

Michigan Association of Mayors

Budget Concepts and Considerations

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Budget Concepts and Considerations

Overview of Today's Session



- Budget Concepts
- Overview of the Budget Process
- Uniform Budget and Accounting Act Requirements
- Budget Process — Preparation/Adoption/Execution
- Fund Balance
- Multi-year Budgeting

Budget Concept



Definition of a Budget

- A budget is a plan of financial operations embodying an estimate of proposed expenditures for a given period of time and the proposed means of financing them.
- In the State of Michigan, all General and Special Revenue Funds are required by law to be budgeted annually.

Budget Concept



Budget Mission

- The mission of the budget process is to help decision-makers make informed choices about the provision of services and capital assets and to promote stakeholder participation in the process.
- In one sense, the “budget document” is the package of information that the governing body reads to educate and inform itself so that it may give the legal approval to management to incur expenditures during any given fiscal year.

Budget Concept



Budget Dimensions

- A budget process that is well-integrated with other activities of government, such as the planning and management functions, will provide better financial and program decisions and lead to improved governmental operations. A process that effectively involves all stakeholders – elected officials, governmental administrators, employees and their representatives, citizen groups, and business leaders – and reflects their needs and priorities will serve as a positive force in maintaining good public relations and enhancing citizens' and other stakeholders' overall impression of government.

Budget Concept



Good Budgeting

- A good budget process is characterized by several essential features. A good budget process:
 - Incorporates a long-term perspective;
 - Establishes linkages to broad organizational goals;
 - Focuses budget decisions on results and outcomes;
 - Involves and promotes effective communication with stakeholders; and
 - Provides incentives to government management and employees.

Budget Concept



Budget Challenges

- The following issues need to be taken into account in the tools and techniques that support budgetary practices:
 - Managing the budget process and changes to budget practices
 - Dealing with differences between governments, including size and legislative processes
 - Adjusting for organizational structure and issues

Budget Concept



Budget Challenges (cont'd)

- Desire to have change or to prevent change
- Level of resources available for programs
- Available level of technical system and support
- Dealing with high (or low) expectations
- Legal requirements
- Ensuring citizen processes work
- The level of stakeholder understanding
- Accuracy of projections and assumptions
- Level of disclosure

Budget Concept



Budget Process

- The annual budgetary process involves the following three phrases:
 - A. Preparation
 - B. Adoption
 - C. Execution

Budget Concept



A. Preparation

- The preparation phase is usually the responsibility of the chief financial executive of the municipality. It is accomplished by analyzing the financial data and projecting the program requirements of the various functions and activities for which a particular government may have responsibility.

Budget Concept



B. Adoption

- Once the budget has been prepared, it is presented to the governmental unit's legislative body for consideration, possible modification, and final approval. Typically, the public is invited to participate in this phase via public hearings on proposed budgets.

Budget Concept



C. Execution

- Budgetary accounts are set up to record the estimated revenue and appropriations in the fund accounts. As economic conditions change, budget amounts can be amended by a process determined by the governmental unit's legislative body.

Overview of the Budgeting Process



Types of Budget

- Line item
- Cost center (department, activity, program or function)
- Fund total – provided it meets activity level exception

Budgets are commonly prepared on a line-item basis and adopted at a less restrictive level.

Budget Requirements



Required Data

- Must include prior year actual, current year estimates and proposed budget
- Must include fund balance, projected to the end of the budget year; this amount must be positive (the definition of a “balanced budget”)

Budget Requirements



Observation: This is the appropriate time for the governing body to debate and agree upon a target fund balance.

- Must include the General Fund and any Special Revenue Funds

Budget Preparation



Organization of the budgetary centers

P.A. 2 defined budgetary centers as “a general operating department of a local unit or any other department, institution, court, board, commission, agency, office, program, activity, or function to which money is appropriated by the local unit.” But beyond that, it does not tell us whether we should organize our centers by individual responsibility, program or function centers, or some other methodology.

This is an often-overlooked aspect of budget preparation. Too often we merely follow last year’s chart of accounts without thinking through why we have the organization we do.

Budget Preparation



Short- and long-term objectives

Most governments have broad goals that guide the direction for the government and serve as a basis for decision-making. In the best practices, these goals are committed to writing; but if not, the broad goals still probably exist. Further, many governments have specific approaches to move towards achievement of these long term goals (policies, plans, programs and management strategies).

The budget should discuss these goals and approaches; the budget document should explain how this budget moves the government towards achievement of the goals.

Budget Preparation



Transparency in Budgeting

- Why Focus on Transparency?
- Transparency enables citizens:
 - To actively participate in policy discussions
 - To give feedback to elected leaders about how resources are used and services are provided
 - To hold government decision-makers accountable for their actions

Budget Preparation



What Does Transparency Mean?

- Transparency vs. access?
- Does transparency apply only to data and information or does it apply to the process in which decisions are made?
- All of the above

Budget Preparation



The Goal of Transparency Should Be

- Provide information in a clear and easy-to-understand manner
- Accessible from a central location or single website
- Updated regularly and often
- Honest and accurate
- Designed from the citizen's perspective - attractive/intuitive presentation
- Provide opportunity for feedback or comments

Budget Preparation



Best Practices:

- Public budget workshops
- Citizen focus groups
- Town hall meetings
- Citizen input via the web
- Video presentations

Budget Adoption



Legal Requirements

- An annual budget is required by Public Act 2 of 1968, as amended. Public Act 2 differentiates between the budget document and the General Appropriations Act. The budget document is the informational package that is put together by the Chief Administrative Officer in order for the governing body to pass the resolution approving spending for the upcoming year. This resolution is referred to as the “General Appropriations Act.”

Budget Adoption



- Beyond the “legal” requirements – getting a budget adopted is a *communication* process – *selling the document*.
- Strong, clear budget message
 - Communicate the economic and fiscal conditions that support the budget
 - Establishment of priorities, linking the detail to those priorities
 - Why things were done this way

Budget Execution/Monitoring



WHY?

- Legal Compliance
- Internal Controls/Fraud
- Performance Measurements
- Community Goals & Legislative Priorities
- Future Forecasting and Budgeting

Budget Execution/Monitoring



WHO?

- Legislative Body
- Budget Office/Officer
- Department Heads/Directors
- Office Managers

Budget Execution/Monitoring



WHAT?

- Revenues
- Expenditures/Expenses
- Capital Outlay
- Other

Budget Execution/Monitoring



WHEN?

- Never
- Daily
- Weekly
- Monthly
- Quarterly
- Annually

Fund Balance



What is the correct minimum level of fund balance?

- There is no single right answer.
- Fund balance policy
- As the size of your budget grows larger, so does the required minimum — but not linearly. So a larger government has a smaller “percentage of the budget” target than a smaller government does.
 - Most governments should be in the 10-20% range.
 - A very small government might have a 20-25% target.
 - A very large government might have a 5-10% target.
 - The State of Michigan, on its fiscal indicator scores, uses 13% (for everybody).

Fund Balance



- Special Considerations

- The appropriate amount of fund balance should be determined with consideration to any special plans, needs or situations, such as:

Fund Balance



- Special Considerations (cont'd)
 - Planned Capital Assets Acquisitions
 - Accumulation of Compensated Absences
 - Contingent Liabilities
 - Lawsuits
 - Environmental cleanup
 - Michigan Tax Tribunal and county chargebacks

Multi-Year Budgeting



- The process of producing DETAILED revenue estimates and expenditure authorizations across a number of fiscal years.
 - Most commonly a biennial basis
- Adoption, monitoring, amending, and reporting over a multi-year period
 - Not simply a forecast or benchmark in the out-years, an actual appropriation

Multi-Year Budgeting



- Why do this? One primary question:
 - Do you (your unit of government) plan to be in business for more than one fiscal year?
 - If you do, then it is prudent public policy to financially plan for that event.

Multi-Year Budgeting



- Budget issues and problems are not limited to a single fiscal year, they trend over several years. Use of multi-year budgeting allows a unit to capture and deal with those trends.
- Multi-year budgeting also provides some basis of continuity.
 - With appropriations planned for at least two years, managers and employees can, collectively and individually, make and implement plans.
- Finally, multi-year budgeting builds a discipline of concentrating on long-term fiscal views rather than an annual review.

Multi-Year Budgeting



- To be successful, a multi-year budget should NOT simply be a repeat of one year's budget into the next year, with inflation.
- Each year, although building from the previous, needs to be analyzed and proposed independently.
- The key is to locate and analyze the trends that drive certain revenues and expenditures, build budgets based upon those trends.
 - If the trends change or are altered by policy action, the changes must be noted and budgeted.

Multi-Year Budgeting



- It is suggested that a unit consider making their multi-year budget “rolling.”
 - This means not simply adopting a multi-year budget, but when making amendments, having those amendments impact multiple years as well.
 - If a new position is added, the cost will impact all years.
 - So will benefit changes, law changes, new commitments, etc.
 - Monitor and amend as you go along.

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