

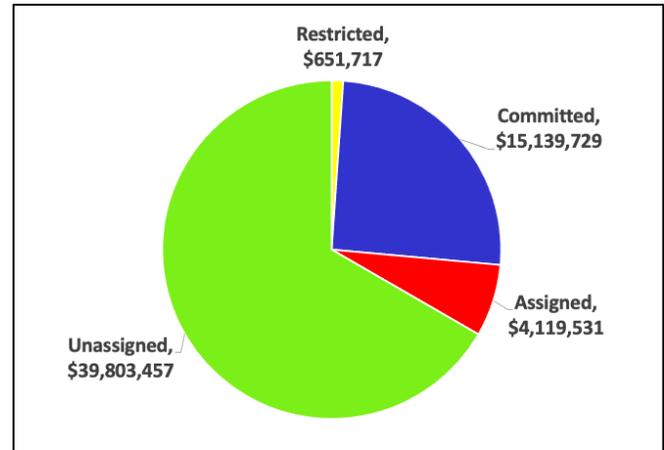
Inside Town Finances

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. Fund Balance changes due to one-time events such as budget turnbacks (which increase Fund Balance) or higher-than-expected expenses (which decrease it). When surpluses outweigh deficits over time, Fund Balance grows; when deficits exceed surpluses, it declines. The size of surpluses and deficits can vary from year to year.

In conformance with accounting standards, Fund Balance is classified into five categories: Non-Spendable, Restricted, Committed, Assigned, and Unassigned. Among these categories, Unassigned Fund Balance is the portion that has not been otherwise designated for particular future uses. As of June 30, 2024, Hingham's Fund Balance totaled \$59.7 million of which \$39.8 million was Unassigned. The chart above shows the Fund Balance distribution by category. Currently, Hingham does not have any Non-Spendable obligations.



How much 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.” As of June 30, 2024, Unassigned Fund Balance represented 31% of Total Annual Expenditures, which is \$14.3 million above the upper threshold of the Financial Policy range.

What are allowable uses of excess Unassigned Fund Balance?

According to the Town Financial Policy, “When Unassigned Fund Balance exceeds 20%, the Advisory Committee shall consider recommending that Town Meeting apply such amounts in excess of 20% to items such as: capital expenditures, tax relief (including but not limited to a transfer of some portion of such excess to a tax mitigation and/or a capital stabilization fund or funds or other stabilization funds that have been authorized by Town Meeting), retirement of debt, and unfunded long-term liabilities. Excess Unassigned Fund Balance should not be used to fund recurring Operating Budget items...except under emergency circumstances.”

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

Because doing so can create a structural deficit. Operating expenses—such as salaries and utilities—are ongoing and typically increase over time. Funding these recurring costs with reserves creates a budget imbalance that cannot be sustained. Eventually, the reserves will be depleted, leaving the Town with a shortfall that can only be resolved by raising taxes to maintain services, reducing services, or drawing down reserves even further.

This is not a theoretical concern. In the early 2000s, Hingham relied heavily on its Fund Balance to support operating budgets. Over a period of seven years, this practice reduced the Town's reserves from 24.4% to just 8.9% of Total Annual Expenditures. By 2009, the depletion of reserves forced significant reductions in personnel, services, and capital investments. Compounding the issue, Moody's Investors Service assigned a negative outlook to the Town's credit rating—at a time when the Town was actively accessing capital markets. This occurred during the global financial crisis, when borrowing was both difficult and costly.

Since then, rating agencies have consistently cited the Town's adherence to its financial policies—and its commitment to maintaining healthy reserves—as a key factor supporting its high credit rating. A decline in reserves could jeopardize that rating, potentially increasing borrowing costs and limiting the Town's access to capital markets.

2025 Rating Agency Reports - Factors that could lead to a downgrade:

- Moody's: “Decline in available fund balance”
- Standard and Poors: “Material reduction in reserves”