Understanding Fund Balance in Vermont Municipalities

Current as of: 4/5/2026

“Selectboard slush fund.”

“We are being overtaxed.”

“Every available penny should be used to reduce taxes.”

“Every penny should be returned to the voters.”

“Extra money exists because of financial mismanagement.”

“We shouldn’t need extra money sitting around if we have budgeted correctly.”

If governmental accounting is part of your life, you have heard some version of these statements relative to fund balance. They are typically made by taxpayers who feel the weight of property taxes crushing their household budgets. It is understandable, considering several financial realities in America today: nearly one in four people (25%) live paycheck to paycheck (Bank of America), only 54% have emergency savings (Bankrate), and four in 10 have no retirement savings (Gallup). It's no wonder that around half of American credit card holders carry a balance from month to month (Bankrate) at an average interest of 19-20% and use credit to cover everyday expenses and emergencies (Bankrate). Add to it that these are trying political times when trust in government is at an all-time low. Although many Vermont households have learned to navigate life with very tight financial margins, **governments must operate differently**: communities depend on their local officials to plan ahead, maintain stability, and safeguard the resources needed to keep essential services strong and the community safe during emergencies.

> **Maintaining an adequate unassigned fund balance protects your taxpayers by stabilizing tax rates and supporting service continuity and financial flexibility.**

Municipal budgeting requires balancing many variables, most of which cannot be predicted with exact certainty. When towns, cities, and villages prepare their annual budgets, local officials must make educated estimates about revenues, expenses, and outside factors such as economic conditions or unexpected emergencies. Aware of the uncertainties, municipalities rely on financial tools to help manage risk and maintain stability. One of the most important of these tools is fund balance.

What is Fund Balance?

At its core, fund balance is the difference between a municipality's assets and liabilities in a governmental fund, most commonly the General Fund. If assets exceed liabilities, the fund has a "surplus"; if liabilities exceed assets, it has a "deficit". **Fund balance is not the same as cash in the bank, and it should not be thought of as extra or unused money**. In governmental accounting, fund balance serves a role similar to working capital in a private business, helping the municipality operate smoothly and meet its obligations as they come due. Overall, fund balance provides a snapshot of a town's financial position and helps indicate its fiscal health.

Fund balance is a central – and crucial – part of municipal financial management. It represents resources that have accumulated over time and can be used to support operations, manage cash flow, and respond to unexpected needs (both challenges such as natural disasters and opportunities like new grant programs that require matching funds). Some portions of fund balance are restricted by law or policy, while others are available for general use. Despite its importance, fund balance, especially "unassigned" fund balance, is often misunderstood by the public, particularly during budget discussions and town meetings.

Governmental fund balance is reported following GASB standards that classify resources according to the constraints on their use. Unassigned fund balance, the most flexible category, appears only in the General Fund and represents spendable resources not otherwise restricted, committed, assigned, or nonspendable (yes, that's a real term in the world of government finance).

Shackles Removed from State Law

Vermont law now clearly addresses how fund balance may be handled, thanks to VLCT's advocacy work during the 2025 legislative session. This change leveled the playing field for all Vermont municipalities regardless of their size or capacity by codifying how they may handle fund balance, which previously had been unclear. Under 24 V.S.A. § 1585,

- municipalities are now explicitly authorized to carry forward unexpended budget monies as unassigned fund balance, and
- selectboards have authority to invest and spend these funds for any public purpose without requiring additional voter approval.

This statutory clarity **applies to all Vermont municipalities**, including those that do not prepare GAAP-audited financial statements (GAAP = Generally Accepted Accounting Principles) and often have finance officials who are not formally trained in governmental accounting.

Many Vermont towns felt the hard squeeze of insufficient unassigned fund balance after the floods of 2023, 2024, and 2025 – which is why VLCT fought hard to pass this legislation. Towns that had insufficient or no unrestricted fund balance scrambled to pay their regular daily expenses alongside mounting flood-related bills while waiting for FEMA funding – which never arrived for some of them. They were forced to take on massive amounts of debt, sometimes multiple times their annual operating budgets, just to make their communities safe for their residents. It was a hard lesson to learn: it's not realistic or feasible for a municipality to create and fund a "rainy day reserve fund" when it's raining. When your community's roads, bridges, and homes wash away by the hour, warning a special town meeting to ask your voters to create a reserve fund so you can pay your emergency expenses is not on your daily to-do list; just writing the check is.

Responsible Uses of Fund Balance

Maintaining unassigned fund balance does not mean that a town is stockpiling unnecessary money or refusing to lower taxes. Instead, adequate unassigned fund balance helps:

- Stabilize tax rates over time by reducing sharp increases or decreases from year to year
- Provide flexibility to respond to emergencies, economic downturns, or unexpected expenses
- Ensure that the municipality has enough cash on hand to operate when revenues have not yet been collected
- Reduce or eliminate the need for short-term borrowing

- Save interest costs
- Improve grant readiness by making required local matching funds available
- Contribute to stronger credit ratings to improve borrowing terms when needed
- Provide long-term financial stability

Transparency and accountability are best achieved when fund balance activity is properly accounted for and reported.

Cash Flow, Targets, Guidance, and Policy

Understanding governmental fund balance also requires understanding how municipal budgets and cash flow work. A municipal budget is fundamentally a financial and strategic ***plan*** (not a requirement that every dollar be spent as stated in each line item). Appropriations grant legal authority to spend money, while revenues are used to fund those appropriations. However, municipal cash flow is uneven: expenses occur throughout the year, whereas major revenue sources, such as property taxes, are collected only at specific times – and in some places only once each year. Unassigned fund balance helps bridge these timing gaps, allowing services to continue uninterrupted and avoiding the need to issue short-term debt with associated interest – e.g., "tax anticipation notes" (TANs).

There is no single "correct" amount of unrestricted fund balance that every municipality should maintain. What constitutes an adequate unassigned fund balance depends on local conditions, financial risks, and reliance on certain revenue sources.

That said, professional organizations provide helpful guidance for setting reasonable targets. Based on the Government Finance Officers Association's recommendation, VLCT recommends maintaining an unassigned fund balance of at least 15-17% of the operating budget, particularly for municipalities that rely heavily on property taxes. Credit rating agencies such as Moody's indicate that local governments with fund balance levels between 15% and 30% of their operating revenues are associated with stronger credit profiles because they have greater financial flexibility, stronger liquidity, and lower risk. Maintaining minimal unassigned fund balance is generally not advised due to cash flow needs and the risks of unanticipated situations and emergencies.

To manage fund balance responsibly and consistently, selectboards are encouraged to adopt a formal fund balance policy, like VLCT's **Model Fund Balance Policy + Guidance**. Such a policy typically defines target fund balance levels, outlines when and how fund balance may be used, and establishes plans for replenishment if unassigned fund balance levels fall too low. It may also address how excess fund balance should be treated, such as using it for one-time expenditures, capital projects, weather-related emergencies, or tax stabilization.

When unassigned fund balance exceeds policy targets, it may be used in several ways, including stabilizing tax rates, funding capital improvements, replacing equipment, or setting aside resources for future contingencies. Depending on local governance structure, decisions about using unassigned fund balance may require action by the legislative body.

In a Nutshell

Maintaining and managing fund balance is a standard and essential element of sound municipal financial management. It helps manage both short-term cash flow challenges and long-term financial risks. When municipalities adopt and follow clear policies and communicate openly about fund balance, public understanding improves, fiscal discipline is strengthened, and trust is built. **Maintaining an adequate unassigned fund balance protects your taxpayers by stabilizing tax rates and supporting service continuity and financial flexibility.** It is not just a best practice; it is the smart approach to maintaining the long-term stability of your municipality.

Written with the assistance of solidly prompted AI.

Publication Date

02/13/2026