TOWN OF Herndon VIRGINIA

Town Council Work Session
Agenda Item 2.c.

Agenda Item: **Proposed update to Adopted Budget Policy - Transfer/Reallocation/Redistribution of Funds**

Meeting Date: December 2, 2025

Category: Discussion

Prepared by: Marjorie Sloan, Finance Director

Description:
Town Council consideration and approval is requested to update the existing FY 2026 Adopted Budget – Policy on Transfer/Reallocation/Redistribution of Funds, as outlined below:

- The proposed updates raise the budget transfer limit requiring Town Council action from $100,000 to $200,000, to better accommodate the impacts of inflated costs, more material contracted services, maintenance project costs, and Town Council meeting schedule.

- The update provides further clarifications to exempt budget-neutral "housekeeping items" from requiring Town Council action.

Background:
Each year, the Adopted Budget includes an outline of the town's financial policies, a description of the basis of accounting and budgeting used in the town, and descriptions of the fund structure used to record the financial records of the town. This documentation also includes a section describing the rules governing approval of budget transfers. All budget transfers are neutral in nature (no incremental or reduction in revenues or expenditures).

Budget transfers include moving budgeted funds between account codes within a fund, between the personnel costs and other cost categories, as well as transfers between funds. Since 2019, the adopted budget book outlines approval protocols for transfers using a threshold of $100,000 for Departments Heads, the Town Manager, and Town Council. Staff is requesting to raise the transfer limit requiring Town Council action from $100,000 to $200,000. Raising the limit will provide greater flexibility to accommodate for rising costs, particularly in contract services, IT, and professional fees. It also allows the town manager to more quickly respond to the changing dynamics of repairs and maintenance across the departments. Current internal controls require documented budget before purchase orders can be issued. In addition to the increase in the

threshold, staff is requesting to document certain clarifications in applying the budget transfer policy. Staff is requesting exemption from the policy for the following three types of budget transfers.

1. Correction of a budget load error: Occasionally, it is determined that budgeted dollars were loaded to the incorrect account. In this case, it is beneficial to transfer the budget to the correct account which will be used to record the actual revenue or expenditure.

2. Changes and updates to the existing ledger structure and account codes: Under certain circumstances, it may be decided that new account codes should be added or inactivated to ensure actual financial reporting has the correct level of detail and transparency. We need to ensure that the budget is transferred accordingly.

3. The impact of approved staff reorganizations: From time to time during a fiscal year, it becomes necessary to consider adding or consolidating divisions/departments under updated supervisory, leadership or team structure. It becomes necessary to transfer both personnel and other expenditures to the new organizational structure. Attachment A provides the policy language with proposed updates.

Timing Impact:
Staff is requesting this Budget Policy update applicable for FY 2026 forward. If approved, the policy update will be in effect at the time of Town Council approval, and included in the FY 2027 proposed Budget Book.

Strategic Focus Area:
Strong Fiscal Stewardship

Fiscal Impact:
No fiscal impact.

Legal Impact:
Town of Herndon Charter, Sec. 3.5. - General grant of powers to council, grants power authority to the Town Council to enact changes to the town's financial policies.

Staff Recommendation/Next Steps:
Staff is requesting the Council to consider changing the budget policy in accordance with Attachment A.

Attachments:
1. Attachment A - Budget Policy Update