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# Financing Southbury

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A Guide to the Budgeting Process

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# Financing Southbury – A Guide to the Budgeting Process

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This document is intended to be a summary statement of operating guidelines and practices for the financing of the Town of Southbury. It is to be reviewed by the Board of Finance not less than every two years to assure that it is kept reasonably up to date.

## Governmental Structure

As permitted by the State of Connecticut, Southbury operates under a town charter. The town has elected by referendum to adopt a form of local government known as Selectmen/Board of Finance. Accordingly, the town is governed and administered by the Board of Selectmen and operates under budgets recommended by the Board of Finance and adopted by town residents at referendum. Among other things, the town charter details the specific responsibilities of such boards and other town boards and commissions.

## Budget Process

The town charter sets forth a specific process for development of an annual budget, which is summarized as follows:

- Spending requests are submitted to the First Selectman by December 1st of each year.
- The First Selectman works with town operating departments, boards and commissions, as well as external entities, to develop a proposed budget plan that is presented to the Board of Selectmen in early February.
- The Board of Selectmen conducts a series of public meetings with town operating managers, town board/commission representatives and other entities that have requested funding, at which it gathers input and information needed to review and scrutinize the proposed budget. To facilitate exchange of information, members of the Board of Finance are usually invited to attend such meetings.
- The Board of Selectmen recommends an operating budget to the Board of Finance in mid-March
- The Board of Finance conducts a public hearing on the recommended budget

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- By charter, departments which have submitted funding requests may appear before the Board of Finance in support of such requests
- The Board of Finance meets in special session to consider the Board of Selectmen's proposed budget, makes any changes it deems appropriate, and subsequently recommends an annual budget to the town. Members of the Board of Selectmen are usually invited to this meeting to comment on any changes to the Board of Selectmen's budget proposal being considered by the Board of Finance.
- A town-wide meeting/referendum votes for or against the proposed town budget and, at the same time, the town school budget
- When both budgets have been passed at referendum, the Board of Finance meets to set a mill rate, which is communicated to the tax collector to prepare tax bills for the July 1<sup>st</sup> to June 30<sup>th</sup> tax year.
- Annual tax payments are made in two installments, which are due on July 1st and January 1<sup>st</sup> of each year. Late payment interest of a fixed percentage (currently at 18% as set by the state of Connecticut) of any amounts not paid and outstanding one month after the due date.
- If the town and school budgets are not passed in time to meet tax bill printing deadlines, the Board of Selectmen sets a mil rate.

### Fiscal Structure

#### Administrative Budget

In addition to taxes paid by the town's taxpayers, the town receives and administers funds from a variety of other sources. These funds are spent only for specific purposes and/or are subject to specific restrictions. The town attorney has determined that the town charter requires that all monies expended by the town, including those that the town administers, must be appropriated prior to disbursement. Accordingly, during the budget development process the town treasurer prepares, for inclusion in the town budget, a compilation all the funds that the town holds in an administrative capacity, the balances within each fund, and estimates of receipts and expenditures (appropriations) therefrom for the coming budget year. This administrative budget includes specific language as to which entity has authority to spend the appropriation and is included by reference in the annual town budget submitted for approval at referendum.

## Department operating budgets

The town charter sets forth the minimum information required to be included in the operating budget presentation, including the current fiscal year's budget, actual year-to-date expenditures, projected full year expenditures, and proposed budgeted expenditures for the following fiscal year's budget. All such information is displayed on a line item basis. The legal budget for the town is the department level budget. Transfers between department level appropriations are governed by charter limitations as described below. The operating budget also appropriates monies to various reserve funds for future spending as outlined in each reserve fund's governing documents.

## Pay-As-You-Go Funding

Best practices of governmental financing establishes that users should generally pay for their use of long-lived assets, such as bridges, roads, buildings, and vehicles. The Board of Finance utilizes a Pay-As-You-Go funding practice for new and replacement long-lived capital assets with project costs less than \$1 Million. Bonding is considered for any property or other long-lived asset costing \$1 Million or more.

Pay-As-You-Go funding results in today's taxpayers paying a small percentage of the original acquisition costs for currently-in-place long-lived assets. Instead, taxpayers fund the purchase of future long-lived asset purchases through the buildup of reserve funds which are described below.

Borrowing to fund the purchase of long-lived capital assets can legally only be used when the cost of a project is known and imminent, making it difficult to borrow now for future purposes. Moreover, the use of pay-as-you-go reserves to fund the purchase of long-lived capital assets results in financing costs that are significantly less when compared to the use of interest bearing debt.

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## Reserve Funds

### Property Reserve Funds

- 1) The town's nonrecurring reserve funds are comprised of many funds, principally the following four, which are referred to as property funds. Each property fund is updated annually by cognizant town departments and the administration for durations of no less than the following:
  - a. Roads: Five year plan, recommended by Public Works and the Road Study Committee
  - b. Vehicle Replacement: Thirty year plan, as recommended by each relevant department
  - c. Infrastructure: Fifteen year plan, recommended by Public Works
  - d. Capital Projects: Five year plan, recommended by each relevant department
- 2) Property Reserve Funds are primarily financed on a pay-as-you-go basis, with funds from the annual town budget, state, federal, and other grants, such as state LOCIP (Local Capital Improvement Program) and STEAP (Small Town Economic Assistance Program). State LOCIP grants are accounted for in the budget process as revenues to fund legally allowed items included in the annual budget. The administration determines which expenditures will be funded using LOCIP funds as required by the state.
- 3) Specific expenditures from each property fund are detailed in current and multi-year plans, which are recommended by the First Selectman to the Boards of Selectmen and Finance in the annual budget process, approved, and then voted on by taxpayers.
- 4) As it sees fit, the administration has the authority to change the timing of items on the approved current and multi-year plan within the funding available in the anticipated current year's allocation from a fund. Originating departments may appeal any such change in timing to the Board of Selectmen if they deem necessary. An appropriation beyond the current year's anticipated spending amount from a fund may be used after approval is received from both the Boards of Selectmen and Finance.

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- 5) In order to properly define the best way to purchase appropriated property items, advice from independent experts may be sought. The administration is therefore authorized to engage the appropriate experts, subject to the town's procurement policy, using a small portion of monies allocated for any item, after obtaining approval from the Board of selectmen for the estimated costs and outlining the rationale for such professional engagement.
- 6) Unplanned needs may arise within any of the annual plans that require immediate action. Subject to approval by the Boards of Selectmen and Finance, such items may be added to the current year's approved list and acted upon expeditiously, subject to not exceeding the balances in the relevant fund.

### Roads

The town generally follows a pay-as-you-go program for road maintenance and reconstruction. It uses the IWORQS analytical system, which tracks the condition, projected remaining life and work plans for 125 miles of improved and unimproved roads. The town's goal is to have an average remaining road life of 12 years. Each year a significant part of the road budget is used for crack and chip sealing which are relatively low cost programs that significantly extend the remaining life town roads. While the town's road committee assists the Director of Public Works in prioritizing maintenance and reconstruction activities, senior town administrators have the authority to change priorities as conditions warrant.

### Vehicle Replacement

Vehicle replacement has been a pay-as-you-go program for over 40 years.

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## Capital Projects

The town appropriates funding annually for capital projects through a process outlined in the town charter utilizing the capital projects reserve fund. Each year each operating department requests funding for its capital needs for the following five years, including road maintenance equipment, fire department vehicles and equipment, recreational equipment, communications and computer upgrades. Funds appropriated for approved projects must normally be spent no later than 3 years after the date of appropriation approval. If an approved appropriation is not completely spent leftover funds are returned to the town's general fund.

## General Funds

The Governmental Accounting Standards Board has defined specific language, important to the financial community, that describes a town's general funds. The two most important funds for financing consideration are:

### A) Assigned General Fund

This fund is comprised of several components, the most important of which are:

1) A future purposes fund, more commonly referred to as a "rainy day fund".

Southbury's bond rating is currently, and has long been, AA2, which is the highest rating available to municipalities of its size. This rating recognizes the town's commitment to pay-as-you-go capital and long-lived asset funding, the funding of employee pension plans, and significant reserves for other non-recurring expenses.

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Connecticut's Office of Policy and Management currently suggests that municipalities maintain a future general purposes fund at a level between 10% and 12% of a town's total annual budgeted spending. National standards more generally suggest a range of 10% to 25%. Bond rating agencies generally suggest 10%. The current target balance level for the future purposes fund in Southbury is 7.5% of the total of the town's annual operating budget plus the town's portion of the annual regional school budget.

While this target level is below the aforementioned suggested state and national levels, the town's need for a higher rainy day fund level is reduced by (and the town's high bond rating reflects) its commitment to the aforementioned pay-as-you-go capital and long-lived asset funding, the funding of employee pension plans, and significant reserves for other non-recurring expenses.

- 2) Amounts to cover future expenditures for purchases authorized during a fiscal year, but have amounts outstanding and unpaid at the end thereof.
- 3) Amounts approved for transfer from the Unassigned General Fund to maintain the Future Purposes Fund at its target balance level.
- 4) Amounts approved for transfer from the Unassigned General Fund that are earmarked as a budgeted revenue source.

### B) Unassigned General Fund

This is a working fund, to which any annual positive operating variance (see below) is deposited, and out of which - upon approval of the Board of Finance, Board of Selectmen and a town meeting - funds may be appropriated for any the following:

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- 1) Funding of any negative annual operating variance.
- 2) Supplemental pension contributions to raise the defined benefit pension plan funding percentage over a rolling future five-year period. The current pension funding percentage goal is no less than 85%.
- 3) Funding of any annual increment necessary to maintain the Future Purpose Fund at its target level.
- 4) Allocation of a portion thereof to be applied as a revenue source in an annual budget.
- 5) Funding of essential and extraordinary expenses that cannot be covered within the annual budget.
- 6) For earmarking funds allocated by the Board of Finance being held for a specific future purpose subject to approval by the Board of Finance, Board of Selectmen and a town meeting.

The intent is to apply any annual positive variances transferred to the Unassigned General Fund as budget revenue sources incrementally over a following future period, not to exceed three years, such that each year's transfer is a) material and b) moderates fluctuations in year-to-year tax rates.

### Transfers

The Charter establishes limits on the authority to transfer funds within the budget and the amounts of such

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transfers. Transfers between line items within department budgets of up to a cumulative amount of \$5000 per year may be made after approval by the Board of Selectmen, with notice to the Board of Finance. Any such transfers above \$5000 require Board of Finance approval. All transfers between department budgets require Board of Finance approval. All transfers over \$20,000 require town meeting approval.

### Revenues

#### Taxes

After all non-tax revenues are estimated, the additional revenue needed to fund the town budget and the town's share of the regional school district budget is calculated and raised by property taxes. The Board of Finance receives from the town property assessor the final grand list, including information regarding authorized assessment adjustments for a variety of tax relief programs, including those for qualifying senior citizens and veterans, abatements for open space, and others. Additionally, the Board of Finance considers several matters regarding projected actual tax revenue, most importantly the estimated collection rate on billed taxes.

#### Mill Rate

After determining the amount of required property tax revenue, the estimated tax collection rate, and the adjusted total grand list, the Board of Finance reviews the results of applying several alternate mil rates to the grand list. After doing so, it determines an *estimated* mill rate and an estimate of taxes to be collected based thereon. Additionally, the Board of Finance is required by statute to consider any matters that might affect the town's expenses, revenues, and tax collections - such as impairments to the grand list due to law suits, changes in state grant amounts, etc. – between the date when the estimated mil rate is set and the date of adoption of actual budgets by referendum. Accordingly, the Board of Finance establishes the final mil rate subsequent to

budget approvals.

### **Educational Cost Sharing**

The state of Connecticut provides a grant to every town, city and regional school system that supports local education. This grant is made directly to the cities, towns, and regional school districts and is included as a revenue item in Southbury's budget. Regional School District 15 receives the full amount of Southbury's share of the amount approved by voters as the regional school budget regardless of the amount of, or changes to, the actual ECS grant amount.

### **Local Capital Improvement (LOCIP) Grants**

The state provides an annual grant to all Connecticut communities to help support the funding of infrastructure, capital improvements, capital equipment, and certain other nonrecurring expenditures. Such funds are held in trust for the town by the state. Southbury advances monies from its general fund to fund authorized, appropriated purchases that meet the LOCIP criteria. Subsequently, upon submission by the town administration of required LOCIP documentation, including proof of actual expenditures, the state reimburses the town. Each year the town includes in its revenue budget the amount of money expected from LOCIP grants.

### **Fees**

The town receives a variety of fees and taxes to reimburse it for the cost of providing certain services, such as recreation programs, pistol and building permits, dog licenses, creating required public records of land transfers, and certain other transactions. Projected revenues from such sources are included as revenue items in the town's budget.

## Supplementary Motor Vehicle Taxes

Per Connecticut statute, the assessed values of motor vehicles as of October 31<sup>st</sup> of each year are included in the grand list as personal property. Residents who purchase vehicles during a tax year receive apportioned supplementary tax bills. Projected revenues from this source are included as a revenue item in the town budget.

## Prior Years' Taxes

Each year a small amount of property taxes is not paid. The tax collector pursues payment of overdue amounts, first through internal efforts and, if necessary, through an outside collection agency. An estimate of likely future collections is included as a revenue item in the town budget.

## Interest Earnings

The majority of town revenue comes from property taxes, which are payable semi-annually. Operating expenses, however, are spread over the year, so the town invests virtually all of its idle cash. Funds earmarked for payment of recurring expenses are generally invested in FDIC-insured interest bearing bank deposits. Funds earmarked for payment of non-recurring expenses are invested, under the supervision of the town's Investment Portfolio Oversight Committee, in a professionally-managed portfolio of securities having a low risk profile that is designed to provide returns above those offered by bank deposits.

**Adopted by the Southbury Board of Finance on 3/12/2018**