

A Citizen's Introduction to the Manchester Budget

The following introduction to the budget is written in question and answer format. It provides introductory information explaining the budget's various components, the relationships between them, the budget adoption process, and how certain budgetary calculations are made. The question and answer section is followed by a glossary of common budgetary terms. Terms that appear in bold type are defined in the glossary following the question and answer section.

1. What is the budget?

The annual budget of the Town of Manchester is the financial plan for the **fiscal year**, which runs from July 1st to the following June 30th. The budget details the programs and services that will be provided during the fiscal year, the cost of programs and services, and the revenues that fund them. It also sets the tax rate (referred to as the **mill rate**) required to support operations.

The Town budget actually consists of several budgets, with separate funding sources, that are adopted by the Board of Directors each year. The largest is the **General Fund** budget which includes the Board of Education and most of the departments providing basic municipal services such as police, public works, health and human services, recreation and library services, planning and zoning, and the town clerk's office. The General Fund also includes the vast majority of the **debt service** the Town incurs for capital projects including school construction and renovations, roads, sidewalks, bridges and town buildings.

In addition to the General Fund, each year the Board of Directors adopts budgets for the **Fire Fund** and three **enterprise funds**. Since it is the largest fund with the largest monetary impact on citizens, the General Fund is the primary focus of the following materials. However, readers should be aware that the other funds provide vital public goods and services to the community and also have a monetary impact on citizens and consumers of services.

2. How is the budget developed and adopted?

The process for preparing and adopting the budget is set out in the Town Charter. The Board of Education and each town department are required to submit a budget request to the General Manager by February 21st of each year.

The Board of Education budget is prepared by the Superintendent's administration and submitted to the Board of Education for its review, usually in mid-January. The Board of Education then adopts a budget which is in turn submitted to the General Manager.

The General Manager submits a recommended budget that includes both the town government departments as well as the Board of Education to the Board of Directors at the end of March.

Once the General Manager's recommended budget has been submitted, the Charter requires a public hearing for the purpose of obtaining public input regarding the budget. This usually occurs during the first week of April. In some instances, there may be a second public hearing.

The Board of Directors reviews the recommended budget through a series of budget workshops with the Town administration that take place throughout the month of April. Then, the Board of Directors adopts a budget in early May. Depending on the type and magnitude of any changes made by the Board of Directors to the General Manager's recommended budget, a second public hearing may be required prior to budget adoption.

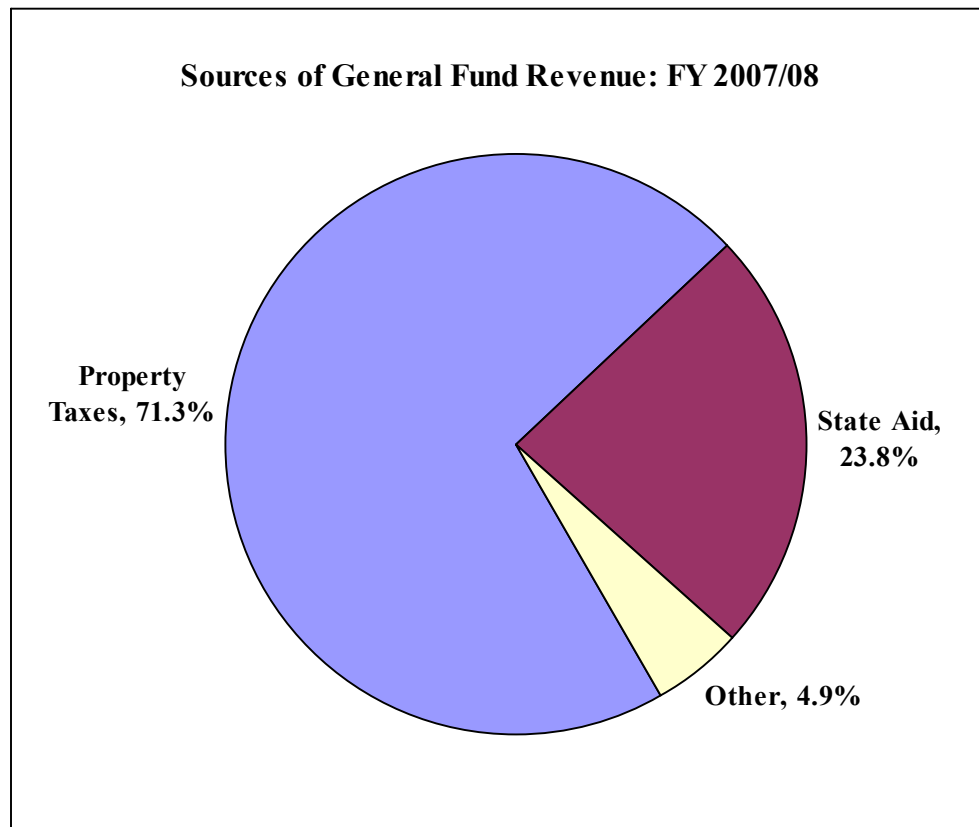
The adoption of the budget authorizes the Town to make expenditures up to the amounts adopted for each town function (such as Public Works, Public Safety, etc.). The authorization of expenditures is referred to as an **appropriation**. The budget appropriations last for one year and then expire. The budget adoption also authorizes the Town to issues tax bills based upon the adopted tax rate and to collect the taxes levied.

3. How can members of the public get a copy of the recommended budget?

The Town has made it a practice to provide the public with multiple ways to access the recommended budget. Printed copies of the budget are kept in the Town Clerk’s Office, the Mary Cheney and Whiton libraries, the Senior Center and other Town offices for review. Copies of the recommended budget in print or on CD ROM may be obtained at the Citizen Services and Information office, the General Manager’s Office, or the Budget and Research Office. The recommended and adopted budgets are also posted on the Town web site and can be viewed and downloaded using Adobe software.

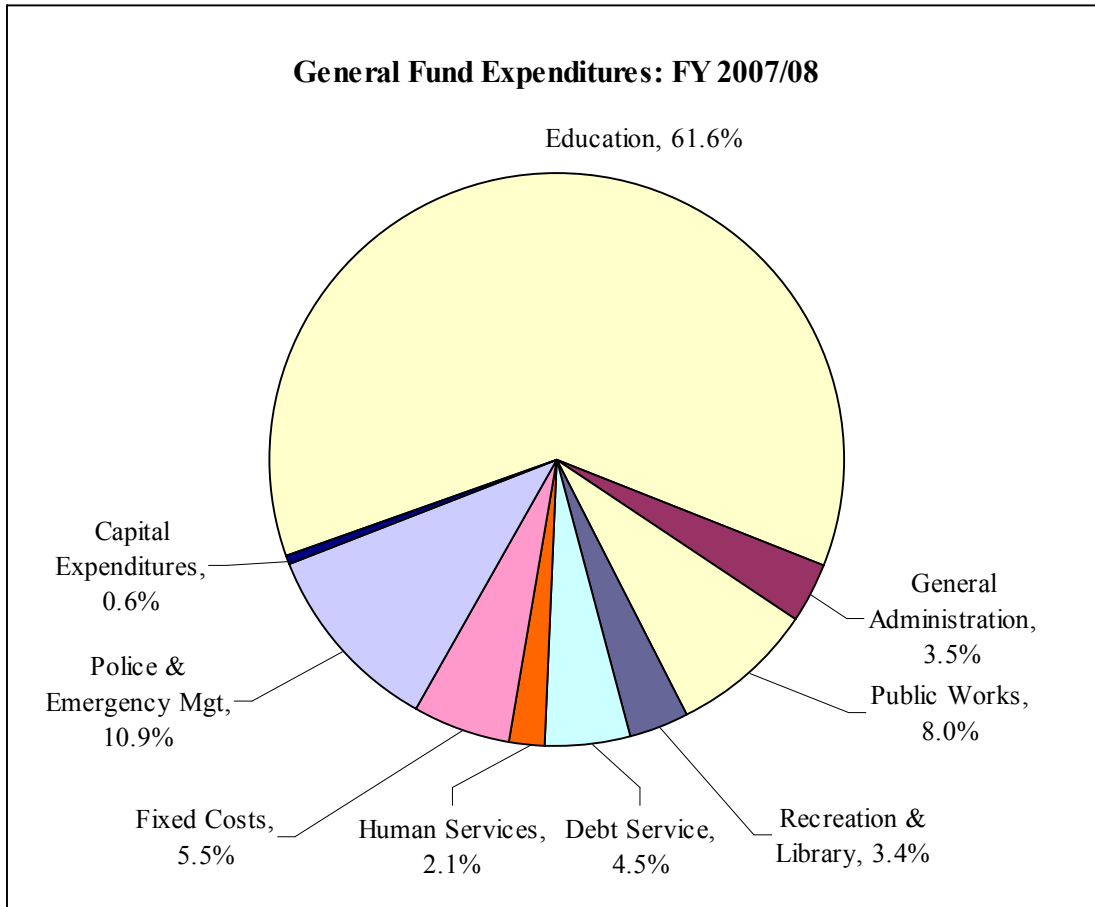
4. Where does the money for town operations come from?

The most significant source of funding in the annual General Fund budget is property taxes. The pie chart below shows that property taxes account for nearly three quarters of all revenues in the current fiscal year. State Aid is the second largest source at just under one quarter of all revenues. All other revenues, such as fees, fines, permits, interest, etc. make up less than 5% of the total.



5. How are taxes and other funds spent?

Like most towns, the largest area of expenditures in Manchester is Education. Among the town government operations, Public Safety and Public Works have the largest budgets. Debt Service is expected to make up a larger portion of the town budget in coming years as voter approved capital projects progress.



6. How is the tax rate calculated?

The tax rate is called the **mill rate** in Connecticut towns and cities. A mill is 1/10th of one percent of the assessed **Grand List**. The mill rate, therefore is how much a taxpayer would pay for every \$1,000 of assessed property value. For example, if the assessed value of a property is \$100,000 and the mill rate is 20, then the taxes owed on that property would be \$2,000.

Three figures are needed in order to calculate the tax rate. They are:

1. Total expenditures.
2. Taxable grand list.
3. Non-tax revenues.

Total expenditures represent the total amount that needs to be raised through all revenue sources. Non-tax revenues, such as grants and fees, are subtracted from total expenditures. The resulting figure is the amount to be raised through taxes.

Then, the value of one mill is calculated by multiplying the taxable Grand List by 1/10th of one percent.

Finally, the amount to be raised through taxes is divided by the value of one mill. The result is the mill rate.

In the sidebar example, the value of one mill is \$1,000,000.

Total expenditures are \$20 million and the town anticipates \$1 million in non-tax revenues. Therefore, only \$19 million need to be raised through taxes.

When the amount to be raised through taxes is divided by the value of one mill, the resulting mill rate is 19 mills.

Using the sidebar example, a property assessed at \$200,000 would be taxed \$19 for every thousand dollars of assessed value. This comes to a tax bill of \$3,800.

Other small adjustments are made in the mill rate calculation in order to account for certain tax exemptions (such as those for certain elderly citizens or military veterans) and for a tax collection rate, but the description above is a basic representation of how the mill rate is calculated.

<u>Example of a Mill Rate Calculation</u>	
Taxable Grand List	\$1,000,000,000
Total Expenditures	\$20,000,000
Non-tax Revenues	\$1,000,000
One Mill equals	
1/10 th of 1% of Grand List or	\$1,000,000
Total Expenditures	\$20,000,000
minus Non-tax Revenues	<u>-\$1,000,000</u>
Amt. to raise through taxes	\$19,000,000
Amt. to raise through taxes	\$19,000,000
divided by 1 mill	<u>÷\$1,000,000</u>
Equals the mill rate	19 mills

7. Are businesses taxed at the same rate as residents?

Yes. The same mill rate is applied to all types of taxable property.

8. When the Town ends the year with a surplus, where does the money go?

As previously mentioned, budget appropriations lapse at the end of the fiscal year and a new budget with a new set of appropriations must be adopted. It is not unusual for a department to

have unspent funds at the end of the fiscal year. Similarly, revenues collected may exceed the original estimates contained in the budget, either because of strong economic activity, high demand for fee-based services, higher than expected aid from the State, or higher than anticipated tax collection rates. The amount by which revenues exceed expenditures in a given year is the year end **surplus**. The surplus is added to **fund balance**, which can be considered the Town’s reserves. The example below illustrates how this takes place.

In the example, the town begins the year with a fund balance of \$5 million. The budget is set at \$20 million in revenues and \$20 million in expenditures (a balanced budget). During the course of the year, the town collects \$300,000 more in revenues than originally anticipated. It also spends \$200,000 less than authorized. The combined difference results in a surplus of \$500,000. This amount reverts to fund balance resulting in a new fund balance of \$5.5 million.

Beginning fund balance		\$5,000,000
	Original Budget	Actual
Revenues	\$20,000,000	\$20,300,000
Expenditures	<u>\$20,000,000</u>	<u>\$19,800,000</u>
Difference	\$0	\$500,000
Change in fund balance		+\$500,000
Ending fund balance		\$5,500,000

9. What is the significance of Fund Balance?

Fund balance is an important measure of the Town’s capacity to withstand financial emergencies or to undertake unforeseen, but necessary, projects. The Town’s fund balance is a major determinant of its credit rating. The credit rating, in turn, has an effect on the interest rate the town receives when borrowing money for large capital projects. The Town has historically maintained fund balance at a level between 3% and 5% of total annual revenues. The Town’s financial advisor has recommended a fund balance target in the 5% to 7% range.

10. What can Fund Balance be used for?

Fund Balance may be used for anything the Board of Directors authorizes. Best financial practices recommend that appropriations of fund balance generally be limited to one-time

expenditures. Land purchases and capital projects are examples of one-time expenditures. Appropriations from fund balance may also occur as a result of emergencies that require expenditures that were not budgeted. Sometimes appropriations from fund balance are included as a revenue in the annual budget. This has the effect of lowering taxes for that year. However, utilizing fund balance as a revenue in the budget is not always a sustainable practice because unless annual surpluses are achieved, the amount available in fund balance may be exhausted. In some cases, a portion of fund balance may be designated for future use as a budgeted revenue source to address a one-time or temporary concern. For example, \$3.75 million has been designated in fund balance as part of a multi-year plan beginning in FY 2007/08 to offset increases in debt service payments. This use of designated fund balance in declining amounts will be carried out over a five-year period.

Glossary of Terms

Appropriation: An authorization made by the legislative body of a government that permits officials to incur obligations against and to make expenditures of governmental resources. Appropriations are usually made for fixed amounts and are typically granted for a one-year period.

Assessed Valuation: 1) A valuation of real estate and certain personal property by the Town Assessor as a basis for levying property taxes. 2) The Grand List. 3) The tax base.

The assessed value of any property is set at 70% of its market value. The 70% assessment ratio is the same throughout Connecticut and is required by state law.

Balanced Budget: A budget in which revenues are equal to expenditures.

Current Tax Levy: The total amount of revenues to be raised through property taxes at the current mill rate. The current tax levy is the central figure used to calculate the mill rate. It is distinct from non-current levy taxes which consist primarily of taxes and interest owed from prior years.

Debt Service: Payment of interest and repayment of principal on debt that the Town has issued, typically for large capital projects.

Deficit: 1) The excess of an entity's liabilities over its assets. (See Fund Balance). 2) The excess of expenditures or expenses over revenues during a single accounting period.

Enterprise Fund: A fund established to account for operations financed in a manner similar to a private business enterprise; i.e., where the costs of providing goods and services to the public are financed or recovered through user charges. Manchester has three enterprise funds. The Water Fund and Sewer fund are supported primarily by user fees based on customers' water consumption. The Sanitation Fund is supported primarily by fees paid by contractors that dispose of bulky waste at the landfill. In addition to paying for landfill operations, the Sanitation Fund pays for curbside garbage collection and disposal.

Fire Fund: The fund that accounts for Fire Department operations. Depending on the location of a property, fire protection service is provided by either the Town Fire Department or the Eighth Utilities District (which has its own fire department). The Town Fire Department and the Eighth Utilities District each set a separate tax levy and mill rate to support fire protection service for properties located within their respective districts.

Fiscal Year: An accounting period of 12 months, which in Connecticut begins on July 1 and ends on June 30. In Manchester, the fiscal year is typically named for the two calendar years it spans. For example, the fiscal year that begins on July 1, 2006 and ends on June 30, 2007 will be referred to as Fiscal Year (FY) 2006/07.

FTE: Full time equivalent; the equivalent of one full-time employee.

Fund: 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.

Fund Balance: The difference between assets and liabilities in a governmental fund at a particular point in time (such as the end of the fiscal year). A negative fund balance is sometimes referred to as a fund deficit. Can be considered the Town's reserves or "rainy day" fund.

General Fund: The fund that accounts for most municipal operations, including education, police, public works, human services, general government, recreation, library services, and most debt service.

Grand List: 1) A valuation of real estate and certain personal property by the Town Assessor as a basis for levying property taxes. 2) The tax base.

Mill: One tenth of one percent of the taxable Grand List

Mill Rate: The property tax rate that is based on the valuation of property. A tax rate of one mill produces one dollar of taxes on each \$1,000 of property valuation.

Non-Current Levy Taxes: Property tax revenues that consist primarily of taxes and interest owed from prior years. Non-current levy taxes are not included in the Current Tax Levy which is the central figure used to calculate the mill rate.

Surplus: The amount by which revenues exceed expenditures in a given year.