

TOWN OF EAST HADDAM

BUDGET POLICIES INTRODUCTION

Purpose:

The purpose of Budget Policies is to outline the Town's guidelines for budgetary decision-making and set a standard for sound budgetary practice and fiscal performance. Adhering to an adopted set of Budget Policies provides a framework for consistent and transparent budgeting that is fiscally responsible. The policies set forth protocols and best practices regarding operating and capital budgets, budgetary controls, and revenue and expenditure policies that result in the legal establishment, timely execution and effective monitoring of the Town's budget.

The Town uses strategic planning to map its goals and manage the resources necessary for achieving them. The Town Strategic Plan defines the direction for the Town and provides a framework for the strategies and activities of the departments. The budget process is structured each year to achieve the fiscal and policy goals for the upcoming fiscal year while adhering to the timeline defined by this policy.

According to the Government Finance Officers Association (GFOA) and the National Advisory Council on State and Local Budgeting (NACSLB), the budget policies should address and establish the guidelines for the following components:

- Operating and Capital Improvement Projects
- Budget Execution and Controls
- Revenues and Expenditures

This policy document addresses each of these elements, and provides a comprehensive foundation for the establishment, execution, and monitoring of the Town's annual budget.

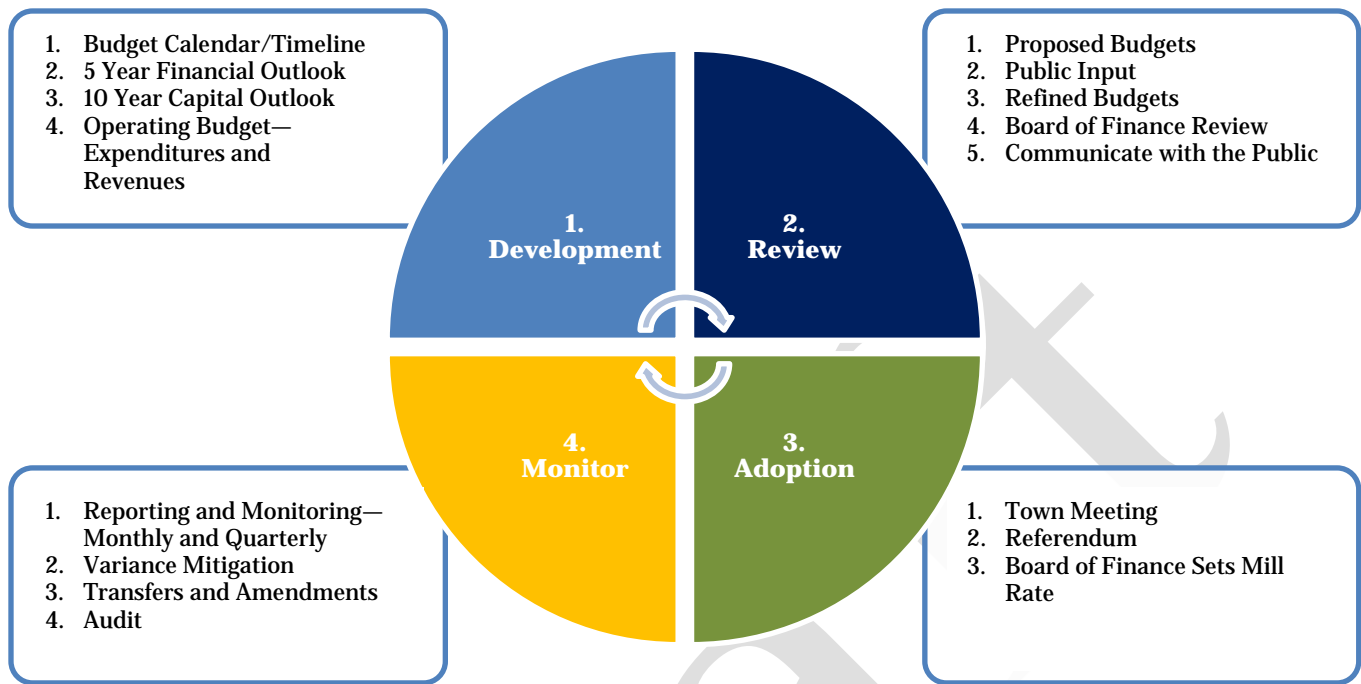
The budget process is composed of the following phases: budget development, budget review, budget adoption, and budget monitoring.

Conditions:

These policies were drafted to include recommended budget practices asserted by the GFOA and the NACSLB. These policies shall be reviewed on a regular basis in order to ensure that the policies reflect the highest standards of fiscal management and the Town's budgetary goals.

Guidance:

THE BUDGET PROCESS



As demonstrated by the chart above, the budget process is cyclical. It is a constant process of planning, reviewing, monitoring and reporting to ensure budgeting compliance and to be able to mitigate unforeseen circumstances or situations.

The Town of East Haddam budget is developed annually for each fiscal year, which is July 1 through June 30. The Town operates under Connecticut State Statutes for the budget approval process, which requires that requires that the Board of Education submit their budget to the Board of Finance at least two months prior to the Annual Town Budget Meeting. This budget policy requires that the Board of Selectmen prepare their budget within the same timeline.

BUDGET DEVELOPMENT

According to NACSLB (Practice 8.2), the Town should develop general guidelines and instruction for budget preparation for each budget cycle.

According to NACSLB (practice 8.3) the Town should develop mechanisms and assign responsibilities to provide for the overall coordination of the preparation and review of the budget.

1. **Budget Calendar:**

The Town shall publish a comprehensive budget calendar that specifies when budget tasks are to be completed and the timelines for those tasks. In establishing the timeline, the first action that is needed is establishing the Annual Town Budget Meeting date and working backward. The Town utilizes the following timeline for budget development, review and adoption:

a. **October to February:**

- School Administrators submit budget requests to Superintendent.
- Town Departments, Boards and Commissions submit request to First Selectman.
- A *Citizens' Guide to the Budget* is prepared and provided to every home via U.S. Mail or the *East Haddam News* providing information from the Board of Finance, the Budget Calendar, Budget Data and inviting citizens to participate in the Tri-Board Meeting (see below).
- The Boards of Education, Finance and Selectmen hold a Tri-Board meeting to begin the budget process and to solicit public input.
- Superintendent reviews budget requests and submits a proposed budget to the Board of Education.
- First Selectman reviews budget requests and submits a proposed budget to the Board of Selectmen.
- The Boards of Education and Selectmen hold budget workshops, deliberate and approve a proposed budget to the Board of Finance.

b. **March and April:**

- Boards of Education and Selectmen present budgets to the Board of Finance.
- Board of Finance holds budget workshops and public hearings to gather citizen input.
- A *Citizens' Guide to the Budget* is prepared and provided to every home via U.S. Mail or the *East Haddam News* outlining the proposed budget and providing calendar information regarding the Budget Public Hearing, the Annual Town Budget Meeting and referendum.
- Board of Finance deliberates and recommends a proposed budget to the Annual Town Budget Meeting and referendum.

c. **April and May:**

- Annual Town Budget Meeting held on proposed budget.
- Taxpayers vote on budget at referendum.
- Board of Finance sets mill rate.

2. **Five-Year Financial Outlook (Outlook):**

The development of the Five-Year Financial Outlook (Outlook) is the first step in the annual budget process. The Outlook outlines the priorities, consistent with the Town's Strategic Plan, for the next five years and forecasts anticipated revenues and expenditures. It also provides a comprehensive, long-range analysis of the Town's General Fund by incorporating economic assumptions and newly-prioritized or mandated expenditures. The information presented in the Outlook serves as the basis for determining the coming year's operating budget allocations. The annual Capital Improvements Program (CIP) budget development process also uses the information from the Outlook, but initially begins with the identification and prioritization of capital improvement projects by the asset-owning Town departments. The Town's Ten-Year Capital Infrastructure Planning Outlook (CIP Outlook) provides a ten-year town-wide assessment of infrastructure needs and will outline the proposed capital priorities as recommended by the Financial Needs Roundtable Committee.

The Outlook shall be the guiding document for the Town's long-range fiscal planning and serve as the framework for the development of the annual budget. The Outlook shall be presented to the Boards of Selectmen and Finance no later than November every year and will be updated as needed to accommodate changing national, regional, and local economic conditions, as well as the State budgetary policies and actions that affect the Town's major revenues and departmental revenues.

The annual update to the Outlook shall be based on the most recent information available and built upon a baseline of the current year's balanced operating budget trended forward using well supported economic growth assumptions for major revenues. The Outlook shall also include projections for committed expenditures which are defined as the operational costs for new facilities, contractual obligations, federal and State legal mandates, and adopted Town policies.

The revenue and expenditure projections shall be based on a series of assumptions, including:

- projected inflation, employment rates, housing sales trends, consumer confidence and interest rates.
- salary and fringe cost increases and assumptions based on existing labor agreements;
- pension and retiree health funding obligations based on actuarial reports and existing labor agreements;
- most recent actuarial analysis on the Town's long-term liabilities, including workers' compensation, public liability, and long-term disability;
- most recent condition assessments of General Fund infrastructure assets such as streets, facilities, storm water and parks to address deferred capital and maintenance and repair needs;
- operating, maintenance, and debt service commitments stemming from approved capital projects; and
- other priority capital needs.

The Outlook may include additional major revenue scenarios using alternative economic and policy assumptions. Additionally, the Outlook may include a discussion of risks or uncertainties affecting revenues or expenditures that could significantly impact the General Fund.

Policy decisions and strategies are made using the information contained in the Outlook, the capital project recommendations from the Financial Needs Roundtable Committee review and the CIP Outlook. General Fund revenues and expenditures are determined and balanced through the budgeting process and included in the Board of Finance's Proposed Budget, along with changes to the non-general funds and capital improvement projects.

3. Ten-Year Capital Improvement Plan, Outlook and Budget:

The Town shall develop a Ten-Year Capital Improvement Plan Outlook (CIP Outlook) which shall provide a town-wide assessment of infrastructure needs. The CIP Outlook shall include the critical inputs needed to develop a comprehensive approach to addressing the Town's capital needs and the subsequent identification of resources for all of those needs. Critical inputs include infrastructure condition assessments, service level evaluations, asset management information, and review of available funding sources. The CIP Outlook shall be the basis for the development of the annual CIP budget.

The annual Capital Improvement Plan (CIP) budget shall be developed in conjunction with the operating budget to ensure effective utilization of the Town's overall resources to operate and maintain facilities. The annual CIP budget shall include projects that span multiple fiscal years and result in capitalized assets. The CIP budget may include other projects of a capital nature that may not result in an asset and that span multiple fiscal years and have significant cost estimates. Annual allocation projects shall provide for smaller projects that are expected to be completed in a short timeframe. The annual CIP budget shall reflect total estimated project costs for projects by including all prior and current year expenditures and appropriations, future year project costs, and any future funding needs through project completion.

CIP projects shall only be established with partial funding if there is a reasonable expectation that the remaining funding will be identified to complete the project within a reasonable timeframe for the type of project. Project budgets may be based upon revenues anticipated to be received during the fiscal year; however, the project shall not be released nor shall expenditures be incurred until

cash is available to support the budget. Appropriations for CIP projects that are not completed within the fiscal year shall continue until the project is completed or abandoned. CIP projects, however, shall be reviewed periodically to identify projects that are not progressing and funds available for reprogramming.

The estimated future impacts on operating budgets shall be provided for all proposed capital improvement projects and shall be included in the Five-Year Financial Outlook.

4. **Operating Budget:**

The operating budget development process shall begin with the preparation of the Outlook, which shall be developed prior to the Proposed Budget. The operating budget shall contain the expected revenue and expenditure appropriations, staffing levels, and summary tactical plans for each department. Tactical plan information featured in the budget shall include the departments' mission, strategic goals and objectives, and key performance indicators. Tactical Plans shall be updated annually to ensure departments' priorities support the Town's Strategic Plan and performance measures and targets are aligned with the budget.

a. **Budgeting Policies:**

- **Basis of Budgeting:** The Town's budgets for Governmental Funds, such as the General Fund, Debt Service Funds, Special Revenue Funds, Capital Project Funds, and Internal Service Funds, shall be prepared based on the modified accrual basis of accounting (revenues are recognized in the accounting period in which they become available and measurable, and expenditures are recognized in the accounting period in which the liability is incurred), except that the increase/decrease in reserve for advances and deposits to other funds and agencies shall be considered as additions/deductions of expenditures.

The Town's budget shall exclude unrealized gains or losses resulting from the change in fair value of investments. These calculations are performed solely for financial statement reporting purposes to be in compliance with Generally Accepted Accounting Principles (GAAP).

- **Inclusion and Disclosure of Budgeted Funds:** The Town's budget shall be detailed in a comprehensive document that includes all General Fund activities and projects. The budget document shall include the General Fund, as well as Enterprise, Debt Service, Internal Service, Capital Project and Special Revenue Funds with budgeted positions, and the Capital Improvements Program Budget so that the resources of the City can be viewed comprehensively for decision making.

b. **Expenditure Policies:**

- **Contingency Fund:** The annual budget shall include an amount for Contingency Fund in accordance with the General Fund policies (found in Fund Policies).
- **General Expenditure Policies:** The annual budget process shall weigh all competing requests for Town resources within expected fiscal constraints. Requests for new operating expenditures made outside the annual budget process shall be discouraged. New initiatives shall be financed by reallocating existing Town's resources to programs and services with the highest priorities or through new revenue sources.

- **Pension Obligations:** The Town's budget shall include the amounts to fully fund the Actuarially Determined Contribution (ADC) as determined by the Town's actuary and the estimated expenses related to defined contribution requirements. The Governmental Accounting Standards Board (GASB) requires the disclosure of the actuarial information to determine if assets are sufficient to pay benefits when they become due. Budgeting the full ADC for the Town's Pension Funds is critical for long-term fiscal health and stability of the pension system. At the writing of this document the Town has only one defined benefit pension plan for Volunteer Firefighters, which is frozen.
- **Retiree Healthcare Obligations:** As of the writing of this document the Town has no explicit OPEB liability because retirees pay the full health insurance premium. However, the Town does have an implicit subsidy that recognizes the expected higher health costs attributed to retirees in general (i.e. the real cost of health coverage for retirees is more than the premiums being charged and the excess cost is being funded by the Town). Per the recommendations of the Town's actuary and the size the liability, the Town has not established a trust fund to irrevocably segregate assets to fund the liability associated with OPEB.
- **Budgeted Positions:** All Town positions shall be budgeted. Grant funded positions shall be budgeted as limited positions. Positions that are funded through grant resources are authorized as long as grant funding is available. Upon the termination of grant funding, the positions funded under the respective grant shall be eliminated from the budget.
- **Labor Agreements:** The Town's budget shall include compensation and benefit increases in accordance with the Collective Bargaining Agreements and/or Memorandums of Understanding (MOUs) between the Town and its respective collective bargaining units.

c. **Revenue Policies:**

- **General Revenue Policies:** General Fund revenues shall not be earmarked for any particular purpose, unless required by law or Generally Accepted Accounting Principles (GAAP). Revenues shall be deposited in the General Fund and appropriated during the budget process or by a separate legislative action. Revenue forecasts shall be well supported by objective external research and internal forecasting methods. The goal is that Special Revenue Funds to be self-supporting by rates, fees and charges, and each fund shall be evaluated annually to determine if General Fund support is necessary.
- **One-Time Revenues:** The Town shall only use one-time revenues such as grants, tax windfall, or unrestricted fund balances to pay for one-time expenditures. Ongoing expenditures shall be funded by ongoing revenues. When new and ongoing program expenditures are added to the budget, an ongoing revenue source such as an increase in existing revenues or a new revenue source shall be identified to fully support the cost of the program.
- **User Fees:** The annual budget process shall include a review all fees assessed by Town departments, boards and commissions to ensure that they are in line with fees charged by other municipalities in the surrounding area. The annual review should include recommendations to revise, add or eliminate fee structures when appropriate.
- **Economic Indicators:** Economic data shall be evaluated from multiple sources to analyze short- and long-term revenue trends.

- **Short-Term Revenue Projections:** The short-term revenue projections shall be based on the current economic conditions, legislation, and fiscal policy changes. The current economic indicators will assist in developing the growth rate for each major revenue category. Short-term revenue projections shall support budgetary and policy decisions for the current and upcoming fiscal year.
- **Long-Term Revenue Projections:** The long-term revenue forecasting used for the Outlook shall be based on the analysis of the historical revenue trends for each individual revenue source. The historical trend analysis shall include, at minimum, a ten-year performance history for each major revenue. In addition to the historical trend analysis and review of current economic conditions, the Town shall consider potential legislative changes when forecasting the major revenue growth rates.
- **Legislative and Policy Analysis:** The Financial Department, in conjunction with the First Selectman's Office, shall monitor all relevant federal and State legislation and policies that may affect Town's revenues and adjust revenue projections as indicated to ensure that reasonable revenue projections are maintained.

BUDGET REVIEW

1. Proposed Budget:

The proposed budgets for both the Town and Board of Education shall be reviewed in accordance with the Budget Development Calendar and Timeline (see Budget Development). The Board of Finance begins their budget review in accordance with the timeline.

2. Public Input:

According to NACSLB (practice 8.5) the Town should provide opportunities in the budget process for obtaining stakeholder input.

Public involvement shall be encouraged in the annual budget decision-making process through public hearings, public outreach, and the dissemination of accessible information. Public participation efforts will allow the Town to improve performance by identifying public needs, priorities and service delivery expectations. Increased public involvement will allow the Town to be more responsive to community needs, thereby increasing the value that the public receives from Town government.

In accordance with the Budget Development and Timeline (see Budget Development), the Town shall use the following approaches to encourage citizen involvement and feedback:

- Post the budget and associated budget documents on the Town's website for public review.
- Utilize an email address where citizens can ask questions, offer suggestions or articulate concerns regarding the budget
- Issue a *Citizens' Guide to the Budget Process* at the beginning of the budget season inviting citizens to a Tri-Board Meeting, the Guide will include the budget calendar and general budget information
- Conduct a Tri-Board Meeting—Boards of Education, Finance and Selectmen to provide opportunity for citizen comments, suggestions and concerns before the Boards of Education and Selectmen begin their budget review and deliberation
- Conduct budget workshops open to the public, with opportunity for public comment and feedback
- The Board of Finance shall conduct a public forum regarding the Boards of Selectmen and Education proposed budgets prior to Board of Finance budget review and deliberation

- Issue a *Citizens' Guide to the Proposed Budget* following Board of Finance budget review and deliberation that outlines the Board of Finance's proposed budget, including challenges, initiatives and overall budget information, that invites citizens to the Budget Public Hearing
- Publish the summary of the proposed Board of Finance budget, including the current year June 30 estimates, in a newspaper with the greatest circulation in the Town, that gives notice of the Annual Town Budget Meeting
- Conduct the Annual Town Budget Meeting
- Board of Selectmen determines if the budget is approved at the Annual Town Budget Meeting or at Referendum

BUDGET ADOPTION

1. Setting of Mill Rate:

Upon adoption of the budget (whether approved at the Annual Town Meeting or at Referendum). The Board of Finance is required to set the mill rate for taxation for the next fiscal year. Notification of the new mill rate is issued to the Assessor, Collector of Revenue, Board of Selectmen, Town Clerk, Treasurer and Finance Director.

2. Approved Budget:

The approved budget is published in a formal document that is distributed to members of the Boards of Education, Finance and Selectmen as well as department heads. The approved budget detail is posted on the Town's website. Copies shall be made available in the Town Clerk's and Finance Office.

BUDGET MONITORING

The Finance Director shall oversee the Town's budget and execute its budget monitoring responsibilities through the analysis of revenues and expenditures for operating funds included in the annual budget. This analysis shall identify any significant variances between budgeted and projected revenues and expenditures and provide relevant information to maintain budgetary control and balance.

The Finance Director's budget monitoring process shall identify and address any projected budget variances. When significant variances have been identified, the following courses of action may be pursued by affected parties working cooperatively:

- Alternative funding sources
- Budget reductions, reallocation of funds or spending freezes (for example deferrals in expenditures)

If mitigations cannot be identified to offset the projected deficit, contingency plans that propose the use of the Town's unrestricted fund balance and/or Contingency Fund shall be developed and presented to the Board of Finance as a means of maintaining the funding levels necessary for department operations.

The Finance Director shall submit to the Board of Finance reporting as follows:

1. **Monthly:**

On a monthly basis, the Finance Director shall submit to the Board of Finance a statement of revenues and expenses for the preceding accounting period and the status of appropriations in comparison to actuals, in order to detail the financial condition of the Town.

The level of detail shall be presented in the following ways depending on funding type:

- General Fund appropriations summarized by department
- Non-general fund appropriations displayed by fund and grouped by fund type
- Capital Improvements Program (CIP) appropriations displayed by project.

2. **Quarterly:**

The Finance Director shall prepare quarterly reports that include forecast of annual revenues and expenditures based on actual results and knowledge of spending trends and operations. These reports shall explain significant revenue and expenditure variances and indicate trends that may require remediation.

The reporting shall include data for prior year actual results, current year projected (current year actual for the adopted budget) and targets for the upcoming year. The Finance Director shall review the activities related to performance monitoring and reporting. Explanations shall be given for those items not meeting or not trending toward performance targets.

3. **Budget Transfers and Amendments:**

All budgetary adjustments shall be in accordance with Connecticut State Statutes which states that, if more money is needed for a specific budget that has been appropriated, the Board of Finance may increase a department's appropriation. The appropriation must also be approved at Town Meeting if the amount required or the amount required together with any other additional appropriations exceeds \$20,000.

No more than one additional appropriation for any specific budget may be made in one year without Town Meeting approval.

Adopted _____
Effective _____
Revised _____