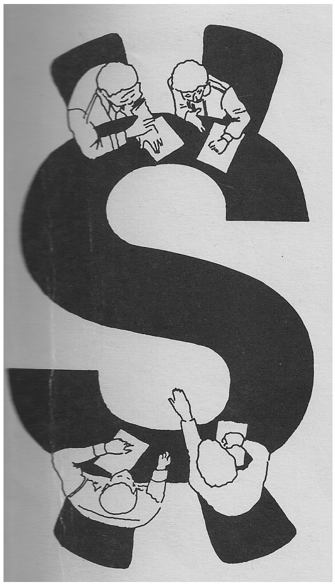
Handbook for Connecticut Boards of Finance



A Guide to the General Statutes & Principles of Financial Administration

1992 edition

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Foreword

The first Handbook for Connecticut Boards of Finance, authored by John E. Dever, was published by the University of Connecticut's Institute of Public Service in 1951. Subsequent expanded editions written by Institute staff were published in 1962, 1963, 1971, and 1986. These periodic revisions were written to reflect the increasing complexities facing boards of finance, and to provide a comprehensive guide to the many and often technical facets of municipal finance administration. The revisions have also included statutory changes and updated references to basic texts in municipal finance. This 1992 edition includes new material on public budgeting, bonding and classification of accounts.

This handbook has been written for boards of finance operating under the General Statutes. Boards operating under Special Acts and home rule charters will find it useful in many areas but should consult their basic law for precise definitions of their duties and responsibilities in their respective communities.

The author of this edition is George E. Hill, Extension Professor for the Institute of Public Service. A former administrative analyst and budget director for the City of Hartford, Mr. Hill has written extensively in the areas of municipal finance and municipal corporation law. Mr. Hill has served on the board of finance for the Town of Mansfield and as mayor of Mansfield.

John Walsh, former Finance Director for the City of Hartford, and Donald W. Goodrich, Finance Director for the Town of Portland read the new manuscript and made various suggestions for its improvement. Special thanks are also in order to Michael McKinnon, president of Independent Bond and Investment Consultants of Madison, Connecticut, for his assistance in reorganizing Chapter 8. We gratefully acknowledge their help and generous contribution of their time to this project. We also wish to acknowledge with appreciation, Jeff Smith, Finance Director for the Town of Mansfield for reviewing the draft and granting permission to reproduce the financial materials in Appendix A. The text was edited by the Division of Extended and Continuing Education's editor, David Pesci, and the book and cover designed by the Division's graphic designer, Juan Castillo.

The Institute of Public Service assumes full responsibility for any errors in this publication. We would be grateful to readers who call such errors to our attention, as well as those who make suggestions for improvement of future editions.

John F. Azzaretto, Director
Institute of Public Service
July, 1992

Chapter 1

The Role of Boards of Finance in Connecticut's Local Governments

Boards of finance have played a significant role in Connecticut's local governments since the idea of a citizen board to control and supervise municipal expenditures was originated at the turn of this century. Today, 126 municipalities - from the smallest rural town to the largest cities - have a board of finance as part of their governmental organization. The activities of these boards extend into almost every phase of municipal finance administration. In towns operating under the general statutes, the board of finance performs all of the administrative tasks involved in budget preparation, requesting, and receiving budget estimates, compiling the budget document, and presenting it to the legislative body. In addition, the board is responsible for the town's accounting system, preparing the annual town report, and providing for the annual municipal audit. In more populous towns and cities with a number of administrative departments, the board may be relieved of administrative duties by a professionally staffed finance department. In many large cities the board may be referred to as the board of apportionment and taxation. The significance of its role as representative of the citizenry in the budget-making process, and its responsibility for making final budget recommendations the legislative body, are not diminished.

Historical Development of Boards of Finance

The oldest Connecticut board of finance was established by special act in New Haven in 1869. Boards were established in Hartford and Danbury in 1905. New Britain, Norwalk, and Stamford established boards in 1907 and in Greenwich and Ridgefield two years later.

The first public act providing for organization of boards of finance was passed by the General Assembly in 1917. Since that time, an increasing number of towns with the selectmen/town meeting form of government have voted to establish boards of finance under the general statutes until a total of 127 towns in Connecticut operate with a board of finance. Of those 42 towns not having a board of finance, 23 are council-manager governments, 11 are mayor-council governments, and eight are selectmen-town meeting governments.

The concept of a board of finance originated from a number of needs:

- provide a town agency to consider the financial aspects of the town government as a whole (rather than from the standpoint of any particular officer or department);
- restrain wasteful and extravagant expenditures;
- exercise care in seeing that the budget is properly balanced.

These continue to be the board's paramount functions. However, the manner in which the board performs these functions varies widely. Drafters of charters and special acts have envisioned roles for the board which fit the needs of their communities and have written these requirements into their towns' fundamental laws. Since the general statutes provide only the basic legal framework for the board's duties and responsibilities, a variety of roles can also be assumed by boards operating under the general law. The budget-making power alone carries with it opportunity for extensive managerial control over all phases of the town government's operations. Add to this supervision of the accounting and auditing functions, and the board has the means of determining a large area of governmental and fiscal policy, as well as administrative practice.

In recent years, the steady increase in the dollar amount of town budgets and the consequent rising interest in local spending policy has focused increased attention on the board of finance's activities. Increased spending has led to an intensified search for economy through improved administrative procedures. Many boards of finance have taken the initiative in instituting these improvements. As more dollars pass through the municipal treasury, budgetary controls must be more systematic and exact. Part-time board of finance members striving to fulfill their functions properly have sought administrative improvements which provide better time management for all involved.

Board of Finance Under Selectmen-Town Meeting Form of Government

In the towns which operate under the general statutes, the board of finance has complete charge of the town government's financial activities. Along with the budget-making power goes the opportunity to coordinate all town government functions and to recommend and effectuate administrative changes which will facilitate budgeting. Program budgeting affords a further opportunity to coordinate functions and activities, and to use the budget as a tool for planning a program of the year's projected accomplishments.

The board of finance actually has two roles to play in selectmen-town meeting towns: one in the area of policy making, the other in the area of administration. Acting directly as elected officials of the town, the board of finance is the principal architect of local financial policy which ultimately determines the extent of all governmental activity. Donning its other hat, the board becomes the administrator responsible for carrying out that policy. The board of finance has more influence over ultimate financial policy than do administrative officials under other forms of government; at the same time, it has equally significant responsibility for making that policy effective.

The board of finance's managerial role has grown out of the necessity to coordinate the activities of many part-time officials which serve under the selectmen/town meeting form of government. The budget-making process provides the principal means of achieving this coordination. In using this power effectively, the board of finance can exercise managerial control which approaches that of the chief executive in other municipalities. The management aspects of a board of finance's function in town government are not often recognized and used to their fullest extent, yet they are predicated on the same basis as is the extensive financial function exercised by a department of finance headed by a full-time director.

Use of this Handbook

This handbook sets out legal powers and duties of boards of finance and indicates accepted standards of financial administration under which a board should operate. Through adoption of these standard procedures the board will realize to the fullest extent the managerial aspects of its function, as well as facilitate performance of required statutory duties. Finally, discussions of the historical development of budgetary theory and practice is provided.

In preparing this handbook, direct reference in the form of extensive footnotes throughout the chapters has been avoided wherever possible. The primary source for all of the chapters dealing with financial administration has been the very comprehensive texts, Municipal Finance Administration and Management Policies in Local Government Finance, both published by the International City Management Association. Complementing these texts is Moak and Hillhouse's, *Concepts and Practices in Local Government Finance*, published by the Government Finance Officers Association of the United States and Canada. Boards of finance members will find these books to be excellent guides in all aspects of finance administration and are urged to make continuous use of them.

In chapters dealing with accounting and auditing frequent reference is made to the publication of the Government Finance Officers Association entitled, *Governmental Accounting, Auditing and Financial Reporting*, (GAAFR) 1988 edition. Also very helpful is *Governmental Accounting and Financial Reporting Standards*, published by the Governmental Accounting Standard Board, (GASB). GASB sets the standards for accounting and financial reporting by state and local governments. By following the recommendations of this board as set forth in these publications, boards of finance will not only be availing themselves of the most comprehensive sources on these subjects, but will also contribute materially to standardizing municipal accounting procedures.

The bibliography at the conclusion of the handbook is of necessity limited to materials currently in print. To keep abreast of future publications, board of finance members should refer regularly to the publications of the Government Finance Officers Association of the United States and Canada, and in particular to the Association's comprehensive special bulletins and reports issued periodically on various aspects of financial administration.

Chapter 2

Organization for Finance Administration

Establishing a Board

Under the General Statutes of Connecticut any town may establish a board of finance by majority vote of electors attending a town meeting which has been legally warned and held for this purpose. A town may also choose to provide for or abolish a board of finance by adoption of a charter under the home rule act. Once a board has been approved, it cannot be abolished for two years (S.7-340).{1} After a town meeting or charter referendum has voted to establish a board of finance, certificates of approval indicating the vote must be filed with the town clerk and the secretary of the state (S.7-340).

Electing Board Members

Ten days after creation of a board of finance, the selectmen must appoint six board members to serve from the date of their appointment until the next regular town election, or until a special election is held (S.7-340;S.9-202). At this election six board members are chosen. If the town holds biennial elections, two members of the new board serve two years, two serve four years, and two serve six years; thereafter, at each biennial election two are elected for six-year terms.

No more than four members of a six-member board of finance may represent the same political party. For the purpose of determining party membership under this requirement, persons are deemed to be members of the political party on whose enrollment list their names appear on the date of their nomination for elective office. However, persons who are solely candidates of a party other than the one in which they are enrolled are considered members of the party for which they are candidates (S.9-167a).

Qualifications of Board Members

Anyone appointed or elected to membership on the board of finance must be:

1. An elector of the town;
2. Sworn to faithful performance of his duties;
3. Hold no salaried town office (S.7-340; S.7-341; S.9-202).

Board of finance members receive no compensation, but necessary expenses of the board, when approved, are to be paid by the town (S.7-341).

Oath of Office

Before beginning their of office, members of the board of finance must agree to the following oath: "You solemnly swear that you will faithfully discharge, according to law, your duties as a member of the board of finance to the best of your ability; so help you God" (S.1-2S).

Filling Vacancies

When a vacancy occurs on the board of finance, the remaining members appoint a successor by majority vote, unless otherwise provided by special act or charter. A special meeting must be called for this purpose by the chairman. The new appointee holds office from the date of his appointment until the next regular town election and until his or her successor is elected and qualified. At this election a member is elected to fill the unexpired office (S.7-343). The state attorney general ruled in 1941 that when the membership of the board of finance is reduced by vacancies to less than four members, the selectmen could fill vacancies (Attorney General's Opinion, December 31, 1941).

Alternate Board Members

Any town has the power to provide by ordinance for the appointment or election of not more than three alternate members to its board of finance. These appointments are subject to the provisions concerning minority representation of political parties. When seated, these alternate members have all the powers and duties set forth in the General Statutes, any special act or municipal charter. The alternate members must be electors and tax payers of the town. If a regular member of the board is absent or disqualified, the absent or disqualified member shall designate an alternate to act on his behalf. In the event that an absent or disqualified regular member shall fail or refuse to designate an alternate, the majority of the regular members of the board of finance not absent, not disqualified, may designate an alternate subject to the provisions of Section 9-167A to act for the absent or disqualified regular member (S.7-340A).

Officers of the Board

The board of finance is required to choose one of its members to be chairman and to select a clerk. If there is a tie vote among board members and officers are not chosen within one month of the board's election, the board of selectmen or chief executive officer of the municipality must choose officers from the membership of the board of finance (S.7-342).

The chairman presides at all meetings of the board of finance. The clerk calls special meetings of the board at the discretion of the chairman or upon written request of two members. He must prepare and file with the town clerk a copy of the minutes and records of each regular and special meeting within two weeks from the date of the meeting (S.7-342).

Meetings of the Board

The board of finance may hold any regular or special meetings that it desires. All meetings must comply with the Freedom of Information Act (S.1-21). Each board member must be given twenty-four hours notice of meetings. The clerk must issue a call for a special meeting either when directed to do so by the chairman, or by written request of two board members. Four members constitute a quorum, and the concurrence of three votes is necessary to transact business (S.7-342).

Prior to January 31 of each year, the board's must file with the town clerk the schedule of the coming year's regular board meetings. No meeting may be held sooner than thirty days after this schedule is filed. Special meetings not on the schedule must be given at least twenty-four hours prior public notice by posting the time and place of the meeting in the town clerk's office. In case of emergency, a special meeting may be held without this notice, but the minutes of this meeting, stating the nature of the emergency and the proceedings occurring at it, must be filled with the town clerk within seventy-two hours after the meeting (S.1-21).

In lieu of a special meeting, members of the board may be polled on the question of making an appropriation or a transfer in an existing appropriation of an amount not exceeding $1,000. The chairman or, in his or her absence, the clerk or any two members of the board, may conduct the poll. Four polled members constitute a quorum, and three concurring votes are sufficient to transact business. Within twenty-four hours after the poll, each member polled must give to the clerk a signed written statement of how he or she voted. The clerk must file a statement of the result of the poll with the town clerk within two weeks (S.7-342).

Meetings of the board must be open to the public. Meetings may be closed to the public for executive sessions on vote of the members of the board present and voting after stating publicly the reasons for executive sessions (S.1-21) (S.1-18a).

At the executive session of the board, attendance is limited to members of the board and persons invited by the board to present testimony or opinion pertinent to matters before the board. The minutes of the executive session should disclose all persons who are in attendance (S.1-21g).

The board may adjourn any regular or special meeting to a time and place specified in order of adjournment. Less than a quorum may adjourn to a time certain (S.1-21d).

The board by resolution shall determine the place for holding regular meetings. If any regular meeting falls on a holiday, then the regular meeting will be held on the next business day (S.1-21f).

The votes of each board member on any issues before the board must be recorded in writing and made available for public inspector within forty-eight hours. The votes must also be recorded in the minutes of the session at which taken, and shall be available for public inspector within seven days of the session to which they refer (S.1-21). Meetings may be recorded for broadcast on radio or television under provisions of Section 1-21a of the General Statutes.

Access to Board Record:
Freedom of Information

Except as otherwise provided by federal or state statute or regulation, all records made or kept on file by the board of finance are public records. Any resident of the state has the right to inspect or copy such records at any time as may be determined by the custodian thereof. The board must keep and maintain all public records in its custody in its regular office in an accessible place or, if it has no office, in the office of the town clerk (S.1-19). The custodian of the records may refuse permission to inspect or copy records in order to protect the public security, the financial interests of the state or any of its political subdivisions, or the reputation or character of any person. Public Act 91-347 now requires public agencies, including municipalities, to make available upon request any non-exempt public record on any medium requested, including paper, disc, tape or other device, if it can be reasonably done. Agencies may charge reasonable fees for their costs associated with providing the records, including employee time.

Notification of the refusal of the right to inspect or copy records of the board must be de to the person requesting the information within four business days of such request. Failure to comply with a request to inspect or copy within the four business day period is deemed to be a denial.

A person denied the right to inspect or copy records of the board may appeal within thirty days to the Freedom of Information Commission. The Commission must hear the appeal within thirty days after receipt of the notice of appeal and must decide on the appeal within sixty days after the hearing.

Any person aggrieved by the decision of the Commission may appeal to the Superior Court which may order disclosure of the records if it determines the denial was not for just or proper cause (S.1-21:f).

Footnote

{1} Figures in parentheses preceded by "S" refer to sections of the General Statutes of Connecticut, Revision of 1991, as mentioned.

Chapter 3

Powers and Duties of Boards of Finance

The board of finance's function is to consider the own government's finances from an overall viewpoint. The general statutes give the board 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. Publishing the annual town report.

The statutes also establish certain relationships between the board and other town officials. A town charter may also require other procedures and duties.

Town Budget

Budget Procedure. Any Connecticut town may establish and maintain a budget system (S.7-148). The budget preparation authority for all towns having a board of finance is the board (S.7-344; S.7-359; S.7-381).

In the past, Connecticut's towns operated with two distinct kinds of budget and tax systems: (1) those towns which were on the uniform fiscal year and adopted their budgets before the fiscal year began; and (2) those towns which adopted their budgets after the beginning of the fiscal year, did not collect taxes until several months after the budget year began, and hence, had to borrow substantial amounts in anticipation of taxes.

As of the fiscal year starting July 1, 1993, all towns and cities must be on the uniform fiscal year of July 1 through June 30. Failure to comply with the requirement of adopting the uniform fiscal year is a forfeiture of ten percent of the total amounts of state grants in aid to the town or city (S.7-382a; S.7-382b).

Budget procedure for towns is set out in Section 7-388 of the General Statutes. Estimates originate with elected officials and department heads. Every town agency which expended appropriations during the past fiscal year or which request appropriations for the coming year must report to the board of finance any information the board may require in connection with preparing the budget. For this purpose the board of finance must be given access to the books and records of such agencies (S.7-345). The public budget hearing is held two weeks before the annual budget meeting (S.7-388). After the public hearing the board shall meet in public meeting to make a decision on the budget (S.7-344). The final proposed budget must be published in a local newspaper, one with substantial circulation in the town. In towns with populations under 5,000, this publication requirement may be waived by ordinance. These towns must print or mimeograph copies of the budget report equal to 10 percent of the town's population and have these copies available to the public at least five days before the annual budget meeting (S.7-344).

Following the public hearing, board of financial meetings and the publication of the annual budget, the report is voted on by the town at the annual budget meeting, which is held in the spring of the year, the exact date being set at the annual town meeting, special town meeting or municipal charter. The meeting acts on the budget - appropriating funds and authorizing necessary expenditures. However, the meeting cannot appropriate more than the board of finance has recommended for any purpose not recommended by the board (S.7-344). The town's fiscal year begins on July 1 following the annual budget meeting; the tax rate is set after the budget is adopted, but before the fiscal year begins. This tax may be due and payable in one, two, or four installments, provided that at least the first installment is due on the first day of the uniform fiscal year, July 1 (S.7-388).

Form of the Budget. In all towns operating under the general statutes, the budget must be published as prescribed by the secretary of the office of policy and management. As a practical matter, budget forms used by various towns differ in many respects. For an optional budget format see (S.7-344).

The forms issued by the secretary of state provide for itemized listing of:

1. Actual receipts and expenditures for the year prior to the one in which the budget is being prepared.
2. Actual or estimated receipts and expenditures for the year in which the budget is being prepared.
3. Estimated receipts and expenditures for the coming fiscal year (S.7-344; S.7-390).

The budget is adopted before the close of the current fiscal year and estimated receipts and expenditures for the current fiscal should be shown (Item 2 above;) otherwise, actual receipts and expenditures will be shown for the year which closed just prior to adoption of the budget.

Contingent Fund. The estimate of expenditures submitted by the board of finance to the town meeting may include a recommended appropriation for a contingent fund. The amount of the fund may not exceed three percent of the total estimated expenditures for the current fiscal year. A contingent fund is an amount set aside to provide for unforeseen expenditures or for anticipated expenditures of uncertain amount. No expenditure or transfer may be made from the contingent fund without the approval of the board of finance (S.7-348).

Apportionment of Expenditures. The board of finance may recommend payment for any non-recurring expenditure which would increase the tax rate unduly may be apportioned over a period of not more than five years. The amount apportioned each year must be included in the budget as a fixed charge until the total amount of the expenditure is paid. A recurring expenditure, one for which an appropriation was made in each of the three preceding fiscal years, may not be apportioned (S.7-346).

Reserve Fund. The board of finance may recommend the town establish a reserve fund for 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
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 and nonrecurring expenditures (S.7-361).

All or a portion of the reserve fund may be used to finance the planning, construction, reconstruction or acquisition of any specific capital improvement or the acquisition of any specific item of equipment. The town meeting, on recommendation of the board of finance, must appropriate from the fund a specific sum plainly designated for each project (S.7 -364).

The amount of the reserve fund, exclusive of interest and dividends earned by the fund, may not exceed the current tax levy of the town (S.7-367). The board of finance may not direct the town treasurer to invest any portion of the fund it deems advisable in securities which are legal investments for savings banks. However, not less than 50 percent of the total amount invested may be invested on the stock, bonds, or interest-bearing notes or obligations of the United States, or those for which the faith of the United States is pledged to provide for the payment of the principal and interest, including the bonds of the District of Columbia (S.7-362). The treasurer must also make an annual report of the condition of the fund to the board of finance (S.7-363).

Setting the Tax Rate. As indicated under "Budget Procedure" the board of finance proposes a budget at the annual budget meeting in the spring of the year; the adopted budget becomes effective the following July 1. The annual budget meeting takes place after the board of tax review has finished its duties and the final grand list has been completed (S.7-344).

Section 12-62b requires all towns must assess all property for purpose of the local property tax at a uniform rate of 70 percent of present true and actual value. In determining the amount of the property tax rate, the board must take into consideration estimated uncollectible taxes, abatements and corrections, and estimated yearly income from other sources. The levy must cover all expenses and any deficit occurring at the beginning of the fiscal year (S.7-344; S.7-390). When it approves the budget, the town meeting determines whether property taxes are to be due and payable in one, two, or four installments, and the dates on which taxes are due and payable.

Town Expenditures Pending Adoption of the Annual Budget

When the annual appropriations have not been made by a municipality before the beginning of the fiscal year, the disbursing officers may make necessary expenditures during the first ninety days after the beginning of the fiscal year as authorized by the board of finance. This ninety day period can be extended monthly by the board of finance within the limits of the line item of appropriations for the previous fiscal year (S.7-405). To fund these expenditures the board of Finance or other budget making authority may borrow funds which must mature and be payable not later than the end of the fiscal year for which the borrowings are made.

Additional Appropriations and Transfers

If more money is needed by a town department than has been appropriated, the board of finance may increase a department's appropriation. However, the additional appropriation must also be approved by town meeting:

1. In towns with grand lists of not more than $20 million if the amount required or the amount required together with any other additional appropriations made by the board for the department in the same fiscal year exceeds $5,000.
2. In towns with grand lists over $20 million if the amount required or the amount required together with any other additional appropriations exceeds $10,000.

No more than one additional appropriation for any department may be made in one year without town meeting approval. The board of finance may make additional appropriations for care of town poor without town meeting approval if the appropriations do not exceed, in the aggregate, $2,000 in towns whose grand list exceeding $20 million. The amount required for such a deficiency appropriation may be drawn from any cash surplus, from a contingent fund, or, if funds are not available from these two sources, from short-term borrowing. If borrowing is used, the amount borrowed must be included in the next tax levy (S. 7-348).

Additional appropriations for expenditures not included in the original budget may be made on the board of finance's recommendation at special town meetings any time prior to setting of the tax rate for the current year. These additional appropriations must be included in the amount to be raised by the tax rate set by the board of finance for the current year (S.7-344).

The board of finance may transfer unexpended balances from one appropriation to another. No appropriation may be used for any other purpose without approval of the board of finance (S.7-347).

Temporary Notes and Federal and State Grants

Any town which has temporary notes outstanding in anticipation of the receipt of proceeds from the sale of bonds authorized by a sewer project which has a written commitment for a state or federal grant, but has not received its final grant payment within four years from the date of the original notes, may renew the notes from time to time in terms of no more than six months.

However, the total amount of the note shall not exceed the amount of the grant commitment (S.7-378b).

A town operating a sewage system may issue temporary notes to be paid from anticipated income from sewer assessments but for no longer a period than fifteen years (S.7-269A).

Financial Records

The board of finance is responsible for determining the method and place used for all records and books of account of the town, or of any department or subdivision of the town (S.7-344). The exact form of these books and statements is subject to the approval of the state's Office of Policy and Management (OPM) (S.7-399).

Annual Audit

All towns and cities must have their accounts audited at least once annually. An independent public accountant approved by the Office of Policy and Management (OPM) must be selected by the board of finance to make the audit. Each approval need not be secured if the independent public accountant performed the audit in the town or city for the previous fiscal year. The independent public accountant retained by the town or city shall have his or her duties and powers defined by the secretary. Any audit rendered under this authority shall be performed in accordance with standards adopted by the secretary by regulation, and approved by the auditors of public accounts (S.7-392a).

In conjunction with each town or city audit, the town or city shall provide for the auditing of the accounts of the local board of education. In case of a regional school district, the regional board of education provides for the audit (S.7-392c).

Certified copies of the audit report must be filed with the board of finance within six months after the close of the fiscal year. The OPM secretary may grant an extension, for due cause, provided the accountant submits a request in writing to the secretary stating reasons for the extension at least thirty days prior to the end of the six month period. The accountant must preserve all of his or her working papers used in preparing the audit for two years and must be made available for inspection by OPM; the auditor must also file a copy of the audit with OPM. The comments and recommendations of the auditor must be included in the annual town report (S. 7-394). The board of finance must audit the annual statement of the town superintendent of highways and bridges (S. 13a-10).

Review of Municipal Financial Reports

The state legislature has mandated all municipal financial reports prepared by an independent public accountant must be prepared in accordance with the generally accepted accounting principles related to accounting, auditing and financial reporting (S.7-394a).

Any town, because of hardship, may request permission to have the financial report prepared in a manner not in compliance with the above provisions. The request for waiver must be made in writing to the Office of Policy and Management (OPM) (S.7-394b).

OPM may adopt regulations necessary to establish guidelines for compliance with these provisions. The regulations prior to adoption, must be submitted to the Municipal Finance Advisory Commission (S.7-394c). Regulations now being drawn up will require all municipalities to inform OPM of their tax rate and budget by each July 1. (P.A. 91-343). OPM shall review all audit reports filed. If evidence of fraud or embezzlement are found, criminal proceedings may be instituted (S.7-395).

If, according to OPM, an audit report has been prepared in compliance with the provisions of Section 7-394a, or if OPM's director finds evidence of any unsound or irregular financial practice, he or she shall prepare a report concerning the findings, including necessary details for corrective action. The report is then referred to the Municipal Finance Advisory Commission established under Section 7-394b. A copy of this report shall be filed with the chief executive officer of the municipality and the auditors of public accounts. Although the statutory reference in these sections refers to the state tax commissioner, these responsibilities have been assumed by OPM.

Municipal Finance Advisory Commission

Section 7-394b establishes a Municipal Finance Advisory Commission which reviews and makes recommendations concerning regulations submitted by the secretary of the Office of Policy and Management (OPM). The Commission also works with any municipality referred to it by the secretary of OPM to improve their fiscal condition. Upon receipt of the secretary's report under section 7-395, the Commission determines the level of fiscal distress of any municipalities, reviews audits; the accounting and fiscal management practices of the municipality. The Commission is authorized by statute to require a municipality's chief executive officer to provide information and appear before the Commission to discuss the municipality's financial condition and the implementation of remedial measures to improve its financial condition.

The Commission consists of eight members appointed by the governor as follows:

1. Four members who are fiscal or executive officers of municipalities, with one such member from a municipality in each of the following categories of population at the time of such appointment:
    a. a municipality with a population under ten thousand,
    b. a municipality with a population of at least ten thousand but under twenty-five thousand,
    c. a municipality with a population of at least twenty-five thousand but under seventy-five thousand, and
    d. a municipality with a population of seventy-five thousand or over;
2. Three members who are not officers of municipalities but whose experience and knowledge, in the discretion of the governor, would be valuable for the purposes of said commission;
3. A representative from the Office of Policy and Management. Members are appointed for four-year terms coterminous with the term of the governor or until a successor is appointed and qualified, whichever is longer, provided the term of any such member shall be contingent upon holding the office, when applicable, which qualified the member for appointment.

Vacancies other than by expiration of terms shall be filled by appointment by the governor for the unexpired term. All members of the Commission serve without compensation, except for reimbursement for their necessary expenses incurred in the performance of their duties as members.

Cash Management Programs

The Institute of Public Service has developed a series of programs to assist municipalities in Connecticut in complying with the accounting, auditing and financial reporting requirements of Section 7 -394a. A series of seminars are conducted in various geographic areas of the state, and providing for a survey type discussion and analysis of:

1. Budget documents and format

2. Purchasing and encumbrance procedures
3. Cash receipt and disbursement procedures
4. General ledger - chart of accounts
5. Identification of funds (i.e., capital improvements, debt service, and special and trust funds).

These seminars are open to members of boards of finance, selectmen, town treasurers and tax collectors.

Evaluation of Municipal Pension Plans

As of July I, 1977 any municipality with a pension or retirement system must prepare an actuarial evaluation of the system once every five years. This evaluation must include a review of accumulated or past service liability related to benefits currently earned under the system. The evaluation must be made by a recognized actuary and must be prepared on the basis of such assumptions as to interest earnings, mortality experience, employee turnover, and other factors that may affect future liabilities under the system (S.7-394a). No ordinance altering the pension or retirement system can be enacted until the legislative body has requested and received a qualified cost estimate from the actuary. The evaluation shall be delivered to the chief fiscal officer who shall file a certified copy with the town clerk. A summary of the evaluation, including a statement prepared by the actuary as to how much of an annual payment should be made by the municipality to fund the retirement fund, must be included in the first annual report of the municipality after the evaluation is completed (S.7-450a).

Annual Town Report

The board of finance must prepare and publish an annual town report. The report must be available for distribution in the town. The report must include the reports of town officers and boards required by law, a statement of the amount received under Part IIa of Chapter 240 of the General Statutes (town aid funds for improvement of highways and bridges) and of its disposition, and any other matters the board deems advisable to include. Towns with populations of 5000 or less, as computed by the secretary of OPM, must publish their receipts and expenditures and the names of all persons, firms or corporations, other than recipients of support under Chapter 308, receiving money from the town and the total amount of payments in excess of $50.00 to each. If the town has a bookkeeping system, approved by the secretary of OPM, which sets forth receipts and expenditures in detail, it is not necessary to publish the names of those receiving money from the town and the amounts received (S.7-406). Required reports include the comments and recommendations of the auditor, the annual report of the board of education and superintendent of schools, and the annual report of the town director of health (S.7-394; S.10-224; S.19-74).

The report given at the end of each fiscal year by the tax collector to the board of finance must be printed in the annual town report. This report must show for each rate bill:

1. The total amount of unpaid taxes at the beginning of the fiscal year and the total amount of taxes which has come due during the fiscal year.
2. The total amount collected segregated to show taxes, interest, penalties, lien fees, and other fees and to show what part of this amount has been paid into the municipal treasury and what part is still in the collector's possession at the end of the year.
3. The total amount of uncollected taxes on the last day of the fiscal year.
4. The total amount of taxes lawfully abated during the year.

5. The total additions and deductions on account of lawful corrections.
6. A schedule showing the amount of each tax abatement, the name of the person against whom the tax was levied, and the reason for the abatement.
7. A schedule showing the amount of each lawful correction, the name of the taxpayer concerned, the reason for the correction, and the authority for it (S.12-167).

Section 12-167 requires that the tax collector's report to the board of finance include the total amount of taxes on each rate bill transferred to the suspense tax book during the fiscal year, an a statement that the total uncollected taxes on each rate bill on the last day of the fiscal year just completed agrees with a detailed listing of uncollected taxes still appearing in each rate bill; however, it is no longer required that this portion of the collector's report be printed in the town report(S.12-167). It is also not necessary to publish in the town report, by name of taxpayer abatements which are granted on account of veterans' exemptions (S.12-167). The tax collector must also prepare at the end of each fiscal year a statement showing the amount of each tax refunded, to whom the refund was made, and the reason for each; this statement must be published in the annual town report or filed in the town clerk's office within sixty days of the end of the fiscal year (S.12-129). The amount of each tax transferred to the suspense tax book during the fiscal year and the name of the person against whom the tax was levied must be published in the annual town report or filed in the town clerk's office within sixty days of the end of the fiscal year (S.12-165).

Relationships with Other Town Officials

Town Manager. A town which has a board of finance may adopt Chapter 96 of the General Statutes providing for appointment of a town manager. The manager is appointed by the board of selectmen from a list of qualified persons recommended by the board of finance. The manager may be removed from office by the board of finance after notice to the manager and hearing on the charges brought against him (S.7-98). The board of finance determines the amount of surety bond required for the manager (S.7-99).

Superintendent of Highways and Bridges. Within thirty days after a town votes to adopt Sections 13a-8 through 13a-11 of the General Statutes providing for appointment of a superintendent of highways and bridges, the board of finance must nominate two or more persons for appointment to the position by the board of selectmen. The board of finance also nominates suitable persons for this position whenever a vacancy occurs. The superintendent may be removed from office by the selectmen on charges preferred by a majority vote of the board of finance (S.13a-8). The board of finance determines the amount of surety bond to be required of the superintendent (S.13a-9). On or before the first Tuesday in September the superintendent must file with the board of finance a detailed statement of disbursements made by him during year, which statement must be audited by the board (S.13a-10).

Planning Commission. Under Connecticut general law, a town's planning commission or planning and zoning commission is directed to prepare a plan of development for the town. The plan should show the commission's recommendation for the most desirable use of land within the municipality for recreational, residential, commercial, industrial and other purposes, and for the most desirable diversity of population in the various parts of the municipality. Among other things, this plan may include the commission's recommendations for a system of public streets and roads, for the general location and extent of public utilities - both publicly and privately operated, and for general location, relocation, and improvement of public buildings (S.8-23). No municipal agency or legislative body may locate any public improvements and public buildings until the proposal to take such action has been submitted to the planning commission for a report. However, disapproved proposals may be adopted by a majority vote of a town meeting or a two-thirds vote of the representative town meeting or town or city council (S.8-24). These provisions of the general statutes give the planning commission authority to approve or disapprove location of public buildings, public lands, utility installations, and streets before they are approved for construction or acquisition by the legislative body. In preparing a capital budget or proposing expenditures for capital improvements, the board of finance should bear in mind that location of these should be integrated with the comprehensive town plan, and the board should seek the advice and assistance of the planning commission before proposing major capital expenditures.

If the board of finance seeks to initiate a program of long-range financial planning, it should do so in cooperation with the planning commission. The general statutes do not spell out the various municipal agencies' specific responsibilities in preparing a long-range financial plan. As the agency responsible for preparation of the annual budget, the board of finance has a definite stake in a long-range financial plan, which in turn must be based on the comprehensive town plan prepared by the planning commission. Since the actual responsibility of these two agencies in financial planning and capital budgeting is ultimately a matter to be worked out by each individual municipality, it would be helpful to initiate the program in a resolution passed by the legislative body, which resolution would state financial planning policy and designate the agencies and officials to carry out the various phases of the program and to compile the final plan.

Municipal Employees. Although the board of finance will not be directly involved in collective bargaining negotiations with organizations of town or city employees, the board is required to take certain actions as the result of the municipality's negotiating an agreement with its employees. Municipal employees have the right to form employee organizations and to bargain collectively through representatives of their own choosing on questions of wages, hours, and other conditions of employment (S.7-468). In collective bargaining negotiations the municipality is represented by its chief executive officer or his representative. Any agreement reached by the negotiators must be reduced to writing. A request for funds necessary to implement the agreement and for approval of certain of its provisions must be submitted to the municipal legislative body for approval; however, where the legislative body is the town meeting, approval by a majority of the selectmen makes the agreement valid and binding upon the town and the board of finance must appropriate or provide funds necessary to comply with the agreement (S.7-474, subsection, b). The statutes further provide that when the agreement or request for funds has been approved, the budget-making authority of the municipality must appropriate whatever funds are required to comply with the collective bargaining agreement (S.7-474, subsection c).

Mandatory Binding Arbitration. If negotiations between the municipal employer and the employee organization fail to produce a contract within ninety days after the expiration of the current collective bargaining agreement; then the State Board of Mediation and Arbitration will order binding and final arbitration imposed on the parties (S.7-473c). The usual procedure is for the chief executive of the municipal employer and the executive head of the municipal employee organization to each select one member of the arbitration panel. Within five days of their appointment the two arbitration panel members select a third member who serves as panel chairman. The arbitration panel holds a hearing in the town at which any member of the panel has the power to take testimony, administer oaths, and summon by subpoena any person whose testimony may be relevant. The hearing must be completed within twenty days after its commencement. Two days prior to the hearing, each party must file with the panel, and the other party, a proposed collective bargaining agreement which the party is willing to execute. Each party then files a rejoinder stating the paragraphs of the proposed agreement they are willing to accept and those they are unwilling to accept. Five days after the hearing is completed, the arbitration panel forwards to each party an arbitration statement, approved by majority vote of the panel, listing all agreement provisions agreed by both parties and stating those issues which are unresolved. The parties may file with the Secretary of the State and the Board of Mediation and Arbitration their briefs on the unresolved issues. The parties then must file their statement of the "last best offer"(S.7-473c concerning the unresolved issues contained in the arbitration statement and the final agreement provisions proposed by each party.

Within twenty days after the filing of the statement of last best offer, the panel issues, by majority vote, its decisions on all unresolved issues remaining. The statement of the panel decides each question by accepting the provision relating to the unresolved issues by taking the provision contained in the statement of last best offer of one party or the other.

New Binding Arbitration Legislation. Two new acts allow local legislative bodies to reject teacher, school, administrator, and other municipal employee arbitration awards by a two-thirds vote of those present. Rejected awards are then submitted to a second three-member panel of neutral arbitrators. The second award is final and binding on the town. In town-meeting towns, the board of selectmen accept or reject the awards.

The local legislative body has 25 days after receiving the first award to vote to reject it. It must reject the entire award, not just individual issues. In order to reject a teacher or school administrator award for a regional school district, the legislative body of each participant town must vote to do so.

The second arbitrators are still limited to a choice between the last best offers the town and the union submitted to the first arbitrators. They have 25 days to issue their decision. That decision is based on the record of, and briefs filled in, the first arbitration proceeding plus the legislative body's written reasons for rejecting the first awards and the union's written response to the rejection. The town must pay the reasonable expense of the second proceeding.

The acts also change the criteria that all the arbitrators must use for their decisions to make the public interests and the municipality's ability pay paramount. The acts create a new, permanent panel of at least 20 neutral arbitrators to chair the three-member panels for the first round municipal employee arbitration. The members of the new panel must be unanimously approved by a 10-member selection committee with equal labor and municipal employee representation. Finally, the acts repeal municipal employee fact-finding. The acts are SHB 5566, PA 92-84, as amended by SSb343 (Office of Legislative Research, Major Public Acts, 1992, p.6).

Municipal Officers' Protection from Damage Suits. Sec. 7-101a provides that each town shall protect and save harmless any municipal officer, whether elected or appointed, and any full-time municipal employee of the town, from financial loss and expense arising out of any claim, demand suit or judgment of alleged negligence or alleged infringement of any person's civil rights while acting in the discharge of his duties. Sec. b of the act extends this protection to acts of the official or employee that are allegedly malicious, wanton or willful act or ultra vires act. This provision also provides that the town has the responsibility of assuming all legal fees.

Heart and Hypertension Benefits. A new act places additional conditions on the ability of police officers and firefighters who are hired after June 30. 1992 to receive heart and hypertension benefits. A newly-hired officer or firefighter will not be eligible if he or she has been a member of the police force or fire department for at least two years, or if the town proves by a preponderance of evidence that his or her heart disease or hypertension is not job-related. The act does not affect police officers and firefighters hired before July I, 1992. They remain eligible for benefits under the same conditions as before (SHB 5067, PA 92-81, effective July 1, 1992-Office of Legislative Research, Major Public Acts, 1992, p.6).

Political Activities of Municipal Employees. See. 741 now prohibits the interfering with or affecting the results of an election or nomination by forcing a local officer to pay, lend or contribute anything of value to a party or committee for political purposes. Section 7-421b allows any municipal employee to be a candidate for a municipal elective office in a partisan political election. It requires the municipality to grant a leave of absence without pay for up to four years, for employees accepting full-time elective offices. However, no municipal employee shall serve on boards of finance, inland-wetlands, any other or body exercising land use powers (S.7- 421e).

Board of Education

The board of education must prepare an itemized estimate of the cost of maintaining the public schools for the ensuing year and submit this estimate to the board of finance at least two months before the annual meeting at which appropriations are to be made (S. 10-222). The funds appropriated by town meeting for operation of the public schools may be expended at the discretion of the board of education (S. 10-222). The board of education may transfer "any unexpended or uncontracted for portion of any appropriation for school purposes to any other item of such itemized estimate"(S. 10-222). Expenditures of the board of education must not exceed the appropriation made by the town meeting with any money received from other sources for school purposes (S.10-222).

Review of Education Budget Requests. As indicated above, the general statutes state that the board of education must submit the school budget to the board of finance two months before the annual town meeting or annual budget meeting. It is the function of the board of finance to review all requests for expenditures for town activities, to evaluate all requests, and to recommend to the town meeting a budget which in its judgment meets all of the town's expenditure needs within its financial resources. In preparing the final town budget the board of finance may have to reduce expenditure requests of all town agencies including the board of education. The requests made by the board of education must include necessary funds for activities which it is requires by statute to perform and should include recommendations of expenditures for additional activities it feels should be included in the school system.

The areas in which the board of finance may reduce board of education requests have been limited by the courts. In this respect Connecticut courts have declared that:

1. The town board of education acts as an agency of the state in charge of education in the town and is beyond control of other or in incurring necessary expense except as the statutes limit board functions.{2}
2. The board of finance cannot refuse to include in the budget a sum reasonably adequate for the performance of the duties required by law with respect to education, nor can it refuse to recommend a sum reasonably adequate to make effective the reasonable exercise of discretion conferred by statute on the board of education with regard to education.{3}

This principle was reiterated in the Stamford Case as follows: Where the board of education requests an appropriation for a purpose which the statutes require it to perform or which the statutes give it discretion to perform, the board of finance may not refuse to include an appropriation in the budget for this purpose. The board of finance may reduce the amount requested for such a purpose only when the request exceeds the amount reasonably necessary to accomplish the purpose; in reducing a request the board of finance may take into consideration the educational needs of the town, its financial condition, and other expenditures it must make. The court further stated that the board of finance must exercise its sound judgment in determining whether, or to what extent, expenditure requests of the board of education are larger than the town can afford. If the board of finance properly exercises its discretion and the budget is approved by the town, the board of education has no power to exceed the appropriations made.{4}

A court decision in a case involving a conflict between a board of finance and a board of education was rendered by the Connecticut Supreme Court in May 1963.{S} In its decision the Supreme Court upheld the decision of the Superior Court which in January, 1962, had found in favor of the board of education of the town of Ellington. The circumstances which led to the court action are summarized in the Supreme Court's decision as follows: The board of finance of the town of Ellington in preparing the town budget including the school budget reduced the requests of the board of education to eliminate expenditures for three teaching positions, a curriculum coordinator, maintenance of school properties, and capital outlays. It included in the town budget two special appropriations, one a contingent fund from which the board of education could draw funds for the three teaching positions when they were actually filled; the other appropriation created a capital account from which expenditures for capital outlays and school maintenance were to be made by the board of selectmen on request of the board of education. The board of finance's purpose in recommending these special accounts in the general government budget was to prevent the board of education from using the sums involved for purposes other than those specified in the original budget.

In its decision the Supreme Court said: "The clear intendment of Section 10-222, when read in connection with Section 10-220, is that all appropriations for school purposes shall be made to the board of education to be expended by that board. The number of teaching positions necessary in the public schools, the need for a curriculum coordinator, and the maintenance of school properties are matters within the sound discretion of the board of education under General Statutes Section 10-220. This is not to say that the board of education can act without restraint and that the board of finance cannot control the total amount of appropriations. Its control, however, must be exercised reasonably by taking into consideration the duty of the board of education to maintain in the town a program of educational opportunity which meets the requirements of state law; the power of the board of education to exercise sound and reasonable discretion in carrying out its duties; and the town's financial needs and resources." The court declared that the board of finance, by recommending school appropriations in addition to the amount it recommended for the board of education's budget, found that the additional sum would not be "unreasonable, unnecessary or beyond the resources of the town to provide." The court found that the recommendation of the board of finance that certain funds for school purposes be placed in the general government budget, "to put them beyond the power of the plaintiff [board of education] to transfer or expend at its discretion, contravened General Statutes Section 10-222 and constituted an illegal restriction on an appropriation for strictly educational purposes."

There is nothing in this legal framework to prevent conflicts between the board of finance and the board of education, however. If fundamental differences of opinion arise, they can in the final analysis be resolved only by mutual understanding between the two boards. Both boards have important work to do for the same community drawing on the same financial resources for the welfare of the same taxpayers. They should strive always to work together for causes which are of mutual interest.

Transfer of Appropriations and Additional Appropriations. The board of education has complete discretion in the expenditure of funds appropriated to it for operation of the schools. It may make transfers among appropriations without approval of the board of finance or town meeting (S.10-222). The Connecticut courts have reiterated this power of the board of education as to how and when it could expend, for operation of the public schools during the fiscal year, money appropriated for this purpose, and have stated further that the board of finance has no authority to refuse to transfer and transmit to the board of educational amounts expended as long as these amounts do not exceed the total appropriation approved by the town.

The board of education is obligated to endeavor to keep within appropriations made and not seek a further appropriation unless imperative need arises. However, should such need arise, the board of finance has no authority to refuse to recommend appropriation of an additional amount reasonably necessary to carry out the board of education's program.

Teachers' Contracts. Section 10-153d(a) mandates that thirty days prior to the date on which the board of education is to commence negotiation's with the teachers' representative, the board of education must meet with the board of finance. Although the Statute does not state for what reason, it is implied that the two boards would discuss the financial situation in the town and the effects of various levels of contract settlements. The board of finance under this section has the right to have a member of the board of finance present during negotiations of the board of education and the teachers' representatives.

The terms of a contract negotiated under the teachers collective bargaining act between the board of education and the designated representative of its employees are binding on the legislative body of the town unless its rejects the contract within thirty days after it is filed with the town clerk. A referendum vote on the signed contract may be petitioned by two hundred or more persons or ten percent of the total number qualified to vote in the town. If a petition is so filed to reject the contract, a minimum of fifteen percent of electors eligible to vote shall be required to participate in the voting and a majority of those voting shall be required to reject. The appropriating body of the town must appropriate to the board of education the funds required to implement the terms of the contract. (S.10-153d[b]).

Footnote

{2} The Board of Education of the Town of Stonington v. The Board of Finance, et. al., 127 Conn. 345,349, (1037).

{3} The Groton and Stonington Traction Company v. Town of Groton, 115 Conn. (1932)

{4} The Board of Education of the Town of Stamford v. The Board of Finance, et. al., 127 Conn. 345, 350, (1937)

{5} Board of Education of the Town of Ellington v. Town of Ellington, et. al., 151 Conn. 1, (1963)

Chapter 4

Local Government Revenues

The one most pressing problem of local governments in recent years has been obtaining sufficient revenue to finance essential services. The brief discussion to follow will suggest some guideposts which may be useful in analyzing the revenue problem, and some methods of better adapting a municipal revenue system to local conditions.

Since the depression of the 1930's several changes have taken place in municipal revenue patterns; these changes have accelerated since the close of World War II. Nationally, dependence on the property tax as the sole source of municipal revenue has lessened, although the property tax remains by far the largest source for local governments. At the same time, there has been an increase in the use of state grants-in-aid and shared taxes, a trend toward placing more municipal services on a self-supporting basis, and a wider use of all types of non-property taxes.

Sources of Municipal Revenue

The property tax is the largest single source of local government revenue in the United States. Next in importance are payments from other governments - primarily in the form of state grants-in-aid, federal grants, and charges for services and miscellaneous general revenue. Sales and gross receipts taxes and license fees are relatively significant revenue producers for some municipalities.

Taxes. The depression of the 1930's and the pressure for increased local spending since the close of World War II generated much interest in new sources of revenue for municipalities. The property tax which had proved to be unreliable in periods of economic stress seemed also to be incapable of providing all the funds needed to finance significantly expanded services. Authorities began urging more diversification of municipal revenue sources by broadening the local taxing power and by increasing the state's contribution to local funds through increased grants-in-aid.

Several states have substantially broadened local revenues by allowing towns and cities to levy sales, gross receipts, and income taxes. Connecticut however, has not yet permitted municipalities to levy sales or income taxes. Although the total national picture indicates an increasing amount of local revenue from these sources, this amount is accounted for by a few large cities and by a few states which permit state collection and return of a locally imposed additional sales tax rate. Most municipal governments throughout the country continue to be strongly dependent on the local property tax.

Connecticut towns and cities are more dependent upon the property tax than are U.S. municipalities in general. Thirty-eight percent of all municipal revenue and seventy-percent of all municipal tax revenue in the U.S. is collected from the property tax. Two-thirds of all municipal revenue and all municipal tax revenue is from this source in Connecticut. Connecticut municipalities do not levy sales or gross receipts taxes, and other local taxes, primarily local license fees, do not produce a significant amount of revenue.

Property Taxes. Total tax collections in Connecticut in 1988-89 were $3.2 billion. Approximately $1.8 billion of this was derived from property taxes on residential property, $0.8 billion from commercial real estate, $0.3 billion from commercial personal property. The balance of $3.2 billion was collected from personal property taxes and motor vehicles. The effective mill rate (the mill rate if all property is assessed at current fair-market value, as determined by State analysis of sales prices and assessed values) has a narrower range because it, by design and intent, standardizes the mill rates among municipalities in different stages of the revaluation cycle. In 1987-88 (latest data available for effective rates), effective mill rates on all property ranged from 4.1 (Lyme) to 20.1 (Hartford), with a population-weighted average effective rate of 12.6 mills. For example, the total tax paid on the average property selling for $100,000 in Lyme was $410; on a $100,000 property in Hartford, $2,010; and the average tax paid statewide on a $100,000 property was $1,260.

Effective mill rates provide a way of comparing tax rates on property among municipalities; effective property tax rates do not tell us anything regarding the relative ability of taxpayers to pay their property tax. In economists' terms, effective tax rates reflect the tax on land and capital improvements. Because property taxes are paid out of current income (e.g., salaries and wages) rather than the market value of property, one must have data on the income level of property owners before the relative tax burden can be analyzed.

Recently in Connecticut, residential property has been appreciating at a faster rate than commercial property, lowering the effective tax rate on residential property vis-a-vis other property. This phenomenon can create an implicit tax shift onto motor vehicle and commercial property in the years prior to revaluation as the value of residential properties grow relative to the value of all other properties in a given municipality. After revaluation, residential taxpayers will feel the effect of this implicit shift that has occurred between revaluations - and, thus, they will feel the explicit tax shift in the first year following revaluation.

Grants-in-Aid and Shares Taxes. State grants-in-aid to local governments are a means of shifting a portion of the local revenue burden from the property tax and providing towns with another revenue source. To provide funds which to make grants, the state from its broader tax base collects additional revenue and distributes it to the towns under various allocation systems and for various purposes. Connecticut’s grant-in-aid programs have traditionally been directed at providing funds for specific functions and for special programs. Another means of channeling state-collected funds back to municipalities is through shared taxes; here, the state collects tax revenue centrally and returns it to the municipalities in proportion to the amount collected locally. Connecticut has a number of grant-in-aid programs, but does not at this time have any state-collected, locally shared taxes.

Infrastructure Fund. Public Act 1 of the 1985 Connecticut General Assembly established a municipal infrastructure trust fund and a municipal infrastructure trust fund committee. Towns may use grants from this fund for road construction, renovation, repair or resurfacing, sewage treatment plans, sewer lines, public building construction, and repair of bridges and dams. A local match by the municipality is required. This was replaced by Local Capital Improvement Program, (LOCIP).

Charges and Miscellaneous Revenue. Charges for services performed by the government for certain citizens and miscellaneous small amounts of revenue comprise the remainder of general revenue of towns and cities. Special assessment revenues are included in this category. Connecticut towns and cities still derive substantial revenue from these sources; nationally, about one-fifth of local revenue is attributable to this category.

Additional Local Government Revenue

With property tax collections at record high levels throughout the country, the demand for additional funds to support local governments continues. Inflation and the necessity to provide more and improved services to an increasing urban population have spurred the search for new sources of funds for municipalities. The needed funds can come from increases in property tax levies, from new taxes levied locally, or from additional state and federal grants-in-aid. Reaction to these spending increases has spurred productivity studies, and in California, spending curtailments.

Increasing the Property Tax. The trend toward differential treatment of various classes of property, removal of entire classes of property from taxation, and enlargement of the area of exempt property has seriously eroded the property tax base and removed much of its ability to cope with changing economic conditions. A realistic appraisal of the impossibility of a completely general property tax has led to removal from the tax base of those types of properties found to be difficult to tax equitably. Political, social, and economic pressures are leading to an ever-growing list of exemptions. The result is a narrower and more inflexible property tax base from which to provide funds for needed municipal services.

While the productivity of the property tax can be increased, it does not necessarily follow that more money should be raised from this source. Other possible sources of revenue should be carefully considered before property tax rates are increased drastically. The criticisms most frequently leveled against the property tax - that it is poorly administered and that assessments are inequitable - are not valid criticisms of the tax itself. The most legitimate argument against the property tax is that it is regressive; falling with greater weight on those less able to pay and that ownership of property in our society bears little or no relation to income and ability to pay taxes. Much of the objection to the property tax as a major revenue source has been generated not so much by the general nature of the tax itself, but by the rapid acceleration in amounts collected which has amplified all of its evils.

However, despite its deficiencies the property tax will remain the major source of municipal income, and improvements in its administration should be continuously sought. These improvements should look toward better assessment and collection procedures, abolition of arbitrary tax limits, reduction in the amount of exempt property and elimination of any overlapping governmental units.

State Grants-in-Aid. A state grant-in-aid is a transfer of funds from the state to a lower level of government for the purpose of paying for a portion of the services rendered at the lower level. Grants may be designed specifically to encourage municipalities to undertake certain programs by offering financial assistance in operation of these programs. Or grants may be designed to equalize standards of local government services by underwriting a share of cost of certain or all services. Or grants may be designed merely to relieve local government tax burdens and provide a broader base for local government revenue. In actuality, all grants, except those few which force adoption of programs which would not be undertaken at the local level without state stimulation, have the effect of relieving property taxes generally.

The state of Connecticut returns funds to the towns and cities through a number of major grant programs and several minor ones. Major grant programs are related to education, highways, health, redevelopment, planning, and welfare. Each grant has its own statutory authority, method of making application, disbursing agency, and formula. Some formulas provide for the state to underwrite a fixed percentage of the cost of a specified program; some provide for division of an appropriated sum among towns; some provide for distribution of a fixed sum per pupil, per hour of instruction, per capita block grants, or per mile of highway.

The objectives to be served by the state grants will, by and large, be determined at the state level, and the objectives will determine the method of allocation used. Since virtually all grants have the effect of lessening the amount of revenue which must be raised locally, the type of grants used will be determined by the extent and type of relief desired. Flat grants of a specific amount to all towns recognize merely the magnitude of the local tax burden and serve to shift a portion of local government cost from the property tax to more efficient or to more equitable taxes suitable for collection by the state. A grant program may go a step further and aim at reduction of the inequalities in property tax burdens among towns that arise when towns with different tax burdens and tax capacities must meet the cost of the same level of government services. This approach of distribution of grants recognizes that the financial abilities of local governments differ and that the state must equalize these differences in allocating grants.

Phases of Educational Funding

Guaranteed Tax Base (GTB) Horton V. Meskill. In fiscal year 1989-90, Connecticut spent 3.222 billion dollars to provide public education for students, an average of $6,884 per student. Supporting the programs and the staff in 1,100 elementary and high schools is one of the state's most important activities. The greatest amount of funding for educational programs comes from local funding by means of property taxes. In Connecticut local communities pay nearly three quarters of the annual cost for public education. As a result of this funding arrangement, wealthier towns in the state are able to provide more funding for various types of improved educational programs. Those towns with limited tax bases must use a higher percentage of property tax revenue to fund educational programs in their towns.

In 1977 the State Supreme Court, in Horton V. Meskill, declared that these property tax funding practices violate provisions of the state constitution. The court ordered the legislature to adopt some formula which would better equalize expenditures for educational purposes. The court ruled that free public education is a fundamental right guaranteed by the state constitution and that students are entitled to equal enjoyment of that right. The court ruled that each child in the state must receive a suitable program of educational experiences and that these programs be funded at a reasonable level.

The General Assembly utilized the Guaranteed Tax Base program (the GTB), introduced in 1975, as a vehicle for revised funding programs for local educational institutions. It was viewed by many to be the vehicle for improved and equalized educational funding for local school needs.

The features of this program were:

1. The law designates the town at the 85th percentile (25th from the top of the 169 towns in terms if its ability to pay for education from local resources) as the standard for equalization. The goal of the program is to provide all towns below the 85th percentile with the same

ability to pay for school services as the town at the 85th percentile enjoys, if they are willing to make the same taxing effort in support of their schools.

2. To accomplish this goal the state guaranteed that each town below the 85th percentile could generate the same amount of money per pupil as does the town at the 85th percentile. If a town tax base is below the guaranteed tax base, the state makes up the difference in revenue between what the town can actually raise from its own tax base and what it would raise with the same tax rate if it had the tax base of the 85th percentile town. If the town is at or above the 85th percentile it receives no GTB grant and local revenues continue to be raised on the current tax base.
3. All school districts continued to receive the state's flat grant for general aid to education.
4. The GTB did not interfere with local control of the schools, did not take money from one town and give it to another and did not see limits on the amount of school expenditures or tax rates.

Under the bill the towns were able to use the GTB grant for increasing school expenditures or reduce the property tax burden. The GTB grant to a town would increase if the town increases school tax rate or if its population or student enrollment increased it would decrease if the net grand list increased, or if its family median income increased relative to the state median.

Educational Enhancement Act (EEA). Public Act 86-1 established a voluntary, state-funded minimum teacher salary $20,000 ($21,500 in 11 high wealth districts). This act provided for:

1. Minimum salary program
2. Increased salaries for teachers above the minimum
3. Improved student/teacher ratio
4. General education aid

Various requirements controlled eligibility for these grants. They were that increased teacher salaries must be negotiated through collective bargaining and the 1986-87 contract could only be opened with approval of the local fiscal authority.

Equalized Cost Sharing

Other Local Taxes. The use of taxes other than the property tax by other state's local governments has been steadily increasing in recent years. These other taxes include taxes on admissions, businesses, general and special sales, income, motor vehicles, and public utilities. Further, special charges for garbage and refuse collection, for parking, and for sewer service and revenue from public service enterprises are assuming a more prominent role in their local revenue picture. These other sources of income are used in varying degrees by municipalities throughout the country. Some twelve states permit municipalities to levy sales taxes, the rates of which vary from 0.5 percent to 3 percent. A significant improvement in administration of local sales taxes in several states has been achieved by providing for state collection of the locally levied tax. The local levy, collected concurrently with the state sales tax, is returned to the municipalities by the state, less a fee for its services.

A special example of state aid in the form of a split of the state sales tax was enacted by P.A. 78-376. As a financial aid to Hartford because the Civic Center collapse, the state allowed Hartford to keep up to four and one half percent of the state sales tax collected on sales on hotels and lodging houses for the support and promotion of convention bureau activities.

Municipal income taxes have become a lucrative revenue source for some cities in the few states which have permitted their use in recent years. In Pennsylvania, where more than 1,000 municipalities and school districts are now using it, the municipal income tax has become the most productive of many new taxes levied by cities since the close of World War II. Pennsylvania municipalities are permitted to impose a tax on earned income only at a rate not exceeding 1 percent. Tax liability extends to: (1) local residents who earn wages and salaries within their own taxing district, (2) local residents whose earnings come from beyond their home taxing district, and (3) nonresidents whose earnings are from sources within the taxing jurisdiction other than a school district. Although administration of the tax is somewhat complicated and requires a maximum of administrative ingenuity, it had provided a steady flow of revenue from a broad base.

Analysis of the Revenue Problem

Local revenues can be increased by more widespread use of non-property taxes, more state aid, additional federal aid, and more charges for municipal services. Adoption of any new revenue source locally must be based on analysis of the entire federal state and local revenue structure. In seeking to increase local revenue locally, some considerations that should be taken into account are:

1. Improvement of the municipality's financial organization and administration and strengthening of existing taxes.
2. Greater yields from the property tax, not necessarily from higher rates, but by more complete assessments, higher values, and better enforcement.
3. As new local taxes are put to use, closer coordination of federal, state, and local tax structures.
4. Special attention to methods of obtaining some revenue from non-residents who work in recreational and shopping facilities.
5. Realization of the practical limits of the yield from miscellaneous revenue sources.
6. State financial assistance designed to stabilize local revenues, to return to municipalities tax money which the state can more readily collect, and to maintain reasonable minimum standards of local service.
7. Attention to all factors which tend to increase municipal expenditures, particularly to those factors which have a direct effect on finances such as the method used to finance public utilities in new subdivisions, the need for urban renewal, and scheduling of public improvements.

The interrelationship of the local, state, and federal tax structures, and particularly the increased interweaving of state and local revenue systems, cannot be overemphasized. Previously the most frequently suggested remedies for local revenue shortages were a more liberal sharing of state and federal funds, extension of state and federal aid, broadening the local tax base, and relinquishing to local use certain taxes used by the state and federal governments - all solutions which involve action by other levels of government. With the fall-out of California's Proposition 13, recommendations for spending and property tax limitation or roll backs, municipalities are now implementing cost effectiveness studies. Improved productivity programs to refine the quality of municipal services. No longer content to lobby for increased federal and state aid, municipalities are now faced with a re-ordering of their priorities, and a re-examining of the need and level of their services provided to the taxpayers.

Chapter 5

Preparing the Budget

The most significant task which the board of finance performs is preparation of the annual town budget. The budget sets the pattern for the year's operation of the town government, determines expenditures to be made and services to be provided. Time spent on, and thought given to developing and executing a systematic approach to budget preparation will be directly reflected in the soundness of the town's financial operations.

What Is a Budget?

A budget is "a comprehensive plan, expressed in financial terms, by which and operating program is effective for a given period of time. It includes estimates of: (a) the services, activities, and projects comprising the program; (b) the resultant expenditure requirements; and (c) the resources usable for their support." In setting forth this definition, the Committee on Performance Budgeting and Unit Cost Accounting of the Municipal Finance Officers Association of the U.S. and Canada recognized the widening scope of budget-making. The committee's definition reflects the changing concept of the budget from a financial document which exists primarily to provide financial control to a document which is an aid to planning, policy making, and administration. It also reflects a shift from the idea of a budget as a financial statement made up of expenditure and revenue estimates gathered together shortly before the beginning of the fiscal year to the idea of budgeting as a continuing process which results in a statement of what is to be done with all of the municipality's resources. Thus for this writer, a more descriptive definition of a public budget should be "policy expressed in monetary terms."

A budget has also been analyzed as a process of allocation of scarce resources. If so, what are the various types of budgetary techniques and procedures that have been developed to assist legislative officials in distributing these resources? The following types of budgets have been developed to provide this type of program information:

Types of Budgets

Line Item Budgets. When a budget is conceived of merely as a financial and accounting device, requests for funds are based on a detailed list of objects to be purchased- materials, supplies, equipment- and salaries and wages to be paid. Each department, official, or agency is allocated a specified amount of money to make each of these purchases. This type of budget is the one most often found in Connecticut municipal budgets. The reason is simple: ease of understanding, ease of preparation by the department head, ease of review by the board of finance and ease of understanding by the taxpayers. Requests are usually justified by comparison with past requests for the same items. Review is usually confined to incremental changes in line items over the previous year, usually easily justified in inflationary periods. However, this object of expenditure-type data does not provide information about what services are being provided, the level at which they are performed, or the effect of increases or decreases on the quantity and quality of decreases on the quantity and quality of those services. It is difficult in line item budgeting to make rational decisions as to whether new municipal services should be provided, or whether existing programs should be increased, decreased or eliminated.

Program Budgets. In recent years, the term "program budget" has been adopted to identify the broader concept of the budget as a program planning process. This broader concept focuses attention beyond objects to be purchased, to work to be done and services to be rendered. A program budget is a policy making tool as it analyzes programs of services to be delivered to the citizens of the community. The program budgeting process requires a department, board of commission to identify each program it conducts and the community purpose or needs it serves. The program budget format includes a description of each agency, the services it provides, and the cost of the benefits of various program changes; Because agencies are required to state their objectives, program budgeting creates a basis for departmental accountability.

Performance Budgets. This is an elaboration or extension of program budgeting. It is based on a projection of future budget costs based on units or measurements of work and service costs.

Miles of streets oiled, tons of rubbish collected, and hours worked are all types of performance information. There is a great difficulty however, in identifying work units in all departments and agencies and therefore it is of limited application to governmental agencies.

Planning, Programming, Budgeting, Systems (PPBS). An extension of program budgeting theory is called "planning, programming-budgeting systems" (PPBS). Introduced in the federal department of defense in 1961, PPBS was extended to all federal government agencies in 1965. It is a system aimed at helping management make better decisions on the allocation of resources among alternative ways to attain government objectives. PPBS combines the older concepts of program and performance budgeting with their orientation toward program" rather than object classification into a package which can be applied to total government planning. The significance of PPBS for Connecticut municipalities is the continued emphasis on the programs; but in this case, program broadened to identify fundamental governmental objectives and analysis of various methods of achieving these objectives. This budgeting approach is in active use in state and local government.

Management-By-Objective (MBO). This originated with the private sector following World War II and is currently being espoused at the federal level. It involves setting objectives, tracking progress and evaluating results through participation of management. MBO is said to be more flexible than PPBS since it can be confined to particular agencies on a selective basis. Within an agency, all services and activities are to be systematically appraised. Management is to set specific goals, timetables and strategies to bring about stated objectives. MBO can but need not be involved in the budgetary process.

Zero-Based Budgeting. Zero-based budgeting differs from the traditional incremental approach to budgeting in that it assumes that every activity must be analyzed and justified as if it were being proposed for the first time. In contrast to fragmented incremental budgeting, zero-based budgeting is a comprehensive approach. Each program is challenged for its very existence during every budget year, and no base or minimum funding level is presumed for any activity. Spending is justified from a "zero" base with no reference made to previous spending. Its purpose is to discourage perpetuation of programs which may no longer be valid or have less priority than new programs which may seek funding. The fundamental basis for ZBB is the "decision package" concept. This "decision package" is an analysis of each basic activity, describing the cost-benefit trade-off of alternative levels of funding for each activity. Each "package" includes a description of what will accomplished, how it will be done, and alternatives to present funding levels.

The difficulty with ZBB is that it requires extensive budget staff to completely review each and every program every fiscal year. A more practical approach to ZBB is to apply it to only the major departments.

Purposes of Budgeting

A budget is more than a legal requirement. An understanding of the several objectives of budgeting will insure maximum benefit from all phases of the budgetary process. In the policy area, the budgetary process brings information to the proper level for decision-making. It provides a basis for regular examination and evaluation of the government's purposes and objectives and facilitates evaluation of programs designed to carry out these objectives. The budget process also provides a basis on which policy makers can compare and evaluate the relative roles of government and the private economy. And, finally, the budget document itself is an important source of information for democratic control of governmental activities.

In the administrative area, budgeting serves a second set of purposes. Here, the budget is the instrument through which policy can be implemented legally and efficiently. It provides the legal basis for expenditure of funds and the framework for public accounts. It also makes possible the systematic examination of internal operations from the standpoint of efficiency and economy and facilitates delegation of authority while maintaining central controls.

Budget Calendar

In order to produce a budget document that is ready at the required time and is assembled in an understandable fashion, it is wise to follow a timetable or calendar. The controlling dates in the budget calendar are those required by law; the dates can be filled in from previous experience and practice.

The budget calendar should make provision for:

1. Preparation of estimates by individual departments or agencies;
2. Review of estimates and compilation of the budget by the board of finance;
3. Availability of the proposed budget to interested persons and organizations prior to the public hearing;
4. The public hearing;
5. Revision and publication of the final budget;
6. Adoption of the budget by the town meeting.

The significance of a budget calendar is that it provides for orderly progress through the steps in budget-making; of less significance is the actual time necessary to accomplish the steps. The suggested budget calendar for a small town given here includes the significant steps and provides about three months for completion of the budget. Public Act 91-343 now requires each municipality to submit one copy of its budget to OPM.

Suggested Budget Calendar for a
Board of Finance in a Small Town with
Fiscal Year July 1- June 30

Prior to Feb. 1 Prepare budget request forms and enter prior and current year financial data.

Feb. 1 Issue request forms and budget instructions to town officials.

Feb. 1- Mar. 15 Prepare revenue estimates.

Mar. 15 Completed request forms returned by town officials; receive board of education budget.

Mar. 15 - May 1 Compile and investigate estimates, hold budget discussions with department heads and officials on their requests, prepare final recommendations, prepare budget document and hold public hearing.

Around May 1 Hold public hearing on budget (at least two weeks before annual meeting).

May 8 Revise and publish final budget at least five days before annual budget meeting.

Around May 15 Annual meeting, budget adopted.

May and June Available in case budget is rejected by town meeting or in case of referendum. Submit budget to OPM

Preparing Budget Requests

As the budget calendar indicates, the first step in the annual budget-making process is preparation of budget request forms and issuing these to the officials who will make budget requests. Prior and current year financial data should be entered on the forms before they are issued, along with proper identifying information.

Along with the forms should go a memorandum or letter from the board of finance outlining general budget policy, the financial outlook for the year, general fiscal policy, and an explanation of the budget program. Detailed instructions for completing the forms should also be sent to officials. At this time, it may be helpful to call a meeting of all officials involved. At this meeting forms and written instructions can be distributed and explained and the board can discuss with town officials the financial situation as they see it, major changes in policy anticipated, and new programs to be instituted. Officials can also bring up changes in their activities which will affect general financial policy.

When budget request forms and instructions have been standardized, these may be compiled in a permanent budget manual which is distributed to officials who prepare budget estimates. A budget manual will provide a uniform approach to expenditure and revenue estimating. The following items should be included in a budget manual: explanation of salary and wage policies; methods of completing budget forms; base dates on which estimates are to be made; number of copies of forms and procedure for submitting them; and the complete budget calendar.

Budget Request Forms

Requests for expenditures submitted to the board of finance by town officials are the heart of budget-making. Even in the smallest towns under the most informal procedures, budget requests should be submitted in an orderly manner using standard forms and following uniform instructions. The board of finance must take the initiative in systemizing this phase of the budget process.

Standard budget request forms to be used by each official requesting appropriation of funds must be developed. These forms should include columns for listing of:

1. Actual expenditures for the last complete fiscal year.
2. The current year's appropriations.
3. Expenditures for the current year to date.
4. Estimated expenditures for the balance of year.
5. Requests for the coming year.

The first three columns should be filled in by board of finance before the forms are distributed to other officials, so that this information is uniformly listed from financial records. The budget request forms should also include space, either on the reverse side or on a separate sheet, for a statement of the program to be carried by the requested funds. Where one official is responsible for more than one function or activity of the town government, a separate form should be used for each.

Large towns and cities make use of a number of more detailed budget request forms. These include a form for personnel detail and salary calculations by activities and for individual employees; a personnel summary form by activities and position titles only; and separate forms for detailed budget requests other than personnel by activities and for summary by departments and program explanation.

Estimating Revenues

The board of finance must prepare estimates revenues needed to finance budget requests. Because the property tax is used as a budget-balancing tax in Connecticut, it is customary estimate all other revenues first. The property tax levy is then set to provide the additional revenue needed to balance the budget. The board should have a systematic method of determining revenues from all sources in order to establish trends and make comparisons from year-to-year. Revenues should not be estimated solely on receipts of the previous year.

Development of a systematic approach to revenue estimating incorporating some or all the following devices will provide valuable data each revenue source:

1. An analysis file for each revenue source providing the following information:
    a. legal background and references to ordinances or statutes establishing the revenue source;
    b. copies of pertinent legislation;
    c. schedule of rates applied;
    d. list of factors which influence revenue yield.
2. Data sheet of collections by months and total by years.
3. Percentage calculations of trends in collections by month and year to indicate seasonal fluctuations.
4. Information on local economic conditions and trends which affect tax yields.

The board of finance should be responsible for continuing investigation of possible additional sources of income. It should make certain the town is taking full advantage of federal and state grants available for special programs. Rates of service charges should be periodically reviewed so that they are kept in line with fluctuations in costs. Changes in state policies and programs which affect local receipts should be carefully analyzed and incorporated into revenue estimates.

Reviewing Budget Requests

In reviewing budget requests in preparation for filing the final budget, the factors which determine operating costs should be kept in mind. These factors should be related to each activity performed and may be grouped into five categories:

1. The scope and quality of services provided.
2. The volume of work required to render the methods, facilities, and organization for performing the work.
3. Qualities and types of labor, material, equipment, and other cost elements required by the work volume.
4. Price levels of the various cost elements,

Expenditure requests must be compiled into a comprehensive operating plan for all municipal services, and this plan balanced against the town's ability to finance it. Activities must be evaluated, and the feasibility of expanding old activities or adding new ones has to be determined. The long-range implications of proposed expenditures must be considered. Because they constitute the largest single cost element, particular attention must be given to all personnel items. It must be determined whether the requests include consideration of fluctuations in price levels of materials, supplies, equipment, and contractual services as well as salaries and wages. Capital outlay requests must be evaluated against the long-range capital improvement program.

The Budget Document

This is the final budget as compiled by the board of finance for submission to the legislative body. It should be a clear statement of work to be performed and the financial program needed to accomplish it. The budget should be divided into four major sections: the budget message, summaries of requested expenditures and estimated revenue, detailed data on expenditure and revenue estimates, and a summary of the board of education's budget. An additional section may contain detail of the year's portion of the long-range capital improvement program.

Budget Message. The budget message provides the opportunity to convey the entire financial picture for the year and to indicate major changes in programs, expenditures, and revenues. It should indicate changes in level of expenditures, work programs, costs, revenues, and financial trends. The budget message may also mention changes made during the year in the prior year's budget and how these affect the recommended budget. Here again, emphasis is on programs, on work done and work to be done, not on items to be purchased. The budget message is a significant tool in putting across the concept of program planning in the budget.

Summaries of Revenues and Expenditures. These two summaries will receive the primary attention at budget hearings and town meetings. The summary of expenditures should show total expenditures by departments and functions comparing the proposed budget with two prior years. The revenue summary will show revenues for two prior years compared with estimated income for the coming year for each revenue source.

Detailed Budget Estimates. In this section of the budget expenditure requests and program descriptions are given for each department and activity in greater detail. The degree of detail may vary considerably, but in general it will show the activity total broken down to show salaries and wages in total and by position, expenses in total and by major items, and capital outlays by total and by items. An important part of this section is the program description for each activity indicating the work performed, number of personnel involved, and the major items of expense.

Board of Education Budget. The budget which is the responsibility of the board of finance to compile in toto is frequently described as the "selectmen's budget"; this is a budget for all operations of the town government except the schools. The board of education is responsible for preparing the school budget and submitting it to the board of finance. After the school budget is reviewed by the board of finance, the total amount recommended is added to the selectmen's budget and appears in the expenditure summary as a total figure only. The detail of the school budget should be included as a part of the detailed presentation in the same form as the "selectmen's budget."

Chapter 6

Municipal Accounting

Funds budgeted in advance are subsequently accounted for as obligated and spent. Accounting records financial information so that it can be used as a tool of municipal management, to prevent waste and inefficiency, as a check on the fidelity of persons responsible for municipal funds, and as a means of providing information on the municipality's financial condition and operations.

The board of finance in towns operating under the general statutes is responsible for the method which, and the place where, all records and books of account of the town are kept (S.7-344). This chapter will outline briefly general principles and procedures of municipal accounting. The Governmental Accounting Standards Board has published detailed guides to municipal accounting which should be followed closely in day-to-day procedures.{6}

Accounting Principles

Governmental accounting exists for the purpose of providing complete and accurate financial information to persons responsible for and concerned with operations of governmental units and agencies to aid in evaluation of past performance and in planning future operations. It must be available to those bodies which must authorize expenditures of public funds. Financial data is also of interest to persons outside the formal governmental organization – to the public, to financial institutions that may invest in governmental securities, to other governmental units, to researchers and students of government operations.

Compliance with Legal Provisions. The municipal accounting system must show compliance with all legal requirements relating to the government's financial operations. Legal requirements may have their origin in the state constitution, state statutes, regulations of state agencies, town or city charter, local ordinances and other legislative body enactments, and the annual budget. The accounting system must be adapted to meet these legal requirements. In the event of conflict between legal provisions and accepted governmental accounting principles, legal provisions take precedence.

Disclosure of Financial Operations. The municipal accounting system must provide comprehensive data on the financial operations of the government and must disclose fully the financial position of all funds and account groups of the municipality. This information is needed by the municipal administration, by the legislative body, and by the public in their evaluations of governmental activities. In addition to fund and account group balance sheets to show the financial position of each and of the total government, data must be available to show the sources and amounts of revenue, purposes and amounts of expenditures, and the relationship between revenues and expenditures during the fiscal period.

Budgetary Accounting. The accounting system should provide the means of obtaining budgetary control over general governmental revenues and expenditures. The basis for this control is the annual operating budget. The Governmental Accounting Standards Board, (GASB) recommends that the annual budget be prepared on a modified, accrual basis. Thus, as a general rule, general revenues should be recorded in the budget according to the period when they are earned or for which they are levied and general expenditures should be budgeted on the basis of liabilities expected to be incurred during the fiscal year. This method allocates expenditures to the time period in which the benefits from them are received. The committee recommends a system of revenue and expenditure accounts to be used in budgetary accounting.

Fund Accounting. The municipal accounting system should be operated on a fund basis. A fund is defined as /I an independent fiscal and accounting entity with a self-balancing set of accounts recording cash and/ or other resources together with all related liabilities, obligations, reserves, and equities which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations." Each Fund must be accounted for in such a way that the identity of its resources, obligations, revenues, expenditures, and fund equities is continually maintained. These purposes are accomplished by providing a complete self-balancing set of accounts for each fund showing its assets, liabilities, reserves, fund balances. or retained earnings, revenues and expenditures.

Types of Funds. Funds are established in accordance with legal requirements of state statutes, the municipal charter, or ordinances or for administrative purposes. Governmental Accounting Standards Board, (GASB) recommends that the following types of funds be used by governmental units:

1. General Fund to account for all financial transactions not accounted for in any other fund.
2. Special Revenue Funds to account for the proceeds of specific revenue sources (except special assessments), or to finance specific activities as required by law or administrative regulation.

3. Debt Service Funds to account for payment of interest and principal on long-term debt except special assessment and revenue bonds.
4. Capital Projects Funds to account for receipts and disbursements used to acquire capital facilities other than those financed by special assessment and enterprise funds.
5. Enterprise Funds to account for financing of services paid entirely or in large part by user charges.
6. Trust and Agency Funds to account for assets held by a governmental unit as trustee or agent for individuals, private organizations, and other governmental units.
7. Internal Service Funds to account for financing of special activities and services performed by a designated organization unit for other units within the same jurisdiction.

Number of Funds. Only funds necessary to meet legal requirements and sound financial practice should be established. Unnecessary funds lead to inflexibility, undue complexity and added costs in financial administration. Most municipalities will find it necessary to use only a few of the funds recommended above.

Fund Accounts. A complete set of self-balancing accounts should be maintained for each fund. Each should include general ledger and subsidiary accounts necessary to meet legal requirements and show the financial position of each fund. In each, current assets and liabilities should be distinguished from fixed assets and liabilities.

Valuation of Fixed Assets and Depreciation. Fixed asset accounts should be maintained on the basis of original cost, or if unavailable, on the basis of estimated cost, or in the case of gifts, the appraised value at the time received. Depreciation of general fixed assets should not be recorded in the general accounting records. No useful purpose is served by recording depreciation as an expense in governmental accounting because governmental units are not faced with the same requirements for profit and loss determination as are privately-owned enterprises.

Basis of Accounting. The basis of accounting relates to the time when revenues and expenditures are recorded. The possible bases range from a simple cash basis to a full accrual basis. Under a simple cash system revenues are recorded when they are actually received and expenditures are recorded when they are actually paid out in cash. Under a full accrual system revenues are recorded as income when they become due and expenditures are recorded when the obligation is initially incurred. For example, under a full accrual system taxes are considered income when they are billed; under a simple cash basis taxes are not recorded as income until they are paid. Some form of accrual accounting is recommended for government units because it provides the most accurate relationship within a specific fiscal period between revenues, expenditures of revenues, and the receipt of benefits from these outlays.

In actual practice, full accrual accounting is not used by governments. Some revenues, such license fees, are not billed and consequently are recorded when paid. Some expenses, such as accrued interest on long-term debt, are not recorded when incurred. Governmental Accounting Standards Board recommends a modified accrual basis whereby all expenditures, except interest on long-term debt, are recorded at the time liabilities are incurred and property taxes, charges for current services, and grants from other governments are accrued when levied or authorized. Under this basis fines, forfeitures, and license fees are accrued when received.

Common Terminology and Classification of Accounts. Common terminology should be used throughout the municipal budget, accounts and financial reports. Common terminology provides control and coordination for the entire accounting system and facilitates preparation of financial reports. An integral part of common terminology is a uniform or standard classification of accounts. Uniform classification permits comparisons between funds, between operating units within the municipality, and with other municipalities.

Financial Reporting. Financial statements and reports of the current condition of budgetary and proprietary accounts should be prepared periodically to control financial operations. A comprehensive financial report covering all funds and financial operations of the municipality should be prepared and published at the close of the fiscal year. Statements required for adequate reporting of municipal finances are: balance sheets; statements analyzing changes in fund balances; and operating statements. Financial statements are amplified and supported by schedules. Financial statements and schedules are prepared directly from the accounts for the fiscal period being reported. A financial report may also contain statistical tables which cover a longer period and which are not directly related to the accounting records; these may include analyses of assessed valuations and tax rates over a period of years, economic and population data, and a statement of the legal debt limit.

The Connecticut State Legislature mandated that after June 30, 1978, all municipal financial reports prepared by an independent public accountant must be prepared in accordance with the principles of standards related to accounting, auditing and financial reporting as detailed in national guidelines. See section on review of municipal financial reports in Chapter 3, Powers and Duties of Boards of Finance.

Financial Statements

Financial statements are prepared directly from the accounts, ordinarily contain only data taken from the accounts, and usually cover a period of one or two fiscal years. The primary purpose of financial statements is to show that legal provisions have been complied with and that all funds have been properly accounted for.

Balance Sheets. A municipal balance sheet is a statement showing the municipality's financial condition at a particular time. It is a list of assets, compared with liabilities, reserves, and surplus, prepared for each fund or group of related funds. The principal assets of the General Fund are cash, taxes receivable, and inventories of supplies; other assets may be amounts receivable from other funds, tax liens receivable, and temporary investments. Liabilities of the General Fund are vouchers payable, accounts payable, and amounts due other funds. The excess of assets over liabilities represents the fund balance; reserves must be deducted from this balance to obtain the unappropriated fund balance. The unappropriated balance represents the amount which has not been set aside for any particular purpose and so is available for appropriation. In effect, it indicates the extent to which surplus can be used to reduce next year's taxes. If liabilities exceed assets and a deficit is shown, this amount must be raised in the following year to meet the deficit.

Only assets of the General Fund which can be converted into cash within a reasonable time are listed on the balance sheet; general fixed assets-land, buildings, and equipment are excluded. Similarly, on the liability side, general bonds, except matured bonds and interest provision for which is made in the current budget, are excluded. These are excluded because the purpose of the balance sheet is to show the current financial condition of the fund.

Balance sheets for other funds are prepared in much the same way as the General Fund balance sheet. However, the special nature of certain funds requires inclusion of different types of information. Discussion of these peculiarities can be found in Governmental Accounting, Auditing and Financial Reporting, 1988 edition.

A statement analyzing the changes in unappropriated balance of each fund and derived from the balance sheet reflects the result of the municipality's operations for the year. This statement compares the budget with actual operations and shows changes in the unappropriated balance account resulting from operations.

Operating Statements. Operating statements show changes in financial condition. For the General Fund, statements comparing actual revenues with estimated revenues will reveal the accuracy with which estimates have been made. A statement comparing authorizations with actual expenditures and encumbrances shows which departments or agencies have stayed within appropriations and identifies unexpended and unencumbered balances. The nature of special funds requires some different operating statements which will reveal the financial condition of these funds more accurately than will those prepared for the General Fund.

Accounting Records

Recording a financial transaction consists of:

1. Journalizing-analyzing the transaction to determine the accounts to which it is to be posted.
2. The actual posting of these transactions.

The records involved in the first process are original documents and books of original entry; accounts are posted, in the second process, in books known as ledgers or, in machine bookkeeping, on ledger sheets.

Original Documents. The original documents of accounting transactions include invoices, purchase orders, vouchers, tax bills, tax receipts i.e., the original written evidence that a financial transaction has taken place. These documents will show the date of transaction, authority for it, amount involved, and accounts to which it is be posted. While it is possible to enter directly from the documents to the accounts, transactions are usually first recorded in books of original entry.

Books of Original Entry. Books of original entry provide full information about each transaction in concise and permanent form and it possible to summarize transactions and post totals to accounts. The number of specialized books of original entry which a municipality needs depends on the volume of transactions and the extent to which summarization is possible. Any or all of the following books may be useful:

1. General Journal
2. Cash Receipts Register
3. Voucher Register
4. Payroll Register
5. Bond and Interest Register

Ledgers. Accounts are posted to appropriate accounts in the General Ledger and in subsidiary ledgers. The General Ledger is the heart of the accounting system and controls all other records. Subsidiary ledgers give more detail about the principal accounts in the General Ledger. The number of subsidiary ledgers used depends on the number of principal accounts about which is needed. These may include:

1. Revenue Ledger
2. Appropriation Expenditure Ledger
3. Tax Rolls
4. Individual Unit Tax Ledger
5. Special Assessment Ledger
6. Bonded Debt and Interest Payable Ledgers
7. Property Ledger

Classification of Accounts

An accounting system is built around a classification of accounts. Account classification makes it possible to get information needed for administrative and reporting purposes in the quickest, clearest, and most economical manner. It also makes possible a showing of financial data in a number of different ways.

The Governmental Accounting Standards Board has prepared a standard classification of municipal accounts which it recommends for use by al municipalities. The standard classification covers all accounts commonly found in a municipal accounting system and can be adapted for use by any municipality. In adapting a standard classification to a particular municipality, the balance sheet accounts and the revenue accounts which are used should be kept in the same order that they appear in the standard classification; only the expenditure classification should be varied. An account should be set up for each activity performed by each agency. Where activities are performed by agencies other than those indicated in the standard classification; for example, if garbage collection is an activity of the health department rather than the sanitation department, the account titles should remain the same regardless of the agency which performs the activity. Accounts for each fund should be selected from the standard classification as they apply to each fund.

Classification by Funds. The primary classification of accounts is by funds; a separate group of accounts must be provided for each fund. Other classifications are regroupings of the accounts for each fund. Thus, the accounts in each fund maybe further classified into budgetary and proprietary accounts, balance sheet accounts, and revenue and expenditure accounts.

Budgetary and Proprietary Accounts. Budgetary accounts show budgetary operations and condition; proprietary accounts show financial operations and condition. The National Committee on Governmental Accounting recommends that budgetary and proprietary operations be reflected in a single group of accounts. In this way, for example, actual expenditures for a period and their relationship to appropriations can be shown in one expenditure account.

Balance Sheet Accounts. Balance sheet accounts show the financial status of each fund and may be classified into accounts for resources, obligations, and surplus. Resources are actual assets owned by the municipality - cash, taxes receivable, land, buildings, etc. - plus items expected to become assets. Asset accounts may be classified as current, non-current, and fixed assets. Obligations are actual liabilities, such as vouchers payable, and expected liabilities, such as appropriations and reserves for encumbrances. Surplus is the excess of assets over liabilities or, where anticipated assets and liabilities are included, the excess of resources over obligations.

Classification of Revenues and Expenditures. Revenue and expenditure accounts reflect changes in financial condition of a fund. Revenues are increases in ownership which do not decrease other assets or increase liabilities. Expenditures are charges which presumably benefit only the current fiscal period.

The primary classification of revenues is by source. The important classifications of expenditures are by function, activity, organization unit, character, and object. Each function consists of a group of activities and refers to the purpose to be accomplished by the expenditure. General government, public safety, streets and highways, sanitation, health, public welfare, and recreation are examples of functions. Activity refers to the specific type of work to be performed in carrying out a function. Street lighting, for example, is an activity under the function of highways. The account for a function is the total of accounts for activities included in that function.

Classification by organization unit indicates the department or departments which carry on an activity. A separate account should be set up for each activity carried on by each organization unit. Classification of expenditures by character indicates the fiscal period which the expenditures are presumed to benefit. The principal character classes are current expenses, capital outlays, and debt redemption.

A further classification of expenditures is by objects, that is, according to articles purchased or services rendered. A suggested classification by object would be:

1. Personal services (salaries and wages).
2. Contractual services (expenses for services resulting from a contract, such as heat, light, and power).
3. Commodities (expenses for supplies and materials used or purchased such as clothing, food, motor fuels, and office supplies).
4. Other charges such as interest on bonds and notes, judgments, and pension contributions.

Records Retention. Any municipal official, with the approval of the first selectman or mayor and the public records administrator, may destroy any public document relating to a matter already disposed of, and for which no record is required by law to be kept, after the document has been held for a period of time specified in the retention schedule published by the public records administrator (S.7-109). The tax collector may also destroy, with like approval, any duplicate record receipt book, duplicate tax receipts or rate bills, at a time specified by the public records administrator. The provisions of Section 12-151 requiring the retention of duplicate tax receipts as permanent records does not apply to receipts destroyed under this section.

Any municipality may destroy or provide the destruction of any of its bonds, notes or bond coupons after they have been paid and canceled. This destruction, by burning or otherwise, may be performed by the treasurer of the town or by any bank or trust company as long as a certificate of such destruction is properly witnessed and kept on file with the town clerk (S.7-377a).

Footnote

{6} National Committee on Governmental Accounting, *Governmental Accounting, Auditing, and Financial Reporting*. Chicago, Municipal Finance Officers Association of U.S. and Canada. 1968 pages 1-2

Chapter 7

Long-Range Financial Planning•

Long-range financial planning is the protection over a multi-year period of a program of public services, expansion of physical facilities, and the means of financing both. A long-range financial plan includes estimates of a municipality's expenditures for public services and for capital improvements, together with estimates of revenue from taxes, borrowing, and other sources that will be needed to finance these expenditures. The long-range financial plan of a municipal government is closely related to the comprehensive town plan. While a comprehensive town plan provides for the physical development of the entire community in an orderly and predetermined way, a long-range financial plan provides the program for meeting the municipal government's obligations in regard to that development.

Because financial planning related to a comprehensive plan is a relatively new concept in municipal government, no single procedure for developing a long-range financial plan has become generally accepted.

The procedure which is suggested here follows the recommendations set forth in Local Planning Administration and Principles and Practice of Urban Planning, both published by the International City Management Association. Furthermore no common terminology has been developed; certain terms will be defined and used precisely in the following discussion even though in regular usage they are often used interchangeably.

Components of a Financial Plan

To be truly comprehensive a long-range financial plan must be based on:

1. A program of operating and maintenance expenditures for public services.
2. A capital improvement program based on the comprehensive town plan.
3. A comprehensive revenue program.

Once the financial plan has been formulated, it is carried out with the aid of two administrative devices: a six-year capital budget, and the annual operating budget.

Public Services Program. In the context of long-range financial planning, the public service program is a projection of the annual operating budget in which the government identifies the standards of public service it desires in the future and the cost factors involved in each service. For example, a long-range public service program attempts to determine for the next twenty years the scope of a municipal recreation program, what kind of fire protection will be provided, and how large a police force will be needed.

Capital Improvement Program. The long-range capital improvement program is a comprehensive list of projects and facilities needed to carry out the public service program. Capital improvement refers to the initial construction or acquisition of, and future additions to, the physical facilities required by the municipality to render public services. Examples of capital improvements are parks, parking lots, playgrounds, sewer plants, schools, public buildings, and street lighting systems.

The public service program and capital improvement program are inextricably woven together. The answer to the question, "What kind of fire protection will we need?" includes acquisition of the physical facilities - new stations, new equipment - and continued maintenance and operation of these facilities after they are acquired.

Revenue Program. The long-range revenue program relates the expenditure requirements of the public service program and capital improvement program to the possible means of financing them and to the future revenue outlook. Financial resources - taxes, borrowing, and other revenue sources - are balanced against the proposed services and physical facilities needed to meet this level of services. A long-range financial plan means nothing unless it is reduced to a specific program which can be put into operation on a continuing basis.

A long-range plan may cover as much as a twenty-year period; it is impossible to be precise about such a long period, nor is it necessary. A long-range plan provides the basis for more specific budgets which are the administrative tools for effectuating the plan.

Capital Budget. The capital budget sets up a specific five-year program for the most immediate portions of the capital improvement program. There is no magic number of years to be covered by a capital budget; however, experience has indicated that five years is a reasonable period.

Annual Budget. The annual operating budget of the municipality is the specific implementation on a yearly basis of the comprehensive financial program for public services and capital improvements. The actual authorization for capital improvements, along with operating and maintenance expenditures, is accomplished by adoption of the annual budget and appropriation ordinance.

Responsibility for Long-Range

Financial Planning

Long-range financial planning goes hand-in-hand with budgeting. When completely developed, a long-range financial plan compliments the annual operating budget. Through the annual operating budget the board of finance ultimately recommends a plan of public services to be provided, capital improvements to be built each year, and revenues to pay for these. The role of the board of finance in Connecticut towns is unique in this respect; under other forms of municipal government the chief executive - the mayor or manager - has final responsibility for preparation of the budget and, thus, for making recommendations for service programs to be carried out.

There is no one organizational arrangement which is ideal for accomplishing financial planning. Ultimate responsibility for preparation of the annual budget and capital budget rests with the board of finance as the municipality's budget-making authority. However, financial planning must be based on a comprehensive town plan which is the responsibility of the planning commission. It has been suggested that the first three phases of long-range financial planning (the public service, capital improvement, and long-range revenue programs) be considered primarily the responsibility of the planning agency, with counsel and technical assistance from the finance board or department especially in the area of long-range revenue estimating. The capital budget must be a cooperative effort of the planning agency and board of finance with the board of finance responsible for final expenditure and revenue estimates. Because organizational details for accomplishing a financial plan must in the final analysis be worked out in each municipality, it will be helpful to provide the legal framework in a resolution passed by the legislative body. This resolution, passed by the legislative body, should define the responsibilities of the board of finance, planning commission, other officials and departments, and the chief executive.

Public Services Program

There is some tendency to think of a capital improvement program and a capital budget as the primary targets of long-range financial planning. These cannot be separated from the public service program. The capital improvements needed are directly related to the level of services to be maintained, and the cost of operating and maintaining improvements must be budgeted annually.

Programming of public services involves:

1. Identifying the objectives of each governmental activity
2. Measuring the magnitude of services needed to meet these objectives
3. Determining the level of services to be provided
4. Identifying the cost factors and expression of the program in these terms

In setting forth a comprehensive list of aims and purposes of each activity, some objectives are easily identified and related to the program for carrying them out; other objectives are more intangible and more difficult to define in program terms. The magnitude of services needed to meet objectives is related to population and its characteristics, to the economy of the community, to the land use pattern, to the rate and type of growth, and to the level of services to be provided. The level of service to be provided is the answer to the questions, "What does the town want, what standard of services are citizens willing and able to support?" To translate the level of services into financial terms the factors which determine costs of each service must be identified and related to the service standards established.

Capital Improvement Program

The town's capital improvement program is based on the comprehensive plan and involves establishment of priorities for capital projects to be undertaken by the government. A capital improvement is a major, nonrecurring improvement in the physical plant of a municipality as differentiated from ordinary repairs or maintenance of a recurring nature. A long-range capital improvement program becomes more meaningful when reduced to a five-year capital budget.

The purpose of a capital improvement program is to list, in order of construction priority, all future capital improvements suggested by the comprehensive plan and the public services program. This listing should be as complete and as long-range as possible. The fact that a long-range program has to be amended continuously as needs change and emergencies develop is not an excuse for programming only short-range projects which can be completed in a few years' time.

In establishing priorities for projects the following factors should be considered: projects included in the master plan and public services program; projects already started or pledged; projects which provide more advantageous use of existing improvements; projects to eliminate hazards; and projects to conserve existing property and resources. Certain projects may have to be deferred. These should be listed and the reasons for deferral given. Future developments may make their inclusion possible.

Programming over a twenty-year period permits projects to be grouped into three categories - the first five years with projects arranged specifically in order of priorities for each year; the second five years with projects listed on tentative order of priori ties for each year; and the last ten years with the projects temporarily outlined but not given a priority schedule. The final capital improvement program covering a twenty-year period will then consist of four parts:

1. A specific program for the next year to be included in the annual budget and based on at least preliminary engineering or architectural designs.
2. Less-detailed programs in the capital budget for the second, third, fourth, and fifth years with project descriptions, tentative cost estimates and priority schedule.
3. General program for the following five years describing projects with approximate cost estimates and indicating priorities of projects but not scheduling them by specified years.
4. Balance of projects for construction during the remaining years, grouped in preliminary priority, but not by years.

A capital improvement program must be comprehensive and flexible. All desirable projects must be listed and priorities established to permit shifting of projects with changing needs and finances. Capital improvement programming is a continuing process subject to regular review and alteration. Each year another year should be added so that the program always covers a twenty-year period. The most important aspect of the capital improvement program remains the program for the first five years.

Long-Range Revenue Program

The long-range revenue program involves projection of existing fiscal policies, exploration of alternative fiscal policies, selection of a general fiscal policy based on these studies, and determination of the amount of funds which will be available in the future for general operations

and for capital improvements. Current operations must be financed out of current revenues only. The long-range revenue program establishes the means of financing both current operations and capital improvements out of available funds.

The large expenditures contemplated in a capital improvement program may be financed by:

1. Payments out of current funds or pay-as-you-go financing.
2. Issuing bonds or notes or long-term borrowing.
3. Creation of a capital reserve fund in advance of expenditure.

The value of a long-range revenue program is not to decide arbitrarily between these methods but to determine how each can be used most advantageously to accomplish the capital improvement program and maintain sound financial policies.

Pay-as-you-go financing is most feasible for financing capital improvements which are recurrent as to purpose or amount. The goal of pay-as-you-go financing is for apportion capital rojects to be paid for from current revenues, and to maintain a relatively constant level of capital expenditures from year to year. The obvious advantage of pay-as-you-go financing is the elimination of the cost of borrowing. However, it requires extreme care in scheduling of projects to maintain expenditures on a relatively stable level to insure meeting of capital project obligations from current revenue.

Connecticut statutes allow a slight variation in pay-as-you-go financing which may be used to advantage when projects are not numerous or very costly. When a non-recurring expenditure, i.e. an expenditure for which an appropriation was not made in any of the last three fiscal years, would be so large if made in anyone year as to be inconsistent with the public welfare, the board of finance may apportion the tax for this expenditure over a period of not more than five years. The amount apportioned then becomes a fixed charge in the budget until the total amount of the expenditure is paid (S.7-346).

Issuance of bonds to finance capital improvements should be limited to large projects which will not be replaced for many years - a town hall, or sewage plant - or to projects which can be paid for from service charges. Long-term borrowing must be based on burden of the debt. Most Connecticut towns and cities borrow to construct new schools even though schools are a constantly recurring outlay in most towns. If the recurring nature of school construction is recognized, careful scheduling and conversion of as much of this expenditure to pay-as-you-go financing will relieve the cost of this borrowing considerably.

Accumulation of reserve funds to finance capital improvements as provided for in Chapter 108 of the General Statutes has a particular advantage for small Connecticut towns. The purpose of long-range financial planning and, specifically, revenue planning is to maintain as nearly constant a level of expenditures as possible. However, it may not be possible to schedule projects to maintain this constant level. Accumulating at least a portion of the cost of future projects in a reserve fund will help to stabilize expenditures in those years when no capital outlays are made and will allow costs to be apportioned over a period of years. In using reserve funds in this way necessary precautions should be taken to ensure that the funds will be expended in the future as has been planned.

The Capital Budget

The capital budget is a specific program of capital projects to be undertaken and the method of financing them. It is the implementation of the long-range capital improvement program and the setting forth of definite plans to be undertaken and completed in a specific period of time. Capital budgeting is a continuing process, but experience has indicated that five years is the most effective period for presentation of a specific program. Therefore, a revised schedule covering a five-year period is prepared annually to coincide with presentation of the annual budget and the first year of this program is incorporated into the annual budget. Each year another year is added to the schedule, revisions made in projects already scheduled, and completed projects dropped. The capital budget will carry projects to be financed out of current revenue and projects to be financed by long-term borrowing. The capital budget does not carry appropriations or bonding authorizations; therefore, the amounts to be paid from current revenue and authorization to issue bonds must be incorporated in the annual operating budget.

Capital improvement budgeting of this type results in:

1. A well-surrounded program relating the urgency of projects one to another.
2. A more stable tax rate.
3. Coordination of increased operating costs of new projects with the annual budget.
4. Regular review by officials and citizens of financial and service needs.
5. Greater assurance that projects will be undertaken in order of need.
6. More accurate forecasting of revenue needs.

A capital budget must balance needed projects against financial ability to meet these needs. A list of projects which contemplates expenditures far beyond the town's financial resources is useless; so is a program which contemplates that the town cannot afford any of its needs. A manual for preparation of a capital budget is Capital Programming and Capital Budgeting published by the Municipal Finance Officers Association of the United States and Canada. All the material necessary for preparation of a capital budget is included in this manual. The procedure recommended contemplates complete analysis of past and present finance, collection of data on projects from departments and agencies of the government and compilation of a capital improvement schedule and proposed financing, projection of finances, including the effect of capital projects, and a method of presenting the capital budget.

The Annual Operating Budget

Procedures for preparing the annual operating budget for the town have been discussed previously. However, this budget's relationship to long-range financial planning should be emphasized. Ideally, the annual budget derives directly from the long-range plan, expressing in concrete terms the first year of the long-range projections. Development of capital improvement programming and capital budgeting requires estimates of operating expenditures for the same period, so that all phases of financial planning become closely interrelated. Out of this comprehensive planning comes an annual operating budget that reflects all current expenditures accurately.

Chapter 8

Borrowing and Debt Administration

Municipalities usually engage in two types of borrowing, long-term and short-term. Long-term borrowing involves the issuing of bonds to finance projects which cannot be paid for from current revenue. Short-term borrowing in the form of notes for periods of one year or less, may be necessary to acquire funds in anticipation of taxes, for operating emergencies not budgeted for, or in anticipation of issuing bonds.

Long-Term Borrowing

The ability to spread large and unusual expenditures over a long period by borrowing is a valuable governmental asset when used cautiously and prudently. However, injudicious use of the borrowing power may result in excessive cost of projects and exhausting of credit. Legal restrictions imposed on towns alone are not sufficient to insure good credit and economical borrowing; they are not a substitute for local responsibility for sound debt policy. Several factors influence debt policy; i.e., the justifiable purposes of borrowing, limitations on the amount of borrowing, choice of debt form, and the length of loans.

Purposes of Borrowing. Sound debt policy dictates that only certain types of projects be financed by borrowing. Self-supporting enterprises may justifiably be financed by borrowing, provided the debt is amortized before the project becomes obsolete. Borrowing is justified for projects which are large and costly, which are not frequently recurring, and which have long utility. Again, payment should not exceed the useful life of the project. Extensive expenditures, occasioned by such emergencies as natural disasters, may have to be spread over a long period. Capital expenditures, which are steadily recurrent, should be met from current funds. Equipment replacement and routine extension and reconstruction of facilities, particularly short-lived items, are examples of the type of expenditure for which there should be no borrowing.

Limitations of Borrowing. A town's borrowing is limited by the statutory restriction imposed by the state and, within that restriction, by the town's ability, both currently and in the future, to meet operating expenses and pay for capital expenditures. A town, and the municipalities coterminous with or within it, may not incur bonded indebtedness in any of the following classes which will cause the total indebtedness in that class to exceed:

1. All debt other than debt for urban renewal projects, sewers, and school building projects as defined in Section 10-289, 2 1/4 times their annual receipts from taxation for the most recent fiscal year next preceding the date of issue.
2. Debt for urban renewal projects, 3 1/4 times annual tax receipts (urban renewal project includes any project authorized under Title 8, the bonds for which are not otherwise, by general statute or special act, excluded from the computation of aggregate indebtedness of borrowing capacity).
3. Debt for sewers, 3 1/4 times annual tax'
4. Debt for school building projects as defined in Section 10-289, 4 1/2 times annual tax receipts.
5. Total debt including classes (1),(2),(3), and (4) above, 7 times annual tax receipts (S.7-374) (S.12-24C).

In computing annual receipts from taxation the following shall be included as receipts: interest, penalties, late payment of taxes, and payments made by the state to the town and other municipalities within its boundaries under sections 12- 24a and 12-129d (S.7-374). In computing aggregate indebtedness the following are excluded:

1. Bonds, notes and other intangible assets placed in the sinking funds of the town and its municipalities (S.7-374).

2. Bonds, notes or other evidences of indebted ness issued in anticipation of taxes (S.7-374).
3. Bonds; notes or other evidences of indebted ness issued for the supply of water, gas, or electricity, for the construction of subways for cables, wires, and pipes, for construction of underground conduits for cables, wires, and pipes, and for two or more of such purposes (S.7-374).
4. Bonds, notes or other evidences of indebtedness issued in anticipation of the receipt of proceeds from assessments levied on property benefited by any public improvements (S.7-374).
5. Bonds, notes or other evidences of indebtedness issued in anticipation of the receipt of proceeds from any state or federal grant for which the town or municipality has received a written commitment or from a contract with the state, a state agency or another municipality providing for the reimbursement of capital costs but only to the extent such indebtedness can be paid from such proceeds (S.7-374).
6. Revenue bonds not bearing the full faith and credit of the municipality when issued by a municipal housing authority (S.8-52) and revenue bonds to be retired solely by sewer system uses charges when issued to acquire, construct and operate a sewerage system (S.7-265).
7. Bonds issued to finance conversion to the uniform fiscal year (S.7-384).

Nothing in Section 7-374 may operate to reduce the debt limit of any town or municipality below that in effect on June 27, 1963 (S.7-374a).

Sound debt policy dictates that a realistic limit, somewhere below the statutory limitation, be determined. Debt-paying capacity must be gauged by the amount and quantity of a community's resources, and by its ability to draw on these resources for payment. The statutory limitation suggests one measure of debt-paying capacity, ratio of debt to average annual tax receipts. Another measure is per capita debt. Any measure of debt-paying capacity, however, must be used in conjunction with other data about community resources and in comparison with other cities of similar size and type.

Choice of Debt Forms. The usual method of long-term borrowing used by governments is the issuing of bonds. Connecticut law requires that bonds sold by municipalities must be serial bonds maturing in substantially annual or semi-annual installments of principal and interest which shall be substantially equal, or in annual installments of principal which shall be so arranged that no principal installment shall exceed by more than fifty percent the amount of any prior installment.

Bonds may be general obligation bonds, special assessment bonds, or revenue bonds. General obligation bonds bear the full faith and credit of the issuing government and must ultimately be redeemed from general fund revenue. Special assessment bonds are issued against funds to be collected by special charges lined against the property owners, who receive special benefit from improvements. Revenue bonds are issued to finance income-producing enterprises and are paid, both principal and interest, from the earnings of the enterprise. There are also two types of serial bonds. One type of serial bond provides for equal annual payments of principal, so that total interest and principal payments decline as the debt is paid. The other type provides for equal annual payments of interest and principal combined, so that retirement of principal is less in the early years when interest payments are highest. The first type of serial bonds is the one commonly used by Connecticut municipalities, since the general statutes require that bonds must mature in substantially equal installments. However, under Section 7-263, bonds issued for sewer construction are not so restricted.

The choice of the type of bonds to be issued depends upon the town's debt structure, and the type of improvements being financed. General obligation borrowing should be carefully scheduled to avoid erratic fluctuations in the amount budgeted, and to provide that annual debt service charges for each issue will decrease steadily to allow for later borrowing without pyramiding debt service costs.

Length of Loans. With a minor exception, in connection with sewer bonds, Connecticut municipalities may not issue general obligation bonds for longer than a twenty-year period. Payments must begin not later than three years from the date of issue (S.7-371); (S.7-263). Section 7-378a allows municipalities to renew temporary bond anticipation notes for as much as four years under certain specified conditions. Bonds for certain revenue-producing projects may be issued for a twenty-five or thirty-year term (S.7-206; S.7-217; S.7-256; S.7-263).

Issuing Bonds. Boards of finance must take an active interest in any discussion of issuance of bonds. Ultimately bonds must be redeemed from funds which are a part of subsequent annual budgets and hence will indirectly affect future town financial actions.

If, after careful study by the board of finance and other town officers, it is determined that bonds should be issued to finance a capital project, several financial statements, reports, and records will be needed. These include:

1. A statement of redemption requirements of outstanding issues.
2. A record of the town's tax collections for the last five to ten years, showing amounts and percentages.
3. An estimate of the town's annual budget for the next several years, with payments to be made to redeem bonds, as well as interest charges, included.
4. A statement of debt limitations affecting the town because of statutory provisions.
5. A comparison of past, present, and expected tax rates; usually five to ten years.
6. A short sketch of the town's growth - financia1, physical, and economic.

Much confusion can be avoided in issuing bonds if professional assistance is obtained at each step in the process. If the improvements are dependent upon engineering studies or knowledge, the advice of an experienced and qualified independent engineer or architect is a necessity. The reputation of the firm, or person selected, may increase or decrease the marketability of the bonds to be issued. Although many towns employ a town attorney who is entirely competent to handle most legal problems, few town attorneys have the specialized knowledge and prestige needed for the marketing of bonds. Prior to any authorization proceedings, a town should employ an attorney who specializes in the legal aspects of municipal bonds.

Bond Sales. After the advice of an architect, engineer, and legal firm have been obtained, the town is ready to proceed with a bond sale. Here again, professional advice and handling will pay dividends. An independent financial advisor, investment house, or bank specializing in municipal bonds should be consulted.

The proposed bond sale should be at the earliest possible date, and the announcement made to the greatest possible number of potential bidders. The exact day, date, and time will have much to do with the interest rate. These details are the responsibility of the financial advisor. Municipalities must issue bonds in registered form under P.A. 83-519.

Financial Disclosure

As a result of the financial difficulties of several municipalities in the United States, disclosure guidelines of state and local governments were developed by the Government Finance Officers Association of the United States and Canada. These guidelines were designed to provide information to investors in connection with the offerings of securities of state and local governments. These guidelines suggest material which the investor might consider important in making an informed investment decision. While not mandatory for cities and towns, the market place for state and municipal bonds will demand that these guidelines be followed. These guidelines are detailed in the 1991 document, Disclosure Guidelines for State and Local Securities, published by the Government Finance Officers Association of the United States and Canada. These guidelines recommend:

Section I. - Cover Page of Official Statement. An official statement of the municipality of the state which would include the following details:

1. The total principal amount of the securities.
2. The name of the issuer (with appropriate identification).
3. The type or title of issue being offered (e.g., general obligation, water revenue, etc.).
4. The date of the obligations, interest payment dates, principal payment dates, and the date from which interest is paid.
5. The denominations in which the securities are being offered.
6. Registration and exchange provisions.
7. Trustee and paying agents.
8. Redemption features, if any, including sinking fund provisions.
9. Maturity date and principal amount by maturity in columnar form.
10. A statement of the tax status of interest on the securities being offered.
11. Reference to any credit enhancement and identification of the issuer thereof.
12. Ratings provided by any rating agencies, if available at printing.
13. Designation as a new or refunding issue or as are-marketing.
14. In negotiated sales, the names of the managing underwriters.

Additional information sometimes set forth in the statement may include: ratings by the various rating agencies; designation of new issues; brief statement of the authority for issuance; anticipated date and place of delivery; summary statement of the security or source of payment.

Section II - Introduction to the Official Statement. The purpose of the introduction to the official statement is to set forth, in summary form, the important portions of information with respect to the identification of the issuer; the statutory, constitutional or other basis pursuant to which the securities are being issued; the purposes for which the securities are being issued; and the security and source of payment for the securities. In addition, special circumstances that are of importance to the making of an informed investment decision, and their possible consequences for investment risk, should be described. The issuer should be briefly described, as well as the projects which are to be undertaken. The purpose for which the securities are issued should include a description of the application of proceeds; including the payment of costs of acquisition or construction; the making of deposits in debt service or capitalized interest funds; and the payment of costs incidental to the financing. The security and source of payment for the securities should be briefly described, and reference to more specific information concerning such security and source of payment should be made. Appropriate references to more detailed information contained elsewhere in the official statement should be included.

Section III - The Securities Being Offered

Section IV - Description of Issuer and Government Enterprises

Section V - Debt Structure

Section VI- Financial Information. This would include general obligation debt, debt other than general obligation debt, full disclosure of accounting principles supporting the financial statements, and supporting schedules to financial statements to provide the necessary detail to further disclosure of the financial position of the various funds.

Section VII - Legal Matters. This section will describe various legal proceedings which might materially affect the municipality's ability to perform its obligations to the bond holders, including the effects of the legal proceedings on the securities being offered. These guidelines are quite technical in nature and substance and towns issuing bonds of necessity must defer to attorneys who specialize in legal aspects of municipal bonds. Compliance with these guidelines will determine not only the interest rate the bonds will be sold at, but whether the bonds can be sold at all. Investors will demand that municipalities and states comply with these guidelines before bids will be submitted.

Section VIII - Miscellaneous. This section lists ratings, financial advisors, town officials involved in the financing, pending legislation and any additional information relevant to the financing.

Short-Term Borrowing

Tax Anticipation Borrowing. Borrowing in anticipation of taxes is a regular occurrence for those few remaining Connecticut towns in which the due date is some seven months after the start of the fiscal year. Tax anticipation borrowing may also be necessary where tax collections temporarily fail to meet expenditures. This type of borrowing can be reduced to a minimum, or eliminated entirely, by improved financial procedures. Changing the fiscal year so that taxes fall due at the beginning of the year, will not only eliminate regular tax anticipation borrowing, but will provide additional cash flow for investment purposes. Keeping expenditures well in line with actual receipts, accurate revenue estimating, and adequate budget allowances against delinquent taxes, will minimize borrowing to meet current expenditures. Operating on such a cash flow basis will not only eliminate the cost of short-term borrowing, but also free the town from dependence on uncertain banking conditions and improve its general credit position. Cash operations require prompt and efficient collection of a major portion of each year's taxes within the fiscal year, and prompt action against delinquencies, realistic revenue estimates, and budgeting of deficits in the next year's budget.

Emergency Borrowing. Unusual emergencies - (S.7-379) i.e. natural disasters, an excessive amount of snow removal, an award of judgement against the town - may necessitate short-term borrowing. However, such borrowing should be limited to real emergencies and not become a regular substitute for honest budget-making.

Bond Anticipation Borrowing. Short-term borrowing in anticipation of the sale of a large bond issue is a means of providing a portion of the funds to begin a capital project. Bond anticipation borrowing may have the advantages of avoiding payment of an entire bond issue until the full amount is needed, providing flexibility in selecting the date for a bond sale, and avoiding handling of idle funds. However, if the town has a program for investment of idle funds, proceeds from bonds sold in advance may be invested to advantage, provided the yield curve is positive. Furthermore, the two-year limit on the sale of bonds after bond anticipation notes are issued may in some instances actually restrict the date of bond sale.

Connecticut municipalities are authorized to issue bond anticipation notes after issuance of general obligation bonds has been authorized. The term of bond anticipation notes is generally restricted to a two-year period (S.7-378). Section 7-378 allows towns to renew temporary bond anticipation notes for a period of not more than four years from the date of the original notes, if the legislative body of the town:

1. Authorizes appropriation of sufficient funds to pay the interest on bond anticipation notes and the portion of the principal which would have been paid no later than three years from the date of the original issue of temporary notes and again no later than four years from the original issue of such temporary notes.
2. Reduces the amount of the bond issue when sold by the amount of principal which would have been paid had the bonds been . sold in the third or fourth years, and provides for payment of the principal in annual installments no later than the third issue.
3. Reduces the maximum authorized term of the bonds when sold by not less than the number of months by which the date of issue exceeds two years from the date of the original notes.

With these restrictions on the term of bond anticipation notes, Connecticut has avoided the most serious potential misuse of this type of borrowing, evasion of prompt debt retirement by continuing bond anticipation borrowing years after completion of the project.

Any town which has temporary notes outstanding in anticipation of the receipt of proceeds from the sale of bonds authorized by a sewer project which has a written commitment for a state or federal grant, but has not received its final grant payment within four years from the date of the original notes, may renew the notes from time to time in terms of no more than six months. However, the total amount of the note shall not exceed the amount of the grant commitment.

Chapter 9

Other Aspects of Municipal Finance Administration

In addition to the major areas of finance administration with which boards of finance are directly concerned, there are a number of other related problems which they may encounter from time to time. A few of the more important and more common of these miscellaneous functions will be discussed briefly in this final chapter.

Adopting the Uniform Fiscal Year

S.7-382 Section 1 now mandates that all municipalities must adopt the uniform fiscal year by July 1, 1993. Previous legislation had mandated this change over by July 1, 1991.

By vote of a town meeting, any town may vote to adopt Chapter 110 of the general statutes, the purpose of which is to provide a uniform fiscal year for all towns and cities in the state. The board of finance, after study of Chapter 110 and evaluation of the advantages for its town of making this change, may decide to recommend such action to a town meeting or the town council.

The uniform fiscal year begins July 1 and ends June 30. Taxes must be collected at the beginning of the year. A town may choose to have one, two, or four tax collection dates - July 1, July and January 1, or July 1, October 1, January 1, and April 1 - but the first collection date must be July

1. The major advantages of changing to the uniform fiscal year are elimination of tax anticipation borrowing and provision for adoption of the budget before the fiscal year begins.

Under the uniform fiscal year the date of the annual budget meeting is changed from October to the spring of the year, probably between April 15 and May 15. After the budget is adopted at this meeting, the tax rate is set and tax bills are computed and mailed in time for payments to begin on July 1.

Many towns feel that changing to the uniform fiscal year presents a difficult public relations problem. The benefits which accrue from the change primarily facilitate administrative procedures of the town government, while the burden of providing the additional funds to make tax collections coincide with the start of the budget year falls directly on taxpayers. Tax payments are ultimately no larger, but must be made twice in one year. Much of this resistance can be overcome by developing a specific plan for effectuating the change which is tailor-made for the individual community and which takes advantage of all possible means of providing the funds for the interim budget.

Chapter 110 gives towns the power to borrow all or a portion of the interim budget when changing to the uniform fiscal ear. Bonds issued for this purpose are not charged against the town's debt limit. Such bon must mature in substantially equal installments commencing one year and ending not later twenty years after the date of issue (S.7-384;S.7-385). Chapter 110 also provides that a town may create a surplus in its general fund for the specific purpose of financing a change to the uniform fiscal year and may levy a tax of not more than 5 mills to provide this surplus (S.7-389).

In deciding on the best methods of adjusting to the uniform fiscal year, the added expense of borrowing all or the additional tax levy should be carefully balanced against the burden on taxpayers of extra tax payments in one year. Since one of the primary reasons for changing the fiscal year is to avoid the expense of interest charges on borrowing in anticipation of taxes, the cost of long-term borrowing may offset this advantage until the bonds are paid. Therefore, as much as possible of the additional funds should come from current revenue. Consideration should be given to borrowing at most only half of the amount and not longer than a ten-year period to keep interest costs at a minimum.

Independent Post-Audit

As pointed out in Chapter 3, the board of finance is responsible for having the town accounts audited by an independent auditor every year. This independent post-audit should not be confused with continuous internal auditing which is a routine part of financial administration. A post-audit is one which is made after the transactions to be audited have taken place and have been recorded. The functions of the board of finance with regard to the independent post-audit are the hiring of the auditor - either an independent private accountant or a state auditor - and receiving and acting on his report. The discussion here is, therefore, confined to those aspects of auditing which will assist the board in selecting an auditor and determining the general scope of his work and does not include detailed procedure for making an audit.

Auditing Standards. In selecting an auditor, a municipality is purchasing a professional service, the quality of which is of primary importance. For this reason, the Governmental Accounting Standards Board has registered formal disapproval of awarding contracts for an audit on the basis of competitive bidding.

Public Act 91-401 requires a single, comprehensive financial audit for all municipalities (including school boards), regional districts, regional planning agencies and non-profit agencies with budgets over 200,000 that receive state aid. This single audit replaces individual state agency compliance and makes towns that pass through more than $25,000 in state aid responsible for reviewing sub-recipients' audits.

The agreement between the municipality and the auditor should also specify:

1. The period to be covered by the audit.
2. When it will begin and when it must be completed.
3. To whom the audit report should be sent and how many copies should be provided.
4. What facilities and records the municipality is to furnish to the auditor.
5. The basis of compensation and terms of payment of the auditor.

There should be a clear understanding as to the extent of the auditor's responsibility in cases where a municipal official handles funds of other authorities or municipalities. Provision should also be made in the agreement for the auditor to make a more extensive investigation where circumstances warrant it and for him to receive extra compensation for this. Finally, the agreement should provide for specific comments and recommendations about any nonconformity with statutory requirements and sound budgetary and accounting procedures.

Audit Procedure. The publication, Governmental Accounting, Auditing and Financial Reporting, details the procedure for auditing municipal accounts under these headings - revenues and receipts, expenditures, assets, liabilities, sinking fund requirements and sinking fund reserves, and surplus reserves. The auditor will decide the exact order in which the work will be done, as he or she will also determine the extent to which verification is needed. Board of finance members desiring to familiarize themselves completely with the entire auditing procedure should refer to the Committee's recommendations contained in Governmental Accounting, Auditing, and Financial Reporting and The American Institute of Certified Public Accounts' publication, Audits of State and Local Government Units.

Insurance - Risk Management

Frequently, little thought is given to a systematic approach to the insurance which a municipality carries to protect itself against various risks with the result that many municipalities are inadequately but expensively insured. Municipalities which have systemized their insurance programs have usually given responsibility for their administration to the finance officer. In towns without full-time finance officers, the board of finance can take the initiative for development of an integrated insurance program which will be administered by the board or by a full-time administrative official.

Fire, automobile, general liability and worker's compensation insurance are the most common types of insurance which a municipality must have. A thorough examination of the type of insurance and extent of coverage needed will usually result in considerable saving to the municipality in premium and administrative costs. Such an examination begins with a thorough analysis of the municipality's insurance needs and the method of placing insurance.

An Integrated Insurance Program. Improvement of a municipal insurance program will include the following steps:

1. Determination of general practices with regard to insurance, the extent to which self-insurance can be used and the extent to which commercial insurance will be bought, whether only one company will be used or whether insurance will be distributed among agents and brokers, and whether both stock and mutual companies will be used.
2. Determination of the official to whom responsibility for the entire insurance program will be assigned. Under an integrated insurance program this official will check all policies and rates

regularly, keep a constant inventory of all buildings insured and record changes in value, make or supervise direct reappraisals and inspections, check all claims, and collect claims and rebates. All losses should be reported to this official and settled only with approval of officials involved and the town attorney.

3. Determination of insurance requirements. For example, automobile and public liability insurance is only if it completely covers the municipality and its employees from the tort liability of every description.
4. Determination of the years for which policies are to be written. Advance payment of premiums and scheduling of policies may effect substantial savings.
5. Determination of minimum standards for acceptable insurance companies, considering their financial and management rating, number of years in business, legal reserve plan, liquidity and diversity of their assets, ratio of losses to premiums written, a character of their management.
6. Determination of practice to be followed in purchase of insurance: a) direct purchase from the agent or broker; b) direct purchase from an insurance company; c) purchase from a local association of insurance agents or brokers; d) selection of a broker or agent to act as servicing agent to the municipality and to distribute premium payments among several agents or brokers according to an approved schedule; or e) competitive bid.

A planned fire insurance program will include, in addition to the above determinations, a complete appraisal of all municipal property. Appraisals made by municipal officials may be checked through the local insurance agents' organization, or the municipality may secure the services of an insurance analyst who will check appraisals, translate them into premium and rate terms, and suggest improvements which will afford premium savings. This type of expert appraisal and survey is very valuable in securing comprehensive coverage at the lowest possible rates.

Use of Self-Insurance or Retention of Risk Management. Analysis of municipal practices should include study of the feasibility of self-insurance, partial insurance, or no insurance. Self-insurance involves cancellation of policies and establishment of a municipal fund out of which losses are paid. Since a portion of the premiums charged by commercial companies goes to defray business expenses, a municipality can expect to save this portion of the usual ratio on municipal property and from interest earnings on the insurance fund. The amount of the insurance fund should at least equal the insurable value of the most expensive possible single loss.

Some American cities have adopted the policy of insuring only their most hazardous risks, or of eliminating from coverage those buildings occupancy and use of which renders them less susceptible to fire loss. Large cities with many public buildings may consider the possibility of carrying no insurance, thus eliminating even the expense of administering a self-insurance fund. However, this plan is practical only where the city's resources are adequate to replace a major loss quickly.

Self-insurance is applicable also to worker's compensation insurance. A fund may be set up from premiums which would otherwise be paid to private companies or from lump sum appropriations based on loss experience, or loses may be paid from current income as they occur. The size and resources of the municipality will largely determine the self-insurance method used.

Risk Management Experience in Connecticut. On July I, 1980 the Connecticut Interlocal Risk Management Agency (CIRMA) began operation for the purpose of establishing and administering a municipal worker's compensation pool. By pooling member municipalities' premium contributions, CIRMA was able to provide workmen's compensation coverage at a reduced cost. As of July 1992, 37 towns and local public agencies had joined CIRMA.

Public Act 134 of the 1986 Connecticut General Assembly, broadened the powers of CIRMA to include the power to pool premiums for coverage of public liability, auto and property risks and risks of loss in excess of retentions.

Special Assessments

Certain types of public improvements may be paid for by charges levied against the property owners who are benefited by improvement. Such a charge is called a special assessment. The theory behind use of special assessments is that the improvement enhances the value of property in a restricted area only and not throughout the entire community. Further justifications are that special assessments can be levied against property exempt from general property taxes and that special assessment bonds are not subject to statutory debt limitations. {7}

Inherent in the theory of payment for benefit received is the major weakness of special assessment financing; namely, the difficulty of apportioning costs in relation to benefit. Administrative costs and complications in accounting, plus difficulties involved in collection of experiences resulting from indiscriminate use of special assessments in the past to finance improvements sought by land speculators in lieu of strict subdivision regulations is responsible for their more selective use today. While historical experience with special assessments has been poor, these past abuses occurred largely because of haphazard administration and were not inherent in the theory of special assessment financing. Attention to the proper purposes of special assessments coupled with careful administrative control can make this method of financing improvements a useful tool.

Special assessments have three principal limitations: the amount assessed must be proportional to the benefit received; the total amount assessed must not exceed the cost of the project; and the total amount assessed must not exceed the total benefit resulting from the project. Thus, the amount assessed must not exceed cost or benefit and it must be proportional in either case.

Uses of Special Assessments. Experience has shown that special assessments should not be used in connection with development of new subdivisions. Special assessments may best be used to finance improvements in older areas of the municipality where certain facilities are still lacking. Some years ago a committee of the Municipal Finance Officers Association of the United States and Canada concluded that the following types of construction are most adaptable to special assessment financing:

1. Sidewalk construction of standard widths
2. Street openings or street extensions of standard width, including accessories;
3. Original street paving of standard widths, including curbs, gutters, catch basins, and other necessary accessories.

While sanitary sewer construction is frequently financed through special assessments and lends itself to this type of financing, this committee recommended that other methods of financing, such as general obligation bonding, are preferable. Where special assessments are used to finance sewer and street construction, the committee recommended that excess width of streets and excess size of sewers over normal dimensions be excluded from the assessment. The committee also concluded that: planting or removing of shade trees and house connections, both water and sewer, should be financed by special assessments; storm sewers should not be financed by special assessments; and street lighting be omitted from both charges or special assessments unless it is of exceptional character.

Methods of Determining Benefit. Several methods of apportioning the cost of improvements among benefiting properties have been developed. The front foot method is the most common and simplest method. It is applied by dividing the total frontage facing the improvement into the total cost to determine the rate per front foot. This rate is then applied to the frontage of each parcel of property to determine the individual assessment. By ignoring such factors as lot depth and shape, value, and location, the front foot method may, however, produce very inequitable assessments. The area method, whereby assessments are charged in proportion to their share of the area benefited by the project, also ignores some of the same factors as does the front foot method.

Assessments may be based on the proportion which the value of the property, exclusive of buildings, bears to the total value benefited; values used may be those used for property taxation or may be specifically determined for special assessment purposes. The benefit zone method allocates cost in proportion to proximity of property to the improvement. This method allows assessments to be extended to properties close to, and benefiting from, the improvement but not directly abutting it. A combination of apportionment methods may also be devised in an attempt to equalize assessments and benefits and especially to take into consideration such special influences as comer and irregularly shaped lots.

Another method of assessing benefits, the lot-benefit method, is based on the premise that the benefit from an improvement accrues to a given lot to the same extent as all others without regard to size. Maximum lot widths are established for one benefit; lots exceeding this size are assessed two benefits on the assumption that they could be subdivided. This method, which is simple and easily administered, is readily adaptable to districts with many irregularly shaped lots.

Methods of Financing. Special assessment projects may be financed by advance payments from property owners, temporary loans from a municipal revolving fund, issuance of warrants or special liens to the contractor, or issuance of special assessment bonds. Special assessments should be collected in the same manner that taxes are collected and subject to the same procedures and controls. Billing should be systematic and prompt; liens against delinquent properties should be enforced vigorously.

Investing of Temporarily Idle Funds

The General Statutes of Connecticut provide that the treasurer of any municipality may, with approval of the budget-making authority, invest temporarily in direct obligations of the United States any portion of the proceeds from the sale of bonds or of other funds, including the General Fund, as are deemed available for this purpose (S7-400). Under this authorization Connecticut towns and cities may conduct a program for investment of temporarily idle funds from bond sales or from excess revenue collections. Public Act 83-438 removed the $100,000 limitation on the deposit of municipal funds in a savings bank. The State of Connecticut also operates a short-term investment fund (STIF). Since 1972, this government investment pool has been open to state funds, authorities, and municipalities. STIF operates in a manner similar to a money market mutual fund. The 1992 balance was over $1.7 billion overall, with $520 million being local.

Cash Management Program. An investment program should be based on a careful study of funds available for investment, or more precisely, on a study of the liquidity of funds needed to meet current expenditures. In addition to determination of liquidity, a sound investment program will be based on a study of safety of investment, spacing of maturities so that cash is available when needed, and selection of investments, which after satisfying the first and second considerations, provide the maximum possible earnings.

A study of fund liquidity provides the basis for a well-organized cash management program which has, in addition to providing income from investments, the advantages of more efficient budget control, prompt payment of bills, and stabilization of cash balances. A cash management program involves three steps. The first step is to review cash intake and outgo for each fund by major sources of receipt and major objects of expenditures for at least a year; a three- to five-year period is preferable. From this analysis the normal fluctuations of cash balances in relation to receipts and disbursements is identified.

The second step is to prepare a projection of receipts, disbursements, and balances for each fund and for all funds combined before the beginning of the fiscal year. Finally, the amount to be maintained in active bank balances should be determined. A policy should be established regarding the balances which should be retained in active accounts to handle the predicted volume of transactions.

Types of Investments. Connecticut towns and cities are limited by statute with respect to the types of investments which they can make; as indicated, investments must be in II direct obligations of the United States." However, in making deposits of municipal funds in properly designated depositories, a municipality may also choose to take advantage of the earnings which can be derived from inactive, interest-bearing accounts similar to savings accounts.

Several types of obligations of the federal government are available for investment of idle municipal funds; these include:

1. Treasury Bills, short-term obligations limited in maturity to one year or less, which are issued on a discount basis.
2. Certificates of Indebtedness, also limited in maturity to less than a year and carrying one coupon payable at maturity.
3. Treasury Notes, with maturity of one to five years.
4. Treasury Bonds, ordinarily issued with maturity of longer than five years.

Treasury Bills provide highly liquid investments for short-term funds; Certificates of Indebtedness, while not quite so liquid as bills, are ordinarily easily cashed. Treasury Notes and Bonds provide longer term investments, the latter being best suited to investment of pension or sinking funds where the principal is not needed until some specific future date.

Public Act 83-442 broadened municipal investment authority by permitting investment in securities of federal agencies that issue their own securities. This legislation expanded the right of a town or city to invest in all obligation of the federal government and its agencies.

Public Act 91-245 replaced the statewide system of protecting public deposits with a new system making each bank responsible only for its own deposits. Public Act 91-177 allows banks to use a private insurance policy in place of otherwise required segregated collateral to secure up to 50% of the state and municipal deposits the hold.

Financial Reporting

Monthly Financial Statements. Periodic financial reports will enable the board of finance to keep continually abreast of the town's current financial condition. These reports, or financial statements, are prepared directly from the accounts; their purpose is to give the board a picture of the town's financial operations as of a certain date. Their primary usefulness will be as a control over the budget in anticipation of transfers and additional appropriations. Familiarity with fluctuations in expenditures and receipts during the year will also assist in evaluation of budget requests.

Financial reports may be compiled monthly, quarterly, or weekly. Most boards will find monthly reports quite adequate for their purposes, particularly if they are timed to coincide with regularly scheduled board meetings. {8}

Two monthly financial statements are essential - one which compares receipts with budget estimates, another which compares expenditures with authorizations. The comparative statement of monthly receipts shows for each revenue source the total receipts estimated for the year, actual and estimated receipts for the month, actual and estimated receipts for the year to date, and the balance of the estimate still to be collected. The comparative statement of actual and authorized expenditures shows for each function, organization unit, activity, and object actual appropriations; estimated expenditures compared with actual expenditures, unexpended balance of appropriations, encumbrances, and unencumbered balances.

Other statements and reports may be prepared to cover all of the particular financial operations of the municipality. For example, monthly statements of cash position provide the basis for readjusting expenditures to income and planning a borrowing program. Periodic statements of special assessments, miscellaneous accounts receivable, or debt detail specific operations are helpful.

Annual Financial Reports. An annual financial report in contrast to the annual town report, will summarize for the board and other town officials the complete financial operations of the town. It is in effect a compilation of the monthly reports in somewhat more detail. The recommendations made by the National Committee on Governmental Accounting in Municipal Accounting and Auditing for the content and form of annual financial statements should be followed in preparing and annual financial report. The GFOA sponsors a certificate of Achievement for excellence in Financial Reporting, which has been awarded to a number of Connecticut towns and cities. {9}

Employee Retirement Plans

While provision for retirement of municipal employees is not the direct responsibility of the board of finance, the financial implications of a pension system may want to consider whether to devise its own plan under charter or special act authority or whether to affiliate with the state-wide system available for adoption by municipalities. The board of finance should consider the financial obligations of the town under any *Connecticut Municipal Employees Retirement System*. Chapter 113 of the General Statutes permits towns and cities to place their employees, including certain elected officials, under the Connecticut Municipal Employees Retirement System. This system, which is administered by the state retirement commission, makes available to municipalities retirement coverage, the cost of which would be prohibitive if handled on an individual town basis.

The Connecticut Municipal Employees Retirement System (CMERS) provides three types of retirement plans - participation in CMERS only, participation in Social Security only, or participation in a combined CMERS and Social Security plan. CMERS alone provides for contributions by employees of 5 percent of their wages. Under the combination of CMERS and Social Security, employees contribute 5 percent on all wages from which Social Security deductions are not made and 2 1/4 percent on earnings from which Social Security deductions are made. If Social Security alone is used, the prevailing Social Security rate applies. The municipality contributes as required of employers under Social Security and as determined by the state retirement commission to provide any additional funds needed to meet future pensions. The municipality also contributes toward the cost of administering the fund.

Monthly retirement benefits are paid under CMERS in the amount of one-twelfth of 1 2/3 percent of average annual pay in the three highest-paid years multiplied by the number of months of service. Under a combination of CMERS and Social Security monthly benefits are one-twelfth of five-sixths of 1 percent of average annual pay in the three highest paid years on which Social Security contributions were made multiplied by months of service, plus one-twelfth of 1 2/3 percent of such average annual pay not covered by Social Security deductions multiplied by the number of months of service. Social Security benefits alone are as determined by the federal government.

Establishing a Retirement Plan. A municipal retirement plan must meet the specific needs of each individual municipality; it is a mistake to copy another municipality's plan in toto. When a municipality decides to provide retirement benefits for its employees or to revise its existing plan, a working committee representing the employees, administrative officials, and the legislative body should study all possible plans and recommend the one which in their opinion best meets their needs. It is important that all occupational groups of employees be included under one plan and that provision be made for immediate coverage of present employees.

Use of a state-wide retirement plan enables small local governments to provide a level of retirement coverage commensurate with large governments. It relieves municipalities of the responsibility and expense of operating a retirement fund and assures technical skill in administration of the plan. A state-wide retirement plan provides uniform benefits, contributions, and qualifying conditions and promotes continuity of coverage for employees moving from one job to another. Such a plan can be flexible enough to include all occupational groups and all basic risks.

Local Retirement Plan. A municipality may decide that it wants to adopt its own retirement system, either with or without supplementary social security coverage. Funds for a retirement plan may be contributed entirely by the employer, entirely by the employees, or by both the employer and the employees. Most retirement plans are jointly contributory, recognizing that retirement benefits are the responsibility of both the employer and employees.

The amount of contributions made by employees and the employer must be determined. In setting this amount it is important to keep in mind the ability of lower income employees to make contributions; the effect of arbitrary limitations on the amount of contributions and the consequent limits on the amount of annuity received; the possibility of varying employee contributions in relation to entrance age, sex, an occupation; the relative amount of employer and employee contributions; provision for prior service credit for employees; and the type of benefits to be allowed for employee's dependents. A financially sound retirement plan is based

on accepted actuarial principles. Costs must be accurately determined in advance to insure that contribution rates will cover benefit obligations. Technical assistance from a qualified actuary is essential if costs are to be estimated accurately. If probable future costs are ignored, there will be no assurance that benefits can be paid as planned.

There are two methods of financing a retirement plan - the cash disbursement method and the actuarial reserve method. Under the cash disbursement method, annual revenues are sufficient only to pay benefits actually due that year. Under the actuarial reserve method, a portion of the benefit payable to each employee in the future is presumed to be earned each year. This method is preferable because it makes current provision for meeting future liabilities and results in approximate leveling of annual costs and a fairly stable ratio between annual payroll and contributions.

If a local plan is to be integrated with Social Security, there are three alternative methods from which to choose - the offset plan, supplementation and coordination. The offset or integration plan involves fusion of the existing retirement system and Social Security with a complete merging of benefits and contribution. Even though integration results in only one retirement system, it is more complicated and provides lowest benefits to employees.

Supplementation consists of merely adding Social Security to a complete local retirement system with resulting additional benefits and additional contributions. Although benefits paid under this plan are quite high, it is very expensive for both employer and employees.

Coordination involves a downward revision of contributions and benefits from the local system when Social Security is added. Contributions and benefits will approximate those of the current local plan. Coordination permits independent operation of the two retirement plans and affords the greatest flexibility in adapting the system to local needs. It also takes full advantage of future increases in Social Security benefits. Coordination is the method used to combine the Connecticut Municipal Employees Retirement System and Social Security.

Footnote

{7} Sections 7-139 through 7-145 of the Connecticut General Statutes cover the use of special assessments by the state's towns and cities.

{8} See examples of monthly- financial statements prepared for board of finance in Appendix A.

{9} Also see section on Financial Reporting in Chapter 3, p. 37

NOT INCLUDED:

Appendix A. Sample Budget Forms
Appendix B. A Recommended Standard Classification of Accounts for Connecticut Municipalities
Appendix C. Connecticut Towns and Cities with Boards of Finance
Appendix D. Selected State Grants to Municipalities
Selected References
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