

**TOWN OF FAIRFAX
STAFF REPORT**

To: Mayor, Members of the Town Council

**From: Michael Rock, Town Manager
Laurie Ireland-Ashley, Finance Director**

Date: November 17, 2010

Subject: Discussion of a proposed policy to Adopt a Two-Year Budget

RECOMMENDATION

Discussion of a proposed policy to adopt a Two-Year Budget

DISCUSSION

Following the favorable experience of other municipalities in implementing a two year budget, staff recommends that the Town adopt a two year budget policy.

A two year budgeting policy provides the following benefits:

- Reinforcing the importance of long-range planning in managing the Town's fiscal affairs.
- Concentrating on developing and budgeting for the accomplishment of significant objectives.
- Establishing realistic time frames for achieving objectives.
- Creating a pro-active budget that provides for stable operations and assures the Town's long term fiscal health.
- Promoting more orderly spending patterns.
- Reducing the amount of time and resources allocated to preparing annual budgets.

Operating Budget Policies (from the Financial Policies – Page 2)

1. *The Town Manager shall prepare and present a proposed two-year budget to the Town Council within all statutorily prescribed deadlines. **The Town Council will adopt the first year budget with conceptual approval of the second year budget. A public hearing will be conducted in June of each year to adopt the budget.***
2. *A Budget Resolution will be adopted by the Town Council annually, which describes the budget amendment process and also specifies budget amendment authority.*
3. *All departments will participate in the responsibility of meeting the Town's financial policy goals and ensure the Town's long-term financial health. Budget control is maintained at the department level.*

4. *It is the Town's policy to adopt a balanced budget where operating revenue is equal to, or exceeds, operating expenditures. In the event a balanced budget is not attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of reserves to balance the budget is permitted. In the event that a budget shortfall is expected to continue beyond one year, the planned use of reserves must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases and/or expenditure decreases.*
5. *The operating budget shall serve as the annual financial plan for the Town. It shall serve as the Town's management plan for implementing goals and objectives of the Town Council, Town Manager and departments. The budget shall provide staff the resources necessary to accomplish Town Council determined service levels.*
6. *During the annual budget development process, the existing base budget should be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.*
7. *The annual review process should include an assessment to determine if funds are available to operate and maintain proposed capital facilities and other public improvements. If funding is not available for operations and maintenance costs, the Town will delay construction of new projects.*
8. *Any year-end operating surpluses will revert to un-appropriated balances for use in maintaining reserve levels set by policy and will be available for capital projects and/or one-time General Fund expenditures upon approval of the Town Council.*
9. *Where practical, the Town's annual budget will include performance measures of workload, efficiency, and effectiveness.*
10. *The Town's **Comprehensive Financial Plan** (Plan) is a long-term picture of the Town's finances and will be updated annually as part of the annual budget development. The Plan shall include forecasted expenditures and revenues of at least five (5) years for each fund; however, a ten (10) year forecast is preferred. The update will include an analysis of any substantial discrepancies of previous projections.*

As noted in item #1 above **"The Town Council will adopt the first year budget with conceptual approval of the second year budget. A public hearing will be conducted in June of each year to adopt the budget."**