

The Borough of Carlisle's annual budget process starts in July with the distribution of the budget schedule and instructions to budget managers and elected officials. Included in the instructions are key dates of completion to help participants understand the various deadlines of the budget process. Each budget manager is required to enter budget information into the Borough's accounting software.

Groups that are key to the budget process are noted below:

- Department Supervisors are responsible for preparing detailed estimates of each expenditure account under their budgetary control. This group will participate in the capital and operations review meetings to help all parties understand the various needs of their department.
- Department Heads work with their supervisors to develop their various budgets. This group participates in the budget review meetings. They attend the public hearings.
- The Finance Department will compile all of the information prepared by the various departments and will perform variance analysis on the expenditure proposals. Revenue estimates are also developed using historical and current information. The Finance Director and Assistant Finance Director will participate in all budget meetings. Additionally, the Finance Department consolidates all of the budget information for the budget packet provided to Borough Council and the public.
- Manager's Office – The Borough's Chief Administrative Office oversees and is involved in the entire budget process.
- Borough Council – The Borough's elected officials have ultimate decision making authority over how the Borough appropriates available funds.

There are two separate meetings with each department to review capital and operating budgets. Participants of these meetings include the Borough Manager, Assistant Borough Manager, Finance Director, Assistant Finance Director, Department Head, and any supervisors of the department head. The primary purpose of these meetings is to have an open discussion of the expenditures included in the budget submission. These meetings begin in August and are completed by the end of September.

"Capital Request Forms" are required for each capital expenditure proposed. A capital expenditure is defined as costing at least \$5,000 and having a useful life of at least five years. Some of the information included on these forms is listed below:

- Expenditure brief description
- Type of expenditure
  - New
  - Replacement
  - Addition
  - Major Maintenance
- Expenditure justification
- Estimated costs
- Recommended Financing Sources
- Annual Operating Cost impact

As soon as possible after October 1<sup>st</sup>, the Borough's finance department begins working on the projected revenues for the remainder of the current year and for the following year's budget. Historical information, trends analysis, and current activities are used to develop the revenue estimates.

Once all of the preliminary estimates for revenues and expenditures are completed, the Borough's finance department begins comparing new information to prior year budget and actual to ensure that all of the information is accurate.

After the preliminary estimates are completed, the Borough's finance department and Manager's office work together to evaluate any changes needed to the original submissions. Follow up discussions may be necessary with department heads to evaluate any potential changes to their budgets.

Following changes to the original submission, a revised version is provided to department head's for their review and input. Once department heads have reviewed the budget, the Borough Manager prepares the budget message.

Subsequent to the completion of the budget message, information is organized and provided to the Borough's elected officials approximately one week before the public hearings on the budget. Public hearings are usually held around the middle of November. Pursuant to The Borough Code of Pennsylvania, a proposed budget must be prepared at least thirty days prior to the adoption of the budget and shall be kept on file with the borough secretary and be made available for public inspection by the borough secretary for a period of ten days. Notice that the proposed budget is available for public inspection shall be published by the borough secretary in a newspaper of general circulation.

Borough Council must adopt a budget by December 31<sup>st</sup>. The practice has been for Borough Council to adopt the budget at its regularly scheduled December meeting. Once the budget is adopted, it is put on the Borough's website and a hard copy is made available for the public to review.

Below is a timeline of the budget process outlined previously:

- Mid-July – Budget schedule and instructions distributed
- Mid-August – Capital Request forms submitted
- August & September – Operating expenditures and capital expenditure department meetings
- 1<sup>st</sup> week of October – Revenue estimates completed
- October – Analysis and review
- Early November – Budget information submitted to Borough Council
- Mid-November – Public Hearings on Budget
- 2<sup>nd</sup> Thursday of December – normally when Borough Council adopts budget
- December 31 – Required Council Budget Adoption

The Borough Council in its reasonable discretion may, in any year, by motion, modify the budget after its final adoption. New appropriations, supplementary appropriations, and transfers from one appropriation to another may be made during the fiscal year, either before or after the expenditure is authorized or ratified after the expenditure is made, provided it is within the current year's revenues, or the money be made available through borrowing as allowed by law.

During the month of January following any municipal election Borough Council may amend the budget and the levy and tax rate to conform with its amended budget. A period of ten days' public inspection at the office of the borough secretary of the proposed amended budget after notice by the borough secretary to that effect is published once in a newspaper of general circulation shall intervene between the proposed amended budget and the adoption thereof. Any amended budget must be adopted by council on or before the fifteenth day of February.

The Government Finance Officers Association (GFOA) recommends that, at a minimum, financial policies in the following areas be developed by professional staff and formally adopted by the jurisdiction's governing board. A brief description of each policy, as presented by GFOA, is provided below each policy.

- **Financial Planning Policies**

- **Balanced Budget**
  - Defines balanced operating budget
  - Encourages commitment to balanced budget in normal circumstances
  - Provides for disclosure when deviation from balanced operating budget is planned or when it occurs
- **Long-Range Planning**
  - Process that assesses the long-term financial implications of current and proposed operating and capital budgets, budget policies, cash management and investment practices, programs and assumptions
- **Asset Inventory**
  - Assess condition of all major capital assets
  - Used to plan for ongoing financial commitments required to maximize the public's benefit

- **Revenue Policies**

- **Revenue Diversification**
  - Encourages diversity of revenue sources in order to improve the ability to handle fluctuations in individual sources
- **Fees and Charges**
  - Identifies manner in which fees and charges are set and to the extent to which they cover the cost of the service provided
- **Use of One-time Revenues**
  - Discourages use of one-time revenues for ongoing expenditures
- **Use of Unpredictable Revenues**
  - Provides guidelines on collection and use of major revenue considered unpredictable

- **Expenditure Policies**

- **Debt Capacity, Issuance, and Management**
  - Specifies appropriate uses for debt
  - Identifies maximum amount of debt and debt service that should be outstanding at any time
- **Reserve Accounts**
  - Maintain prudent level of financial resources to protect against the need to reduce service levels or raise taxes and fees due to temporary revenue shortfalls or unpredicted one-time expenditures

- Operating / Capital Expenditure Accountability
  - Compare actual expenditures to budget periodically
  - Decide on actions to bring budget into balance, if necessary

GFOA believes that the adopted financial policies should be used to frame major policy initiatives and be summarized in the budget document.

Additionally, GFOA recommends that these policies, along with any others that may be adopted, be reviewed during the budget process. Professional staff should review the policies to ensure continued relevance and to identify any gaps that should be addressed with new policies. The results of the review should be shared with the governing board during the review of the proposed budget.

Below are the financial policies developed by the Borough of Carlisle. The Borough uses these policies as a guide for providing services to the community at a reasonable cost. Policies presented are not intended to restrict Borough Council's authority when determining service requirements for the activities of the Borough.

### **Financial Planning Policy**

- A balanced operating budget is defined as recurring operating revenues equaling recurring operating expenditures.
- Capital expenditures and funding of capital expenditures are not considered part of a balanced operating budget. Funding of capital expenditures will be provided through designated revenues, debt proceeds, grants, contributions, or cash reserves.
- Section 27-3 of the Carlisle Borough Code requires a balanced budget to be adopted, with anticipated revenues equal to appropriated expenditures for all funds.
- Section 27-8 of the Carlisle Borough Code requires any increase in budget appropriations to be approved by the Borough Council in the form of an amendment to the budget resolution.
- Section 27-8 of the Carlisle Borough Code requires that transfers among budget accounts only require the approval of the Borough Manager, except that any transfer of appropriations within any budget account so as to increase the salary appropriation for the purpose of employing additional personnel shall require an amendment of the budget resolution by the Council.
- The Borough of Carlisle will follow Section 1316, Investment of Funds, of the Pennsylvania Borough Code. This section specifically identifies authorized types of investments.
- Periodically the Borough of Carlisle will conduct long-term projections of the Borough's finances.
- Periodically the Borough of Carlisle will update its capital improvement plan to assess current capital assets and plan for future capital requirements.

**Revenue Policy**

- Included as part of Borough Council’s biennial goal planning process was an initiative for Borough staff to investigate revenue generating concepts.
- The Borough of Carlisle’s budget process includes an evaluation of all fees assessed by the Borough. If any fees need adjusted, recommendations are provided to Council as part of the budget process and adopted at the last Borough Council meeting of the year in December.
- One-time and unpredictable revenues will only be used for specific expenditures such as special projects or capital expenditures. These revenues will not be used to support recurring operating expenditures.
- The Borough Manager has the authority to write off any delinquent accounts receivable.

**Expenditure Policy**

- The Borough of Carlisle will strive to pay for all capital projects with cash reserves
- If the Borough does not have enough cash reserves to fund needed capital projects, the Borough may consider issuing debt to finance the projects.
- When issuing debt, the capital projects being financed should have a useful life of at least the term of the debt issued.
- The maximum amount of debt outstanding at any time must comply with provisions of the Pennsylvania Local Government Unit Debt Act 53 Pa. C.S. § 8001 *et. seq.*, as amended and supplemented. This Act says that the debt outstanding for a local government unit cannot exceed 250% of its borrowing base. The borrowing base is the arithmetic average of total revenues received for the three preceding fiscal years.
- The Borough will strive to achieve fund balance reserves consistent with the goals adopted by Borough Council. Below is each fund’s goal as a percentage of annual operating expenditures:
  - General – 20%
  - Sewer – 50%
  - Water – 5%
  - Parking – 50%
- Actual financial results will be analyzed regularly. Tools used to monitor the results are listed below:
  - Notifications are provided by Borough’s accounting software when accounts payable invoices are being processed if a particular account exceeds budget.
  - The Finance Director will communicate any significant budget variances in the monthly staff report.
  - Department budget managers provide updated projections for their respective departments as part of the annual budget process.
  - At least once per year the Borough will analyze financial results vs. budget and provide a report and presentation to Borough Council on the status of the budget.
  - Capital expenditures will be provided quarterly as part of the Finance Director’s staff report.

Fund Balance is defined in the Borough of Carlisle's fund balance policy as a measurement of available financial resources. It is used to identify the available resources to repay long-term debt, reduce property taxes, add new governmental programs or expand existing ones, or enhance the financial position of the Borough, in accordance with policies established by Borough Council.

When the Borough develops fund balance estimates during the budget process, cash reserves as of December 31<sup>st</sup> of the second year prior to the budget are used as a starting point to develop the estimated cash position of the Borough. For example, for the 2014 budget, 12/31/12 was used as the starting point. 2013 projections were added to develop an estimated 12/31/13 fund balance, which was used to estimate the fund balance as of 12/31/14.

The Borough's presentation of fund balance in the budget differs slightly from the presentation of fund balance in the CAFR. When the Borough prepares the budget the emphasis is on the amount of cash in reserve. Therefore, the amount stated in the CAFR is significantly different from the amount used for the budget since the fund balance in the CAFR is calculated by taking the difference between total assets and liabilities in each fund.