

THE IMPACT OF

THE TIMING OF

\$ STATE AID DECISIONS

ON LOCAL BUDGETMAKING

A REPORT BY THE

**CONNECTICUT ADVISORY COMMISSION
ON INTERGOVERNMENTAL RELATIONS**

DECEMBER 1987



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ADVISORY COMMISSION ON INTERGOVERNMENTAL RELATIONS

The Advisory Commission on Intergovernmental Relations (ACIR) is a 25-member legislative branch agency of the State of Connecticut, created in 1985 to study system issues between the state and its local governments, and to recommend solutions as appropriate. The membership is designed to represent the state legislative and executive branches, municipalities and other local interests, and the general public.

The role of ACIR, as contained in Section 2-79a of the General Statutes, requires that the commission shall: (1) serve as a forum for consultation between state and local officials; (2) conduct research on intergovernmental issues; (3) encourage and coordinate studies of intergovernmental issues by universities and others; and (4) initiate policy development and make recommendations to all levels of government.

The commission is served by a two person staff, including an executive director and a research analyst. The staff, which began in the Fall of 1986, is located at 80 Washington Street, Hartford.

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ISSUE STATEMENT

State aid is one of the more significant elements of most local government revenue budgets. As such its predictability is extremely important for local fiscal planning.

The timing of state legislative decisions on grant programs and allocation formulas are crucial to this predictability. Timing generally appears to be somewhat of a problem each year, with exceptionally difficult problems arising in years when potential aid decisions are made late in the state and local fiscal years.

While the General Assembly can make aid decisions on any timetable, and local governments are not desirous of jeopardising or rejecting assistance whenever available, the relationship of the timing of state aid decisions to the local government budget cycles has a significant impact on the potential usage and benefits of such funding. When local budgets are adopted and tax rates set (in accordance with local charters or ordinances) before aid amounts are known, options for use of "new" money may be severely constricted and state and local goals may be frustrated.

BACKGROUND

State Budget Process and Timing

The proposed State budget is put together during the Fall and early Winter, with formal presentation by the Governor to the General Assembly in the beginning of February (See Appendix A). The budget is usually approved by the General Assembly between the middle of April and early May, although occasionally approval has been as late as mid-June (See Appendix B).

As part of the budget preparation process, the Governor makes an initial determination of the State aid formula grants to municipalities, releasing the amounts and estimated distributions with his overall proposed budget. These formula grants account for the great majority of all state aid to municipalities in Connecticut which is normally included in local operating budgets.

Each year (in the last decade) the State Office of Policy and Management has compiled a booklet entitled Estimates of State Aid to Municipalities: Statutory Formula Grants, which is provided to each municipality at approximately the same time as the Governor's budget proposals are provided to the General Assembly. As can be seen from the chart in Appendix C, the early estimates have generally been quite close, in the aggregate, to the final budget amounts. There have, however, been two years out of the past seven years when the February estimates have been approximately ten percent different from the post-session estimates. In those years with significant differences, one was nine percent higher and the other was nine percent lower than the February estimates.

In addition, when the post-session estimates are most significantly different in the aggregate, there are even more significant variations among the municipal distributions. For example, in 1981-82, when the total estimates were reduced by 8.6% during the legislative session, the City of Hartford saw an 18.8% reduction in its estimates, while the Town of

Madison experienced only a 2.7% reduction. Conversely, in 1986-87, when grants were increased by 9.1% overall (over the initial estimates), Hartford saw only a 5.7% increase in comparison to increases of 25% and 24.7% respectively in Woodbury and Madison. This situation significantly weakens the value of the February estimates as a credible early local budget planning tool.

Local Government Budget Processes and Timing

Budgeting practices vary considerably among Connecticut's local governments including differing processes and timing.

Process variations include budget initiation and preparation by differing local government officials and/or boards, review by differing bodies, and adoption by such diverse bodies as town/city councils and, through budget referenda, the full electorate.

Timing varies at all meaningful points in the local budget timetables. The Commission identified three key times in the local budget process which are particularly significant:

- (1) the revenue estimate date;
- (2) the budget submission date (executive to legislative or financial); and
- (3) the budget adoption date.

Table 1 indicates the ranges of time and the most frequent timing for municipalities on the uniform fiscal year (July 1 - June 30).

TABLE 1
LOCAL BUDGET TIMING

	<u>Early</u>	<u>Late</u>	<u>Most Frequent</u>
Revenue Estimate Date	Dec. 1	Apr. 1	Early Feb.
Budget Submission Date	4th Mon. in Jan.	May 5	1st week in Apr.
Budget Adoption Date	1st Mon. in Apr.	June 4	2nd week in May

(Source: CACIR, April 1987)

Contrary to the perceptions of some local officials, there are no state requirements on the timing of local budget adoption. Individual municipalities, with or without charters, can establish their own budget timetables within the fiscal year structure.

The timing of the local budget cycle has a considerable impact on the degree of problem any given municipality has with the timing of state aid decisions. Obviously, the later the local cycle, the more likely local officials are to have final state aid estimates to work with. Those municipalities with requirements for early budget decisions have the most significant informational problems.

Budget Timing Relationships

The local budget planning problem in Connecticut is evident when one looks at the relative timing of the respective state and local budget cycles.

The state is releasing preliminary state aid estimates in early February, and the majority of municipalities surveyed¹ require their revenue estimates at the same time. While early February is typical, a significant number (12 of 35 of those surveyed) require revenue estimates earlier.

The state budget is generally finalized by the Appropriations Committee and adopted by the General Assembly in the time period between mid-April and early May, and local budgets are typically adopted in the second week of May. Again, while these dates are typical, a significant number of municipalities surveyed adopt budgets earlier in accordance with charters or ordinances (10 of 35), and the state budget adoption date has been as late as June 22 at least once in the past eight years.

¹The Commission conducted a telephone and charter-search survey of 35 municipalities in December, 1986. The sample was designed to balance representation by size of community, geographical location and form of government so as to be as representative of the 169 municipalities as possible. The full sample can be seen in Appendix D to this report, which also contains the information gathered.

FINDINGS

This report analyzes the difficulties annually experienced by municipalities in budgeting their revenues caused by the timing of state formula aid decisions. Essentially, the issue can be separated into two problems: (1) data for planning purposes; and (2) data for final budget and tax rate purposes.

Data for Planning Purposes

It is clear that the relationship between state and local budget preparation timetables does not allow for final estimates of state aid to be used as a planning tool for municipalities in considering local budget options. The timing is such that municipalities face serious problems in preparing their budgets, particularly those communities which receive the most formula aid (which tend to be the most distressed municipalities).

The impact of inadequate aid information is highest on the local executives in their initial presentation of the budgets. They have real difficulties programming their proposals from substantive and policymaking perspectives in that the state aid figures could well determine whether they are dealing with property tax increases, the status quo or potential property tax reductions. When aid estimates are not available until after the local budget is presented, the initiative for local changes is significantly limited and tends to be transferred from the local executive to the local legislative bodies.

The lack of final data does not, however, completely preclude municipalities from having a reasonably close aid estimate through the use of a combination of historical data, estimates provided by the Office of Policy and Management and reports on state aid debates in the General Assembly available through state legislators, municipal interest groups and the media.

In most years since preliminary estimates have been provided, the data has been

sufficiently accurate to be valid for local budget figures. The years in which this has not been the case, however, give pause to the professional budget planner. The local government can never be certain whether or not the estimates are going to be close to the final figures or are going to be meaningfully different since major changes can occur at any point in the state budgetary process.

This concern, however, is somewhat assuaged by the fact that a relatively careful observer of the state budget generally can make an informed judgement from the issues and discussions surrounding the budget whether or not state aid estimates are likely to be changed. Since in most years significant changes have not been made, the problems of local budgetmakers have been diminished. This generalization is not very comforting, though, to local officials in difficult years; particularly officials in municipalities relying the most on state aid decisions.

Data for Final Budget and Tax Rate Purposes

The evidence gathered for the past six budget years suggests that, generally, state aid estimates are available in time for inclusion in final budgets in most local communities.

There have been times when such was not the case (as in 1983-84 when the state budget was adopted on June 22) but these situations are the exception and do not appear to demonstrate a continuing system problem. Similarly, situations such as the 1986 adoptions of the Education Enhancement Act and the Town Improvement Program at points beyond local budget cycles, are unusual. They also represent a less significant budgeting problem because each program specified local actions outside of the normal budget process to use the state aid.

Of considerably more concern was the 1986 adoption of the Telephone Access Line Tax Share Program for local governments at a time beyond that which it could be calculated into budgetary revenues for most municipalities. This caused the municipalities to either leave the

proceeds in local surplus funds or utilize special appropriations. Neither of these alternatives is a good budget practice, nor do they necessarily meet the goals of the state in making the monies available.

RECOMMENDATIONS

Solutions which would require changes in the state budget adoption process or timing have limited appeal. The state budget is one of the most significant policymaking tools of the General Assembly and aid to municipalities is only part of that budget (although a major part). Specific restrictions on municipal aid timing decisions are unlikely to receive serious consideration by the General Assembly unless such restrictions are needed to resolve obvious and severe problems. Since such a degree of problems are not evident, it would seem out of proportion to the problem to recommend that the municipal aid decision timetable drive the state budget timetable.

A change requiring all local fiscal years to be October 1 - September 30 (with concomitant local changes in municipal budget dates) could neatly solve the entire planning and budgeting problem. Like the state budget timetable solution above, however, this response seems to be an overreaction to the problem.

The recommendations the Commission determines as most appropriate and the most practical responses to the problem are as follows:

(1) Local governments should consider setting their budgetary decisions as late as possible consistent with balancing their need for state aid (and other) information against the concerns of timing problems caused by such issues as tax bill preparation and potential budget rejections.

To this end the Commission has developed a "model" budget timetable (See Appendix E) which can be used, with modifications for local situations, by any municipality on the uniform fiscal year. The General Assembly should provide a method for the adoption of this timetable at the local level without the necessity of a lengthy and complex charter revision. This could be accomplished by such legislative actions as: (1) authorizing adoption of the timetable by local ordinance regardless of local charter provisions; or (2) authorizing a simplified, limited charter amendment procedure for this particular situation.

(2) The General Assembly should recognize that it can cause or resolve significant policymaking problems for 169 municipalities by the timing of its state aid decisions. In that context, it is recommended that the General Assembly adopt legislative rules which would provide for early consideration and adoption of minimum local aid distributions. These distributions should be sent to all municipalities by the Office of Policy and Management within five (5) working days following their adoption.

(3) The state should develop new, and augment existing, research capacities to analyze, on an on-going basis, the overall impact of state aid and property tax levels on municipalities including the implications of the timing of aid decisions, and to continually monitor state-local fiscal relationships through an appropriate agency such as the Commission (ACIR) or the Office of Policy and Management.

APPENDICES

STATE OF CONNECTICUT

BUDGETING CYCLE

**Agencies Submit
Budget Request**

by September 1

**Preliminary Budget
for Internal Purposes**

by November 15

**Governor's Budget
Presented to the
General Assembly**

Early February

**House & Senate
Adoption of budget**

**by Adjournment
1st week May or June**

CONNECTICUT STATE BUDGET

PASSAGE TIMELINE

1987-88 (long session)	SHB7240	House Passed 5/13/87 Senate Passed 5/19/87 Governor Signed 6/11/87
1986-87 (short session)	SSB 428	Senate Passed 4/25/86 House Passed 5/05/86 Governor Signed 6/11/86
1985-86 (long session)	SHB7451	House Passed 5/08/85 Senate Passed 5/09/85 Governor Signed 5/16/85
1984-85 (short session)	SHB5212	House Passed 4/18/84 Senate Passed 4/25/84 Governor Signed 5/21/84
1983-84 (long session)	SB2001	Senate Passed 6/21/83 House Passed 6/22/83 Governor Signed 6/23/83
1982-83 (short session)	SHB5094	House Passed 4/15/82 Senate Passed 4/20/82 Governor Signed 5/06/82
1981-82 (long session)	SHB7132	House Passed 4/21/81 Senate Passed 4/21/81 Governor Signed 5/18/81
1980-81 (short session)	SHB5203	House Passed 4/10/80 Senate Passed 4/11/80 Governor Signed 4/14/80

ESTIMATES OF STATE AID TO CONNECTICUT MUNICIPALITIES

<u>Year</u>	<u>Pre-Session</u>	<u>Post Session</u>	<u>Dollar Difference</u>	<u>Percent Difference</u>
1987-88	\$1,025,554,387	\$1,066,616,939	\$41,062,552	4.0%
1986-87	814,048,675	888,478,048	74,429,373	9.1%
1985-86	720,061,497	740,636,325	20,574,828	2.9%
1984-85	647,293,104	655,727,857	8,434,753	1.3%
1983-84	570,757,658	585,354,037	14,596,379	2.5%
1982-83	527,996,308	526,606,006	(1,390,302)	(0.3%)
1981-82	509,167,317	465,239,419	(43,927,898)	(8.6%)

LOCAL GOVERNMENT BUDGET TIMETABLES

APPENDIX D-1

CHARTER TOWNS

<u>Municipality</u>	<u>Form of Government</u>	<u>Population</u>	<u>Revenue Estimate Date</u>	<u>Budget Submission Date</u>	<u>Budget Adoption Date</u>
Avon	Council-Manager	9,900	March 1	April 10	3rd Mon. in May
Bethel	Selectman-Town Meeting	13,100	as required	as required	1st week in May
Bridgeport	Mayor-Council	148,000	January 1	Mid April	last Tues. in May
Columbia	Selectman-Town Meeting	3,400	as required	March 15	2nd Tues. in May
Ellington	Selectman-Town Meeting	9,000	February 15	March 15	2nd Mon. in May
Glastonbury	Council-Manager	23,800	March 5	April 5	June 4
Greenwich	Select-Rep. Town Mtg.	63,800	December 1	May 5	May 15
Haddam	Selectman-Town Meeting	6,000	March 30	April 15	May 30
Hartford	Council-Manager	147,000	as required	1st week in April	May 31
Ledyard	Mayor-Council	16,100	3rd Mon. in Jan.	1st Mon. in March	4th Mon. in May
Madison	Selectman-Town Meeting	12,700	Early February	1st week in April	1st Tues. in May
Meriden	Council-Manager	56,200	January 1	February 1	April 17
New Britain	Mayor-Council	80,300	December	End of January	April 17
New London	Council-Manager	30,700	April 1	April 1	June 1
New Milford	Selectman-Town Meeting	16,600	1st Tues. in Feb.	3rd Tues. in March	2nd Tues. in May
Norwalk	Mayor-Council	80,300	December 31	4th Mon. in Jan.	1st Mon. in April
Plainfield	Selectman-Town Meeting	12,300	Mid-January	Mid-March	1st Mon. in May

LOCAL GOVERNMENT BUDGET TIMETABLES (CON'T)
CHARTER TOWNS

<u>Municipality</u>	<u>Form of Government</u>	<u>Population</u>	<u>Revenue Estimate Date</u>	<u>Budget Submission Date</u>	<u>Budget Adoption Date</u>
Torrington	Mayor-Council	31,600	February 15	March 20	May 15
Windsor	Council-Manager	24,300	April 1	2nd Mon. in April	2nd Mon. in May
Wolcott**	Mayor-Council	13,400	End of April**	End of May**	1st week in August**
Woodbury	Selectman-Town Meeting	6,900	January 15	End of April	3rd Mon. in May

** Fiscal year is September 1 - August 31.

LOCAL GOVERNMENT BUDGET TIMETABLES (CON'T)
NON-CHARTER TOWNS

<u>Municipality</u>	<u>Form of Government</u>	<u>Population</u>	<u>Revenue Estimate Date</u>	<u>Budget Submission Date</u>	<u>Budget Adoption Date</u>
Ashford	Selectman-Town Meeting	2,900	Mid February	End of April	End of May
Bethany	Selectman-Town Meeting	4,500	February	End of March	3rd Mon. in May
Canterbury	Selectman-Town Meeting	3,300	Early March	March 31	3rd Fri. in May
Canton	Selectman-Town Meeting	7,700	March 3	Mid April	1st Mon. in May
Colchester	Selectman-Town Meeting	8,000	2nd week in February	March 1	2nd Tues. in May
Cornwall	Selectman-Town Meeting	1,200	Early February	Early March	1st week in May
Easton	Selectman-Town Meeting	6,300	End of February	Mid March	2nd Mon. in May
Litchfield	Selectman-Town Meeting	8,000	February	March	2nd week in May
New Fairfield	Selectman-Town Meeting	9,900	Mid February	Mid February	1st Fri. in May
No. Stonington	Selectman-Town Meeting	3,900	Mid January	March 1	1st Mon. in May
Old Lyme	Selectman-Town Meeting	5,800	Late March	End of April	Mid May
Redding	Selectman-Town Meeting	7,700	1st Mon. in February	2nd Mon. in March	2nd Thurs. in May
Salisbury	Selectman-Town Meeting	3,700	Early April	Late April	3rd Fri. in May
Stafford	Selectman-Town Meeting	10,100	Early January	March 1	End of May

MODEL BUDGET TIMETABLE

	<u>BOF/T.MTG</u>	<u>COUNCIL/ MANAGER</u>	<u>MAYOR/ COUNCIL</u>
Executive Presentation¹	4/15 ²	4/15	4/15
Public Hearing	5/1	5/1	5/1
Fiscal Authority Action	5/15		
Publication	5/20	5/20	5/20
Adoption³	5/27	5/27	5/27

¹Dates are suggested as "dates by which action must be completed". The presentation could actually be done earlier so as to give the Council/Board of Selectmen more time.

²Dates can be adjusted to allow for local flexibility and avoid holidays and weekends.

³If a municipality includes a budget referendum in its process, the timetable may have to be moved earlier.

EXPLANATION

The key factor in the timetable is the budget adoption date. The other points in the process are worked backward from the adoption date with the limiting factor being to have the required presentation date by the executive be relatively late in the fiscal year so as to give the executive more time to gather timely information (including state aid preliminary figures). The adoption date is set as late as possible, consistent with having one month to

perform administrative functions in setting up the new fiscal year after budget adoption.

In the Board of Finance/Town Meeting form of government, a separate period for consideration by the fiscal authority (the BOF) is identified. In practice, this overall time period is shared by the Board of Selectmen/Board of Education and the Board of Finance in this form of government, while the entire time is available to the legislative body in municipalities without a separate fiscal authority. It is realized that some Mayor/Council and Council/Manager municipalities have separate fiscal authorities as well. Those municipalities having these authorities could follow the timetable outlined for the Board of Finance/Town Meeting towns.

The public hearing date is set at the mid-point in the legislative/fiscal authority consideration of the proposed budget. This is timed to allow initial policymaking consideration and subsequent reaction time to public input. The timetable allows for over one month for legislative and fiscal consideration of the budget. This is intended to provide sufficient time for informed policymaking and debate while working within reasonable informational time constraints.