# BUDGET POLICIES, FINANCIAL STRUCTURE AND BUDGET PROCESS

## 1. BUDGET POLICIES

The overall goal of the City of Hartford's strategic plan is to establish and maintain effective management of the City's financial resources. The following section outlines the policies used to guide the preparation and management of the City's annual budget. This section contains a summary of policies pertaining to the operating budget, capital budget, and expenditures, revenues, financial accounting, cash management/investment and debt.

As part of the annual operating budget process, the City of Hartford will appropriate a General Fund Budget and a Capital Budget.

### Operating Budget Policies

Preparation of the City's operating budget is guided by the following policies:

- The General Fund Budget (1001) is adopted by the Court of Common Council and must be balanced each year. Revenues from all sources must equal the sum of budgeted expenditures.

- The City of Hartford maintains a Fund Balance. This protects the City against major revenue losses and unforeseen emergency expenditures and contributes to the City's favorable bond rating.

- Requests for expenditure allocations are considered in conjunction with measurable performance criteria. Expenditures are approved or rejected on the basis of planned levels of performance.

- General Fund revenues and expenditures are projected on a five-year financial forecast.

### Capital Improvement Fund Policies

Preparation of the City's capital budget is guided by the following policies:

- A ten-year program for infrastructure capital improvements is updated annually. The plan identifies anticipated funding sources.

- Capital projects are financed through the issuance of bonds, trust fund contributions, and appropriations from the General Fund, Capital Improvement Program (CIP) fund balance and State and Federal revenues that are for a period not to exceed the useful "life" of the project.

- The City will coordinate the development of the Capital Improvement Fund budget with the development of the operating budget.

- The City will preserve its assets at a level adequate to protect the capital investment and minimize future maintenance and replacement costs.

- The City will establish the appropriate mix of debt and other financing sources in the funding of capital projects.

**Revenue Policies**

The City's revenue programs are administered by the Finance Department according to principles that balance the City's need for revenue and the community's ability to provide the necessary financial resources. The revenue policies that have guided the City are outlined below:

- The City will maintain a broad revenue base; that is, diversified revenue sources will be established and maintained in order to distribute the revenue responsibility equitably and protect the City from short-term fluctuations in any one revenue source.

- In order to fulfill funding needs without excessive dependence on property taxes, the City will attempt to enlarge the revenue base by seeking new revenue sources. Efforts will be made to work individually, as well as with statewide groups, to encourage the State of Connecticut to adopt legislation which will enhance local government revenues.

- The City will implement user fees in all areas where feasible and productive, as well as, set fees at levels related to the costs of providing the services. Moreover, user fees will be reviewed annually as part of the budget process and will, accordingly, be adjusted to maintain or move incrementally closer to full coverage.

- As deemed appropriate, the City will establish self-supporting enterprise funds where anticipated revenues will offset or exceed projected expenses.

- The City will maintain effective collection systems and implement aggressive enforcement strategies in order to maximize revenues from available sources.

- Revenues will be projected conservatively so that actual revenues will equal or exceed the projected budgeted revenues.

**Financial Accounting Policies**

In developing and evaluating the City's accounting system, consideration is given to the effective implementation of financial accounting policies; specifically, to the adequacy of internal controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, as well as, the reliability of financial records for preparing financial statements and maintenance of accountability for assets.

The internal audit function is the responsibility of the Internal Audit Department that is organized separately from, and operates independently of, the Finance Department. The Internal Audit Director is accountable to the Internal Audit Commission. The department operates a full program of routine and special internal audits.

- **Single Audit** - As a recipient of federal and state assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to secure compliance with applicable laws and regulations related to those programs. This internal control structure is subject to periodic evaluation by the internal audit staff as well as by management.

**Budgeting Controls** - The City also maintains budgetary controls to ensure compliance with legal mandates. The Department of Management and Budget, in conjunction with the Finance Department, monitors expenses and revenues and prepares financial reports for the Mayor and Court of Common Council.

**Cash Management/Investment Policies**

- **Scope of Policy** - The City's cash management/investment policy includes all City funds except pension funds, which are guided by a separate policy adopted by the Pension Commission. Under the City Charter, investment of all City funds, including the pension fund, is the responsibility of the City Treasurer.

- **Policy Objectives** - The primary policy objective is preservation and safety of principal. Secondary objectives include adequate liquidity to provide cash as needed, and rate of return on investments.

- **Allowable Investments** - It is the policy of the City, consistent with state and federal statutes, to limit short-term investments to:
  - United States Treasury Bills, Notes and Bonds
  - Certificates of Deposit
  - State of Connecticut Treasurer's short-term investment fund (STIF)

- **Risk Controls** - To ensure liquidity and reduce market risks, investments have maturity dates at or prior to the time cash is projected to be required to meet disbursement needs.

- **Collateralization** - Collateralization is used to secure Certificates of Deposits and secure Demand Deposits.

**Debt Policies**

The following policies on the use of long and short-term debt represent the City's long-standing practice in the field of municipal finance. They are included in the annual Capital Budget and are reinforced by the City Charter and Code:

- Bonds are issued only for large, nonrecurring permanent public improvements useful to the delivery of municipal services. They are not used for small, recurring maintenance work, rolling stock, operating costs, salaries, furnishings, equipment or private subsidies.

- General Obligation Bonds, approved by public referendum, are issued to finance traditional public improvements. They are retired by substantially equal serial maturities from the general operating fund over a term substantially shorter than the useful life of the improvement, and beginning within one year of issuance. Bonds are sold at public bid and should be sold as late in the fiscal year as feasible to minimize the impact of annual debt service on General Fund cash flow.

- Revenue or limited obligation bonds may be used within statutory parameters only to finance those special projects or programs which directly support the City's long-term economic development or housing interests or which service a limited constituency and are clearly self supporting.

- The City's overall debt structure, including overlapping debt, should fall well within statutory limits and should decrease as rapidly as is financially feasible. Net direct debt should not exceed prior year tax collections including payments in lieu of taxes, and net debt service should not exceed 5 percent of the annual operating budget. Net direct debt should not exceed 4 percent of assessed value.

- Short-term debt may be used to provide interim cash flow, to facilitate the timing of bond sales, to avoid locking in high long-term interest rates during period of market turmoil or to partially finance projects whose final cost is uncertain. It is not to be used to defer the operating budget impact of bonded debt service or to speculate with market rates.

- In planning and structuring each bond sale, balanced consideration should be given to each of the following objectives:
  a) Providing cash in advance to meet project expenses;
  b) Spreading debt service increases evenly to minimize the impact on the General Fund;
  c) Minimizing net borrowing costs; and
  d) Minimizing the impact of debt service payments on annual cash flow.

- Whenever possible, capital costs should be financed by means other than borrowing. In addition to soliciting outside grant funding, the City should utilize pay-as-you-go methods such as regular contributions from the general fund, build-up of a reserve fund, down payments from operating funds and inclusion of smaller projects in the General Fund.

- Full disclosure of all material information concerning the City's financial position will be made to the public. Official statements prepared for each bond sale will be prepared in accordance with Government Finance Officers Association (GFOA) Disclosure Guidelines, and the annual financial report will continue to conform to the highest national standards, to State Statute and to generally accepted accounting and reporting practices.

## 2. FINANCIAL STRUCTURE

The City's accounting system is organized and operated on the basis of funds or account groups, each of which is a separate accounting entity. Each fund is accounted for with a set of self-balancing accounts comprised of assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Resources are allocated to the individual funds upon the approval of the Court of Common Council for specific purposes. The funds are grouped into four broad categories (Governmental, Proprietary, Fiduciary and Other), and can be further classified into 16 subtypes. The subtypes can be major or non-major governmental funds. The types of funds and subtype accounts are as follows:

### Governmental Funds

- **General Fund** - The General Fund is used to account for the major general operations of the City except those that are required to be accounted for in a separate fund.

- **Special Revenue Funds** - Special Revenue Funds are used to account for revenues restricted by law for specific purposes such as Education, Health, and Community Development Block Grants.

- **Debt Service Fund** - The Debt Service Fund is used to account for the payment of principal and interest on the City's general long-term debt.

- **Capital Projects Funds** - Capital Projects Funds are used to account for the proceeds of general obligation bonds and other financing resources for the planning, acquisition and construction of improvement of major capital facilities such as new schools and urban renewal projects, except for those accounted for in proprietary fund types.

**Proprietary Funds**

- **Enterprise Funds** - An Enterprise Fund is used to account for the operation of the Hartford Parking Authority, which is financed and operated in a manner similar to private business enterprises where costs are financed or recovered primarily through user charges.

- **Internal Service Fund** - A Self Insurance Fund is used to account for and finance the City's uninsured risks of loss for Employee Health Benefits, Worker's Compensation, and Liability and Property Damage.

**Fiduciary Funds**

- **Municipal Employees Retirement Fund (MERF)** - This fund is derived from employee and employer pension contributions and earnings on investments. This plan is a fully funded, advance-funded defined benefit plan funded and valued according to the aggregate actuarial cost method with four-year capital appreciation as the asset valuation method.

- **Trust and Agency Funds** - Trust and Agency Funds are used to account for assets held in a trust capacity for others. These include Expendable Trusts, Non-expendable Trusts, Pension Trusts and Agency Funds.

**Grant and Other Funds Descriptions**

**Miscellaneous Grants Fund** - The fund is comprised of intergovernmental and private grants. This fund includes grants received from the Federal Government, the State of Connecticut, and various non-governmental resources. Also included is the Section 8 Housing Program, which provides housing assistance payments under four grants received from the Department of Housing and Urban Development (HUD).

- **Health Grants Fund** - This fund is comprised of intergovernmental and private grants to support healthcare initiatives. The fund is administered by the City's Health Department for community health and clinic services.

- **Community Development Block Grant (CDBG) Fund** - The entitlement grant is received from the Department of Housing and Urban Development (HUD). This Federally funded grant is used for housing and community development activities under the Community Development Act of 1974. It serves the low and moderate-income residents of Hartford.

- **Home Program Fund** - This grant fund is received from the Department of Housing and Urban Development (HUD). The fund was established under the National Affordable Housing Act of 1990. The purpose of the Home Program is to expand the supply of decent, affordable housing for low-income families.

- **Technology and Vehicle Replacement Funds** - These funds have been established to fund the replacement of the City's vehicle fleet, as it ages, and the City's technology leases.

- **Enterprise Fund** - Fund revenues are funds primarily derived from fees for the City's major Enterprise Fund, the (HPA).

- **Metro Hartford Information Services Fund** - This internal service fund is comprised of a contribution from the City's General Fund and a contribution from the Hartford Board of Education's General Fund.

## Basis of Accounting

Basis of accounting refers to when the revenues and expenditures are recognized in the accounts of revenues and expenditures and reported in the financial statements. The City's accounting records of the General Fund, the Special Revenue Funds, the Capital Projects Fund, the Debt Service Fund and the expendable trust and agency funds are maintained on a modified accrual basis, which records revenues in the accounting period in which they become available and measurable. Expenditures are recognized in the accounting period in which the fund liability is incurred, except for general long-term debt which is recognized when due. Unencumbered appropriations in the General Fund lapse at the year-end (but not in the Capital Projects Funds) and outstanding encumbrances are recorded as a reservation of fund balance, thereby providing authority to complete these transactions. The accounting records of the other funds are maintained on an accrual basis.

The accrual basis of accounting is used for the Enterprise, the Internal Service, the Non-expendable Trust and Pension Funds. Their revenues, including investment earnings, are recognized when earned and their expenses are recognized when incurred.

The Finance Department maintains centralized budgetary control of disbursements and encumbrances against appropriations, by major program of activity and by principal object of expenditure. The Board of Education is controlled only as to total appropriations.

## Measurement Focus

The Measurement Focus determines **what** transactions are recognized in the funds, in contrast to the basis of accounting, which determines **when** transactions are recognized in the Funds. The General Fund and Special Revenue Funds use the current financial resources measurement focus. Under the current financial resources measurement focus, the emphasis is on increases and decreases in spendable resources in the reporting period. Thus, as a generalization, long-term Assets and Liabilities are not recorded in General and Special Revenue Funds.

| Funds Using Flow of Current Financial Resources | Funds Using Flow of Economic Resources |
|---|---|
| General | Enterprise |
| Special Revenue | Internal Service |
| Capital | Pension |
| Debt Service | Investment Trust |
| Permanent Agency | Private Purpose |

The flow of Economic Resources reflects whether or not the Proprietary Fund is economically better off as a result of events and transactions that have occurred during the Fiscal period reported. Transactions that improve economic positions are reported as Revenues, events that diminish economic position are reported as Expenses. Proprietary Funds reflect transactions regardless of whether they are current financial resources. This results in Long-Term Assets and Liabilities on their Balance Sheets.

## Basis of Budgeting

The City of Hartford does not distinguish between Basis of Budgeting and Basis of Accounting. The principles set forth as the Basis of Accounting are strictly observed in the budgeting process. A fund's Basis of Budgeting and Basis of Accounting determine when a transaction or event is recognized within a fund's operating statement. For example, the General Fund Revenue Budget references financial resources when they are measurable and available. Expenses are budgeted when they are expected to be incurred. Please refer to the Basis of Accounting section for funds using either the modified or full accrual basis.

### Funds and Their Basis of Budgeting & Accounting

| Modified Accrual | Full Accrual |
|---|---|
| General | Enterprise |
| Special Revenue | Internal Service |
| Capital | Pension |
| Debt Service | Investment Trust |
| Permanent Agency | Private Purpose |

## 3. BUDGET PROCESS

The City of Hartford's fiscal year begins July 1st and ends June 30th.

The annual budget is a fiscal plan, which presents the programs and services to be provided to the community. The budget also provides presentations of governmental policy, especially the implementation of policy changes. The Mayor's Budget message in particular, identifies the City's major goals and objectives and the intended means of achieving them.

- By the third Monday in April, the Mayor must submit to the City Council a recommended operating budget for the fiscal year commencing the following July 1st. The operating budget includes proposed expenditures and the means of financing them.

- Through direction of the Mayor and the City Council, open meetings and public hearings are held to obtain residents' and taxpayers' comments on the recommended budget.

- The City Council modifies the budget by resolution (except revenues, debt service, and pension requirements), and then submits the budget as amended to the Mayor for certification.

- The Mayor may approve, reduce, and/or disapprove the budget within 48 hours.

- Upon action by the Mayor, Council has until May 31 to adopt the budget, the appropriation ordinance and the tax levy ordinance. If it fails to adopt the budget by that date, the budget as certified by the Mayor shall be deemed to be the budget of the City for the ensuing fiscal year and expenditures shall be made in accordance therewith. (Hartford Municipal Code Sec. 9)

### Amending the Budget

After the budget has been adopted and the new fiscal year begins, an appropriation may be amended. The Mayor may, at any time, transfer any unencumbered balance or portion thereof, from one classification of expenditures to another within the same department. This is done through the Budget Adjustment process.

- **Budget Adjustment** - In order to move available funds from one account group to another within a department, the head of a department must complete a Budget Adjustment request form. This Budget Adjustment request must be reviewed and recommended by the Director of Management and Budget and then must be approved by the Finance Director who ensures that funds are available. The Mayor has final approval of all expenditure Budget Adjustment requests.

- **Fourth Quarter Transfers** - At the request of the Mayor, the Council may transfer by resolution any unencumbered appropriation balance or portion thereof from one (1) department, office or agency to another, except that no funds may be transferred from the funds appropriated to the Board of Education.

- **Supplemental Appropriations**-Supplemental appropriations are made on the recommendation of the Mayor upon certification by the Director of Finance that there exists an available general fund cash surplus to meet this appropriation.

# BUDGET PREPARATION CALENDAR

| DATE* | DAY | ACTION |
|---|---|---|
| July 1, 2008 | Tuesday | Fiscal Year 2008-2009 begins. |
| August 11, 2008 | Monday | Capital Improvement Program Budget guidelines distributed. |
| October 1, 2008 | Wednesday | Departments submit their 2009-2019 Capital Improvement Program project proposals. |
| December 18, 2008 | Thursday | Department Heads submit revenue estimates to the Finance Department. |
| January 5, 2009 | Monday | Elected and Appointed Officials and Department Heads submit final budget requests to Management and Budget. |
| February 2, 2009 - April 1, 2009 | Monday-Wednesday | The Mayor and Department Heads hold budget hearings on City Department's budget requests. |
| April 9, 2009 | Thursday | Board of Education holds public hearing on 2009-2010 Submitted Budget. |
| April 20, 2009 | Monday | Mayor submits the Mayor's 2009-2010 Recommended Budget to the Court of Common Council through the Town & City Clerk. |
| April 28, 2009 | Tuesday | Court of Common Council holds public hearings on the Mayor's Recommended Budget no less than seven days and no more than ten days after submission. |
| May 11, 2009 | Monday | Council recesses their regular meeting to reconvene at a time to be determined. |
| May 12, 2009 - May 19, 2009 | Tuesday-Tuesday | Council reconvenes to begin budget deliberations. |
| May 21, 2009 | Thursday | The last day for Council to amend the Mayor's Budget for submission back to the Mayor. |
| May 30, 2009 | Saturday | Last day for the Court of Common Council to adopt the Budget, Appropriation Ordinance and Tax Levy Ordinance. Otherwise the Budget as certified by the Mayor shall be deemed to be the Adopted Budget. |
| June 30, 2009 | Tuesday | End of Fiscal Year 2008-2009. |

***All dates are subject to change**

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