

## **Middlefield Board of Finance Policies**

### **MIDDLEFIELD BOARD OF FINANCE MISSION AND DUTIES**

**The Mission:** The Board of Finance is to act as a representative of the citizenry in the budget-making process; to provide a body that will consider the financial aspects of the town government as a whole; to restrain wasteful and extravagant expenditures; and to exercise care in seeing that the budget is properly balanced.

**Powers and Duties:** The Connecticut state statutes and the Middlefield Town Charter give the Board of Finance specific responsibility for:

1. Preparing the town budget.
2. Setting the property tax rate.
3. Approving deficiency and special appropriations and transfers between appropriations.
4. Determining how town financial records are to be kept.
5. Arranging for an annual audit of town accounts.
6. Accept and approve the annual town financial report.

### **POLICIES**

The following policies provide direction for the board in several areas of the annual budgeting process.

#### **I. Undesignated Fund Balance**

**Purpose:** This Policy will insure the Town maintains a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unanticipated one-time expenditures. We seek to maintain a reserve for unique events impacting the town budget, such as:

- 1) significant or unpredictable fluctuations in revenue sources, or highly volatile operating expenditures;
- 2) perceived exposure to significant one-time outlays (e.g., disasters or emergencies, immediate capital needs, unanticipated state budget cuts);
- 3) a reserve to strengthen the town's credit worthiness and thus lower the potential cost of borrowing funds

#### **Policy Elements:**

- Define the target level of balance for the undesignated fund at July 1st of each FY (fiscal year)
- Define the time period within which, and the contingencies for which, fund balances will be used;
- Describe how the government's expenditure and/or revenue levels will be adjusted to match any new economic realities that are behind the use of fund balance as a financing bridge;
- Describe the time period over which the components of fund balance will be replenished and the means by which they will be replenished.

**Policy:**

1. Maintain the Undesignated Fund Balance on July 1 of each fiscal year between 12.5%-17% (1-1/2 to 2 months) of budgeted FY Total Government Expenses
2. Use the fund as a financing bridge to moderate the year to year town mill rate/required collections from taxpayers, or for unforeseen town financial emergencies.
3. If drawn below 12.5%, replenish the fund to a 15% level within 2 years by FY year end surplus of revenue over budgeted/actual expenses. Adjust taxpayer mill rate if necessary.

**II. Annual Budget Operational Contingency Reserve**

**Purpose:** State Statutes (S.7-348) specify that the yearly budgeted estimate of expenditures submitted by the board of finance to the town meeting may include a recommended appropriation for a contingent fund. A contingent fund is an amount set aside to provide for unforeseen expenditures or for anticipated expenditures of uncertain amount. The amount of the fund may not exceed 3% of the total estimated expenditures for the current fiscal year.

This policy will define the target for yearly provision of funds for unplanned, intra-fiscal year expenditures or overruns. This contingency fund may also be utilized to reserve funds for yet-to-be defined fiscal year town employee salary/benefit action, or unforeseen staffing coverage circumstances.

**Policy Elements:**

- Define the rationale and uses for this contingency
- Define the target level for the yearly reserve of operating contingency
- Define method for disbursement of funds

**Policy:**

- Variation in town/department needs and/or the prices of goods and services may result in modest variation, or overruns of department budgets. This fund will enable transfer of funds during the budget year to accommodate those occurrences.
- An operational contingency line item will be established in each fiscal year budget equal to ~1.5% of variable municipal expenses (defined as total town government expenditures less support for RSD-13, debt coverage, and contingency amounts)
- Additional contingency funds can be included for potential, town employee salary and benefit action, should FY salary action be unable to be established/specified during budget approval timing.
- No expenditure or transfer may be made from the contingent fund without the approval of the board of finance.

### III. Capital Asset Reserve Planning Policy

#### **Purpose:**

State Statutes (S.7-360) allow the board of finance to recommend that the town establish a reserve fund of capital and non-recurring expenditures. The fund is created by majority vote of town meeting. The fund may be built up by:

1. Transferring to it any general fund cash surplus available at the end of any fiscal year.
2. Levying an annual tax of not more than four mills earmarked for the fund.
3. Including in it surplus cash funds already held in reserve for capital nonrecurring expenditures

This policy seeks to achieve this fund by planning a reasonably even stream of yearly reserves from taxpayer funds, thus enabling ongoing purchase and replacement of anticipated town capital items - while helping to even out the year to year mill rate despite uneven yearly capital purchases.

#### **Policy Elements:**

- definition of what constitutes capital items, including new and replacement purchases, capital maintenance projects, and non-recurring items
- description of the approach to multi-year capital planning, including how stakeholder departments will collaborate to prepare a plan
- define how decisions will be made *including a process for prioritizing need and allocating limited resources, and not simply funding a wish list*
- define a procedure for accumulating necessary capital reserves that links funding strategies with useful life of the asset, including identifying when debt can be issued and any restrictions on the length of debt.
- establish provisions for monitoring and oversight of the program, including reporting requirements and how to handle changes and amendments to the plan.

#### **Policy:**

- Capital items are tangible assets or durable goods with useful lives extending beyond 12 months. As they age, these assets may require periodic maintenance, and at the end of their useful life, many capital assets may need to be replaced.
- Non-recurring expenses are unusual expenses unlikely to occur regularly in the normal course of business
- Planning for funding capital and non-recurring items shall be done on a mulit-year basis.
- In the reserve fund, each and all items will be identified by name, anticipated cost, year of acquisition and useful life.
- Department leaders, the Director of Finance, and the 1st Selectman will identify and prioritize items to be included in the reserve fund, with mention of near term needs in each budget year discussion.
- Funds for purchasing items will be made available prior to item purchase or expenditure by reserving funds in the current budget and defining potential subsequent FY reserve amounts in concert with anticipated needs, costs, and balances
- The overall yearly reserve amount should be managed (spreadsheet or other method) to minimize yearly variation and therefore reducing outsized tax-payer mill rate implications

- Items in the capital and non-recurring fund will be reviewed by town officials during yearly budget workshops, and reported to taxpayers as part of the yearly budget hearings and town meetings.
- The total annual budget appropriation for Capital and Non-Recurring Items must be < 4 mills by state statute. ( note: in FY19, 4 mills ~\$1.6M)