9
Wethersfield	11,466,236	10.4
Willington	2,560,044	15.2
Wilton	14,542,508	10.4
Winchester	6,788,756	21.0
Windham	6,332,539	7.6
Windsor	22,868,466	19.9
Windsor Locks	11,552,219	21.5
Wolcott	5,028,211	8.5
Woodbridge	6,007,101	12.0
Woodbury	4,744,393	14.3
Woodstock	3,587,091	14.7

Source: OPM's [Municipal Fiscal Indicators Report](#) (covering FYs 14-18), January 2020

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