

TOWN OF SIMSBURY

POLICY FOR A STRUCTURALLY BALANCED BUDGET

Adopted by the Board of Finance on August 16, 2022

Objective: The Town of Simsbury is required by law to have a balanced budget. However, the law does not distinguish between a budget that is balanced using short-term fixes and a budget that is structurally balanced for the long term. A true, structurally balanced budget is one that is designed to achieve balance for multiple years into the future. By adopting a budget policy based on the principles of structural balance, the Town of Simsbury seeks to establish a strong financial foundation for our community for years to come.

Policy Statement for adoption: The Town of Simsbury will adopt structurally balanced budgets in which predicted or estimated recurring revenues equal or exceed predicted or estimated recurring expenditures. The budgets will use realistic revenue estimates. No debt will be issued to fund operating expenditures.

Rationale: A structurally balanced budget has three important qualities.

First, ongoing expenses should be covered by ongoing revenues. Ongoing revenues are revenues that can reasonably be expected to continue year to year, with some degree of predictability. Property taxes are an example of recurring revenue. Other examples include recurring State or Federal Grants, such as the Educational Cost Sharing grant, Town Aid Road grant, Municipal Revenue Sharing grant, etc.

Ongoing expenses that can be expected to continue year to year, in amounts necessary to maintain current levels of service. Staff salaries, benefits, materials and services, and asset maintenance costs are common examples of recurring expenditures.

The second important quality of a structurally balanced budget is that one-time or short-term revenues are used to fund only one-time or short-term expenses. Examples of this might be either a grant with a term limit that does not recur year-to-year or a settlement from a lawsuit.

The third quality of a structurally balanced budget is that the Town have adequate reserves as a hedge against risk. This serves as a “bottom line measure” to help determine the extent to which structural balance goals are being achieved. Simsbury will maintain General Fund Balance reserves between 15-17% of the operating budget in accordance with the Fund Balance Policy adopted by the Board of Finance.

The Town of Simsbury policies adopted by the Board of Finance to support a structurally balanced budget are posted on the Town of Simsbury Finance Department website. These include:

- Investment Policies
- Investment Policy Statement OPEB
- Non-Lapsing Account for the Board of Education
- Capital and CNR Policy
- Defined Benefit Pension Plan Investment Policy
- Fund Balance Policy
- Debt Management Policy
- Defined Contribution Plan Investment Policy
- Policy on Budgetary Transfers and Supplemental Appropriations