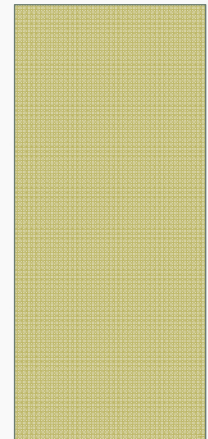


MICHIGAN PUBLIC SERVICE INSTITUTE

WHAT EVERYONE SHOULD KNOW ABOUT BUDGETING

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OVERVIEW OF ACTIVITIES

- **Discussion on budgeting requirements, concepts, and best practices**
- **Budget Game**
- **Wrap up and summarize**

WHAT IS A BUDGET?

*Budgeting is a black art practiced by bureaucratic magicians.
~David Muchow*

- **Definition**
 - Activities that involve the development, implementation and evaluation of your plan to provide services to your community¹
- **Mission**
 - To help your governing body make informed decisions about how to provide services and to promote stakeholder participation¹
- **Key Characteristics**
 - Long-term perspective¹
 - Links to organizational goals and priorities¹
 - Involves and promotes effective stakeholder communication¹

(1) Source: National Advisory Council on State and Local Budgeting

LEGAL REQUIREMENTS FOR A MUNICIPAL BUDGET

- **P.A. 2 of 1968, as amended, Uniform Budgeting and Accounting Act (insert Public Act 621 of 1978), defines the following:**
 - **Budget appropriation MUST be in place before a governmental unit may commit to spending money. (Section 14 (3))**
 - **Must include prior year actual, current year estimates, and the proposed budget amount (Section 15 (1))**
 - **Balanced Budget: A budget in which revenues equal or exceed expenditures. Revenues can include a use of fund balance. (Section 15 (2))**

LEGAL REQUIREMENTS FOR A MUNICIPAL BUDGET

- **P.A. 2 of 1968, as amended, Uniform Budgeting and Accounting Act (insert Public Act 621 of 1978), defines the following:**
 - **Must include ALL special revenue funds & the General Fund (Section 16 (1)). This is called the General Appropriations Act. You may adopt budgets for other fund types and this is called a special appropriation act.**
 - **The General Appropriations Act must include the numbers of mills of ad valorem taxes to be levied and the purpose for the levy. This is also known as the “Truth in Budgeting Act”. (Section 16 (2))**
 - **The governing body may adopt the budget by line item, by department, or by fund.**

BUDGET PROCESS

- The annual budgetary process involves the following three phases:
 - I. Preparation
 - II. Adoption
 - III. Execution

BUDGET PROCESS: PHASE I

THE BUDGET “TO-DO” LIST

- **Preparation**
 - **Create the budget calendar**
 - **Estimate your revenues**
 - **Forecast your expenditures**
 - **Attend your budget kickoff with to review targets, economics, goals and timing plan**
 - **Develop/review City-wide strategic plan**

PREPARE YOUR BUDGET REQUESTS

- Review your assumptions, your political climate, and economic factors.



DEVELOP YOUR STRATEGIC PLAN

- Understand your community's goals and obligations and gather data to prepare the budget. Don't lose sight of what your priorities are.



REVISE YOUR BUDGET

- **Revise-** Throughout the process, change is constant. Even after adoption of the budget, amendments may be needed.



BUDGET PROCESS: PHASE II

- **Adoption**
- **Presentation of draft of a *balanced* budget to governing body**
 - Actual prior year figures for both revenues & expenditures
 - Estimate of current year figures for both revenues & expenditures
 - Proposed budget figures for both revenues & expenditures
- **Public Process**
- **Final Approval**

PUBLIC PROCESS

- **How are citizens included in the budget process?**
 - Public workshops
 - Townhall meetings
 - Budget Hearing
- **How do we manage their expectations?**
 - Simple concise information about the financial situation
- **What choices do we have for our community?**
 - In many cases, choices are limited. It helps to give them alternatives from which to choose.

BUDGET PROCESS: PHASE III

- **Implementation and Monitoring**
 - Enter approved budget into your financial system or initialize the new fiscal year in your financial system
 - Amend budget as necessary throughout the fiscal year to comply with State law
 - Monitor budget to actual amounts throughout the fiscal year

BUDGET BEST PRACTICES

- Use of fund balance to balance the budget
- Multi-year budgets
- One-time revenues vs. one-time expenditures
- Trend Analysis
- Pension and OPEB funding
- Shared Services
- Adopt financial policies- www.gfoa.org

USE OF FUND BALANCE/NET ASSETS

- **How much fund balance/net assets do I need?**
- **When should I budget a use of fund balance?**
- **Do I need a fund balance reserve policy?**

MULTI-YEAR BUDGETING

- **Advantages**

- Longer-term focus allows for more informed decision-making
- Minimizes surprises and provides better information

- **Disadvantages**

- Subsequent year's forecasts will have too much change
- Governing bodies cannot adopt more than one year at a time

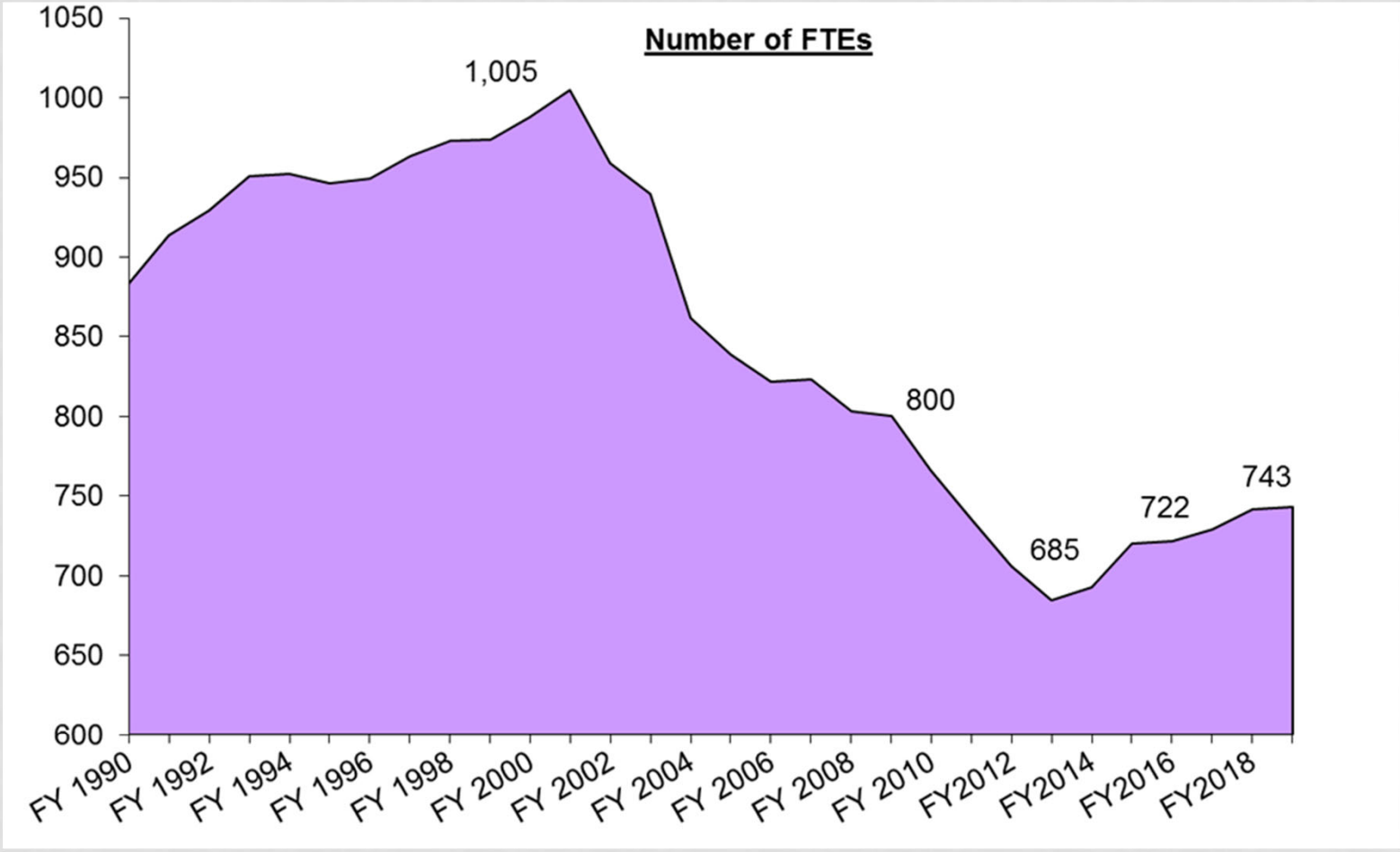
ONE-TIME OPPORTUNITIES AND COSTS

- **Match one-time expenditures with one-time revenues**
- **Do not use one-time revenues to solve budget shortfalls**
- **Evaluate penalizing ongoing operations for one-time expenditures**

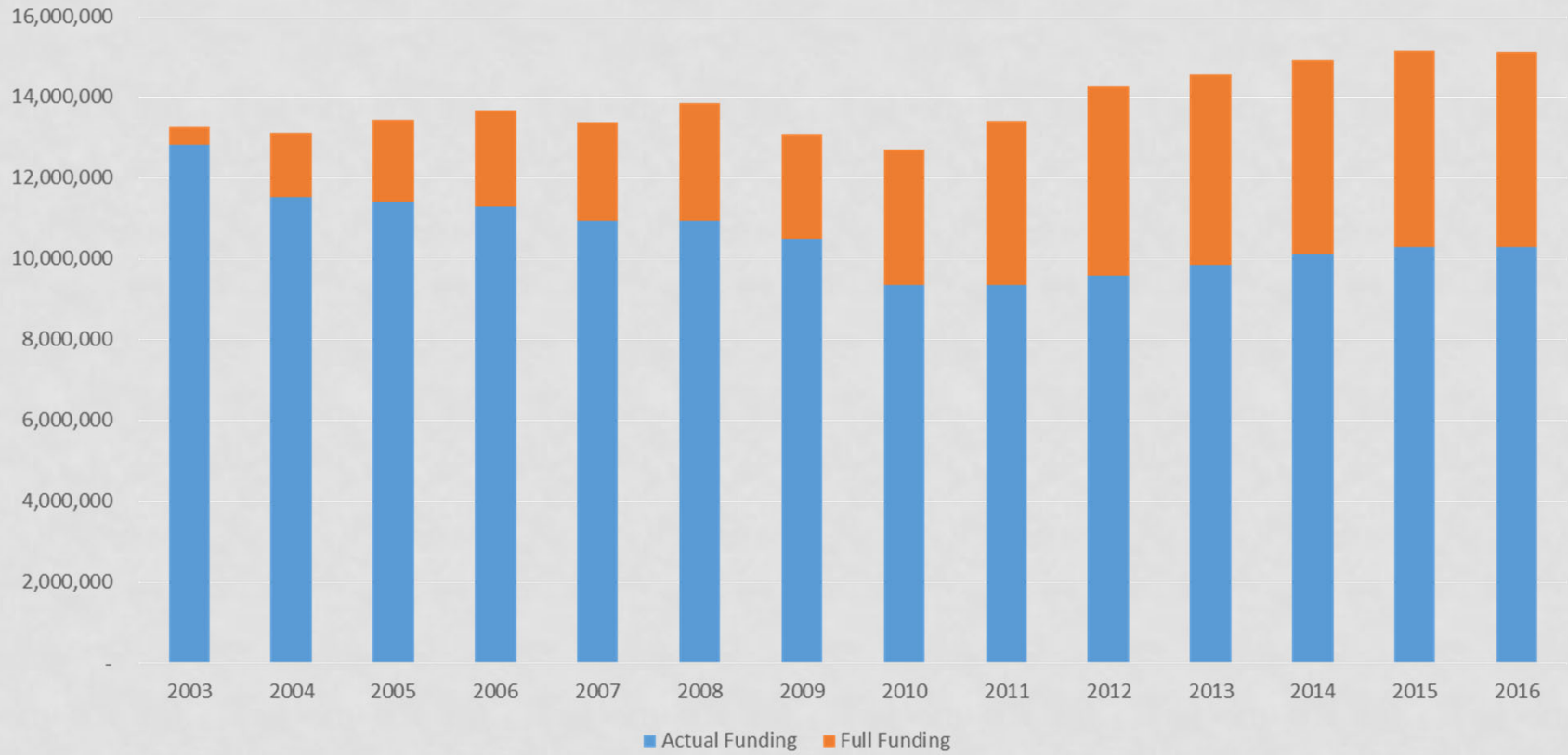
BUDGET BEST PRACTICES TREND ANALYSIS

*There are three kinds of lies- lies,
damned lies and statistics.*

~Mark Twain



State-shared Revenue Received vs. Retained by the State



BUDGET BEST PRACTICES PENSION AND OTHER POST EMPLOYMENT BENEFITS (OPEB) FUNDING

- **Public Act 202 of 2017-“Protecting Local Government Retirement and Benefits Act”**
 - **Beginning July 1, 2018, if a retirement health benefit is offered, funding is mandated.**
 - **If underfunded, governing body must approve a plan and waiver application.**
 - **Department of Treasury will determine if waiver is granted.**
 - **Effective 7/1/2018, must fund the normal cost of new hires.**

BUDGET BEST PRACTICES SHARED SERVICES

- Technology
- Equipment
- Personnel
- Natural Resources

ADOPT FINANCIAL POLICIES

- **Capital Planning and Economic Development**
- **Debt Management**
- **Treasury and Investment Management**
- **Budgeting and Fiscal Policy**
- **Accounting, Auditing and Financial Reporting**
- **Retirement and Benefits**

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