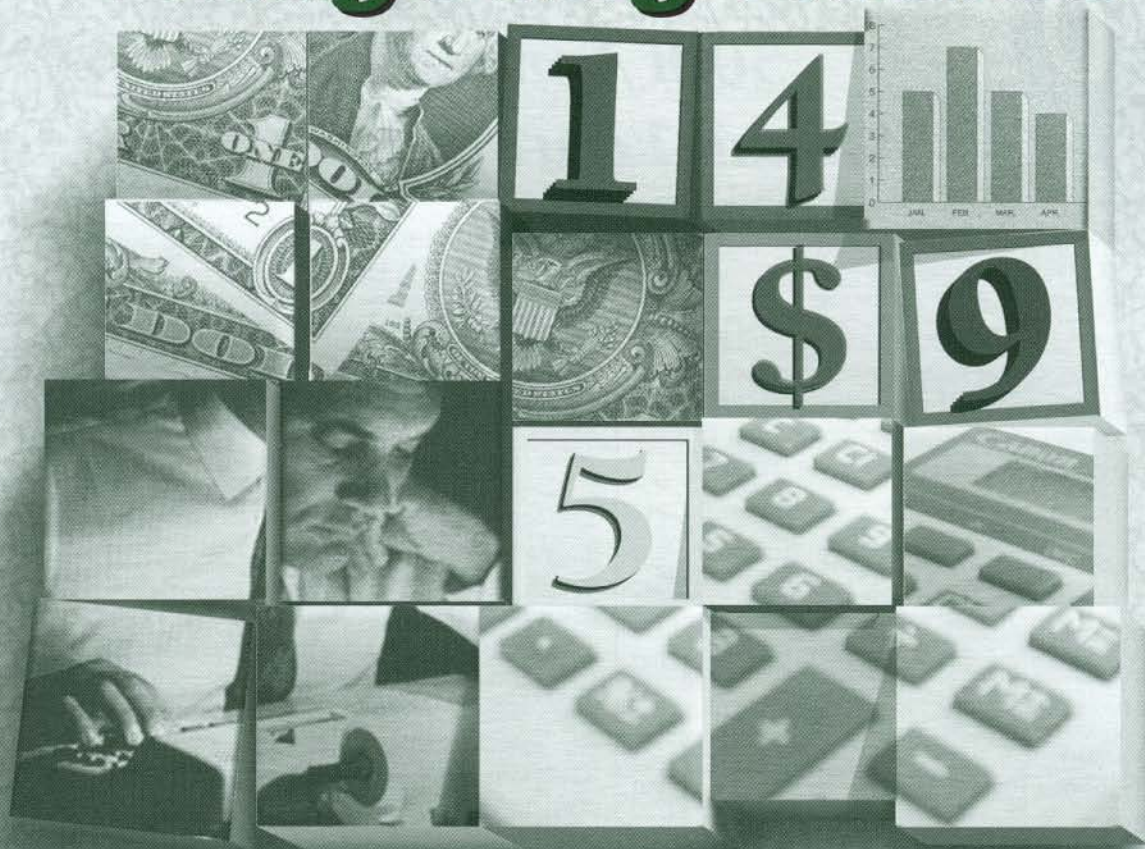


# Budgeting Basics



**H**ow does a township board determine how much tax revenue it will collect, decide how many persons to employ in the township, or ensure that a department head spends no more of the taxpayers' money than the board deems appropriate?

**The answer, of course, is the township budget. The township budget is a tool officials can use to address the community's needs. This article explains how to prepare and adopt a budget, and use it as a year-round planning tool.**

## *Budget Serves Important Functions*

While all local governments must adhere to the same budgeting statutory requirements, many townships and other legislative bodies approach the budget function differently. Some township boards carefully develop their budget over many months of study, deliberation and debate. In other townships, budget construction is shoe-horned into the last month of the fiscal year—given little thought, adopted with minimal discussion by the board, kept in a file cabinet until the fiscal year-end approaches and then exten-

sively amended to reflect actual revenues and expenditures.

While no one will likely get into serious legal trouble if the budget process is just a number-crunching exercise, a township board is cheating itself by not effectively using the single-most powerful tool at its disposal to shape and manage the township's government and keep the township in good financial shape.

"Start early—because nothing ever goes the way you plan in any financial world, whether it is personal finances or township finances," recommends Karen Lovejoy Roe,

who became supervisor of Ypsilanti Charter Township (Washtenaw Co.) six years ago, after serving as trustee for eight years.

The budget is not merely a legal requirement. Rather, it can determine the fundamental political issues facing the township board. The budget accomplishes all of the following:

- **It decides *who gets what*.** The township board has a relatively fixed amount of money to spend, and the spending options—township programs, activities and services—are almost limitless. The budget is

a statement of priorities and speaks volumes about what the township board thinks is important to the community.

- **The budget ensures accountability to the community by making elected and appointed department heads accountable for their expenditures.** The township board limits how much money each function can spend and decides what may be purchased or acquired. If elected officials promise to fix a road, build a park or improve assessment administration, budgeting sufficient funds to accomplish these goals is how officials prove that promises made are promises kept.

- **The budget provides financial stability to the township.** Without a budget, township officials would not know how much money is available during a fiscal year or how much money they need to ensure that the township still has funds at fiscal year-end.

- **It gives the township authority to levy taxes and spend money.** In a letter opinion to the state treasurer dated June 13, 1970, the attorney general concluded:

*"The authority of each local unit to expend the funds of that unit must be found in the budget and in the appropriations therefrom. Except for funds budgeted*

*and appropriated in accordance with governing law, there is no basis for levying or collecting taxes or otherwise making available or disbursing public monies."*

### **A Continuous Process**

The primary statute impacting township budgets is the Uniform Budgeting and Accounting Act, Public Act 2 of 1968, amended by PA 621 of 1978 (MCL 141.421, *et seq.*). Charter townships must also comply with similar statutory requirements in the Charter Township Act (MCL 42.1-42.34). While the law mandates that every township have a budget and prescribes specific information township officials must include in the budget, the law does not mandate that legislative bodies take the time to develop a meaningful budget. However, charter townships are given certain budget deadlines that provide ample opportunity for deliberations. See *Budget Preparation Deadlines* below.

Preparing a meaningful budget takes time and effort. It is not something that can be done in a short time frame. Instead, it is a year-round process that never concludes. According to Lovejoy Roe, "Budgeting is absolutely a year-round project—it's a

monthly process. There are always unforeseen issues that come up impacting budgets. It's crucial to look at year-to-date expenditures every month to make sure you are on target, and if not, make changes as needed and not wait to be surprised at year-end."

"I have yet to see a budget that does not need to be amended at least once during the year," adds **Agnes Conway**, who has been **New Buffalo Township** (Berrien Co.) supervisor for six years. Prior to that, she spent eight years as township treasurer. "We keep track by letting department heads know each month how their budget is doing."

In most units of government, a traditional budget calendar looks something like this:

1. The supervisor, superintendent or manager develops budget worksheets.
2. Department heads receive worksheets.
3. Department heads develop revenue and expenditure estimates.
4. Supervisor, superintendent or manager collects and compiles data.

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## **Budget Preparation Deadlines**

### **General Law Townships**

While not required by law, general law townships should adopt their own reasonable deadlines. It may be a good idea to initiate discussions on policy issues five months prior to the new fiscal year and aim to have a preliminary budget approximately 60 days prior to fiscal year-end.

General law townships with an April 1 to March 31 fiscal year should have their preliminary budget by February 1, and those with a July 1 to June 30 fiscal year should have their preliminary budget by May 1.

### **Charter Townships**

The Charter Township Act requires a specific budget timetable for key events in the charter township budget formulation process. For easy reference, the dates below have been given as the first of the month wherever possible.

#### **January 1 to December 31 Fiscal Year**

Departments submit budget requests	150 days prior to fiscal year (August 1)
Budget delivered to township board	120 days prior to fiscal year (September 1)
General appropriations act adopted	60 days prior to fiscal year (November 1)

#### **April 1 to March 31 Fiscal Year**

Departments submit budget requests	150 days prior to fiscal year (November 1)
Budget delivered to township board	120 days prior to fiscal year (December 1)
General appropriations act adopted	60 days prior to fiscal year (January 31)



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5. Expenditure estimates are trimmed back to reflect revenue projections.

6. Township board receives budget and schedules a public hearing.

7. Public hearing is held during a regular or special meeting.

8. Township board adopts the budget.

9. Township board monitors and amends the budget throughout the year as necessary.

10. The budget is amended periodically during the year. It is required by law to amend appropriations when actual revenues plus available surplus will fall short of estimates, or when it appears that actual expenditures will exceed appropriations.

11. Process starts again for the following fiscal year.

**Powell Township** (Marquette Co.) Supervisor **Sarah Pelto** begins her budgeting process with conversations—and lots of them—with each department head and board member in her township. After meeting with department heads, discussing their needs for the upcoming year, and getting an update on the current budget from the treasurer and clerk, Pelto holds “workshop meetings” with all of the board members.

“We go through every line item in the budget, and start putting in figures,” says Pelto, MTA Upper Peninsula Director at Large, who has been supervisor for 10 years. “It’s a group effort. We discuss where we stand, what we need and what we can do, where to put the money and where to cut.”

“I try to get everybody involved, so no one is left out, or feels they haven’t received information.”

Township officials may also want to review the previous year’s budget, along with the current year, to help determine historic revenue and expenditure trends.

When developing the budget, township officials should allow time to consider its policy implications. When reviewing previous revenue and expenditure data, officials should evaluate whether the money was well spent, or if needs and priorities have changed. This will help growing communities budget

*“Township officials and departments are the backbone to the budget. The supervisor and auditor really just arrange the musical score while the staff, department heads and employees play the music and provide all instruments, making our job pretty easy. No player or part works without the rest. Others are crucial to a successful process and a budget that works.”*

**Karen Lovejoy Roe,**  
**Ypsilanti Charter Township**  
**(Washtenaw Co.) Supervisor**

more efficiently for expenses necessary to meet changing service needs.

#### *Involve Others in the Process*

While the Uniform Accounting and Budgeting Act provides that the township supervisor, manager, charter township superintendent or other person designated by the township board is the chief administrative officer with the authority to prepare the budget and control expenditures, it is important to realize that all township officials and employees have a role in developing the budget.

In fact, the act assigns some duties to specific people on the township, such as:

- **Fiscal officer:** This position is assumed by the controller, finance director, business manager or other elected or appointed officer who prepares and administers the budget. In many townships, this duty falls on the clerk, who then prepares periodic expenditure and revenue reports for the township board.

- **All officials and employees:** All township officials and employees who incur financial obligations or debts on behalf of the township **must not** engage in a town-

ship financial transaction that violates state law, or divert township money for purposes inconsistent with budget appropriations.

Pelto urges, “Don’t try to do this by yourself. Working with the township board and department heads makes the process much easier.”

Gene Jorissen, supervisor/superintendent of Pere Marquette Charter Township (Mason Co.), adds, “Open communications with all departments and the other elected officials at all times makes budgeting a smoother process. Solicit, and value, employee input, especially for big changes. The treasurer is also an invaluable resource in determining the revenue that’s expected in the upcoming year.”

Lovejoy Roe notes, “Township officials and departments are the backbone to the budget. The supervisor and auditor really just arrange the musical score while the staff, department heads and employees play the music and provide all instruments, making our job pretty easy. No player or part works without the rest. Others are crucial to a successful process and a budget that works.”

#### *What Should a Budget Include?*

Michigan’s Uniform Budgeting and Accounting Act requires local governments to develop, adopt and amend when necessary an annual budget. Section 15 (MCL 141.435) also mandates the following information that townships must include in the budget:

1. **Year-end balance**—An estimate of the amount of surplus or deficit expected in the current fiscal year. Many townships wait until a fiscal year is nearly over to develop a budget to project as accurately as possible the current year-end balance, which will be reflected in the following year’s fiscal year budget as the beginning balance. However, it is not necessary to pinpoint the fund balance with great accuracy. Instead, begin with the current fund balance, add the revenues anticipated through the end of the year and subtract the anticipated expenditures. This provides a reasonably accurate estimate of fund balance, which is sufficient. Once the township’s annual or biennial audit is completed, the board can adjust the budget’s fund balance to reflect the audited year-end balance.

2. **Beginning fund balance.** The amount of surplus or deficit accumulated from the prior fiscal year. Nearly every local government has some money left over from one fiscal year to the next. This money should be considered a resource available for spending.

3. **Historical expenditure and revenue data.** A budget must show fiscal data for three separate fiscal years: the previous completed fiscal year, the current fiscal year and the ensuing fiscal year for which the proposed budget will cover. For the prior fiscal year, the budget needs to list actual expenditures, actual revenues and the year-end surplus or deficit. For the current fiscal year, the budget should show estimated year-end expenditures and revenues, and the estimated carry-over. For the ensuing fiscal year, the budget must show the estimated beginning balance—which is the same as the prior estimated year-end balance—and proposed expenditures and revenues, and the ending fund balance.

4. **Contingent or emergency expenditures.** While some townships use the estimated fund balance as a contingency source, a better way to provide for emergency expenditures is to create a separate cost center or budget activity in the budget. The contingency cost center is used to keep the budget in balance. If additional spending is necessary, the amount budgeted for contingency is reduced, and the appropriate line item for the expenditure is increased. Therefore, the additional spending does not affect the fund balance, provided the contingency cost center has a balance sufficient to cover the expense.

5. **Funds requiring budgets.** As specified by the Uniform Budgeting Act, state law requires budgets for the general fund and special revenue, such as extra-voted public safety millage, solid waste, etc. (note that local law may be more restrictive).

Any activity between the various township funds that represent transfers of fund equity from one fund to another must be reflected as a "transfer-out" (other financing use) in the "donor fund" and as a "transfer-in" (other financing source) in the recipient fund.

While most officials know that a budget must be "balanced," occasionally there is confusion about what this means. A bal-

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Pere Marquette Charter  
Township (Mason Co.)  
Supervisor

anced budget means that total estimated expenditures plus any accrued deficit cannot exceed estimated revenues plus available surplus. It does not mean that estimated expenditures and revenues must be the same. It also does not mean that the budget's estimated year-end balance must be "zero." If the township has an estimated year-end fund balance greater than zero, the budget is in balance.

A township budget must be consistent with the Uniform Chart of Accounts prescribed by the Michigan Department of Treasury. The chart of accounts requires that each fund, activity or cost center, and each line item use an assigned number. Townships may need to segregate certain revenues such as extra-voted millages and their associated expenditures into various funds. Seven fund types are authorized for township use as required by statute or when deemed necessary. The number of funds should be kept to the minimum number necessary to accomplish legal compliance with external restrictions (extra-voted millage, bonding requirements), or accomplish the internally driven financial reporting objectives (e.g. measuring the cost of providing a service).

Activities that the township expects to be self-funded should have their own "enterprise" funds. These funds are used to record user charges for services to the general public where all or most of the costs involved, including depreciation, are recovered through those charges. Water, sewer, landfill and utility funds are enterprise funds.

Section 2a of the Uniform Budgeting and Accounting Act (MCL 141.422a(4)) does not require a budget be developed for any of the following funds:

- Debt service funds
- Capital project funds
- Internal service funds
- Trust & agency
- Enterprise

We suggest that informational summaries be presented on the debt revenue, capital projects, internal service funds and enterprise funds. Optionally, budgets could be adopted for the debt services, internal service and enterprise funds.

#### *How is the Budget Adopted?*

After each individual board member has been given ample opportunity to review the proposed budget and discuss any items privately with the chief administrative officer, the proposed budget should be publicly reviewed by the entire township board.

This activity should take place prior to the public hearing required by law, as the township board should be given an opportunity to make any desired adjustments before receiving public comments. The chief administrative officer explains recommendations to the township board, but the entire board functions as a legislative body in reviewing and modifying the proposed budget.

#### *Public Hearings*

MCL 141.412 requires the township to hold a public hearing on its proposed budget. General law townships must publish a notice of the budget public hearing in a newspaper at least six days prior to the hearing. Charter townships must publish their budget public hearing notice at least seven days before the hearing. The notice must state the time, date and place of the hearing, and a notice where a person can inspect a copy of the budget.

PAs 40, 41 and 42 of 1995 allow townships to skip holding a separate Truth-in-Taxation hearing by including in the budget hearing notice this phrase in 11-point boldface type: "The property tax millage rate proposed to be levied to support the proposed budget will be a subject of this

*continued* ▶

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hearing." The general appropriations act must also state the total number of ad valorem property tax mills that the township will levy and the purposes for which that millage is to be levied. At a public hearing, residents offer comments, but do not vote on the budget.

Note: Some townships with fiscal years ending March 31 or June 30 may not be able to hold the combined Truth-in-Taxation and budget public hearing because the information required for Truth-in-Taxation calculations might not be available prior to holding the required public hearing on the budget. Townships subject to Truth-in-Taxation (levying more than 1.0 mill) that do not have the information prior to the budget hearing are required to publish separate notices and hold separate public hearings prior to levying the additional millage over the base amount. Timing and examples of these hearings are on the instructions to the millage rate request form (L-4029) or contact the MTA.

#### Township Board Approval and Adoption

Following the public hearing, the township board may consider and act on any changes to the tentative budget. Additional public hearings may be held, but are not required by law. Many township boards proceed to adopt the budget immediately following the public hearing. However, if any comments are received on the budget, the board may be creating a poor impression if the budget is adopted without giving any thought to the comments made by the public at the hearing. It may be preferable, therefore, to schedule budget adoption at

some upcoming meeting prior to the end of the fiscal year.

Many townships choose to hold the budget public hearing with the annual meeting of the electors. This may be a good practice if citizens come to the annual meeting. However, when annual meetings are held on the traditional last Saturday of the fiscal year, there is insufficient time to amend the budget after public comment prior to the beginning of the next fiscal year. A public hearing held in conjunction with an earlier board meeting avoids incurring additional costs for a special hearing, yet gives the board sufficient time to make subsequent amendments. The board can also schedule its annual meeting earlier in the month.

The budget must be adopted prior to the beginning of the township's fiscal year. Charter townships must adopt the budget 60 days prior to the fiscal year.

#### General Appropriations and Special Appropriations Act

To adopt the budget, the township board must pass by roll call vote a budget resolution or "general appropriations act." The term is not well defined in the Uniform Budgeting and Accounting Act, but seems to apply to all of the historical data, proposed expenditures and revenues, property tax millages and other implementation language that a local government might want to adopt related to the budget. In most townships, the general appropriations act includes all funds. Examples of the general appropriations act are available at MTA's Web site, [www.michigantownships.org](http://www.michigantownships.org). The Uniform Budgeting and Accounting Act also allows a governmental entity to adopt a "special appropriations act" for funds requiring only a simple statement of anticipated revenues and expenditures.

Once adopted, the budget can be an effective management tool, but only if properly monitored. The township's general appropriations act

should mandate periodic reports to the board of actual expenditures and revenues compared to the amended budget. The board may authorize an administrative officer to make budget amendments to cost centers or line items, but the total appropriation to any fund can only be altered by board action.

#### Finishing What You Started

The finished budget document reflects on the township government itself. An exemplary budget may include sections such as a budget summary, community profile, and explanation of the budget process. It may also include the mission statement, goals, and a report of accomplishments for each township function, such as the clerk's office, fire department, planning department, etc. Computer programs, such as spreadsheets and word processing software, make it easy to include charts and other graphics in the budget. An aesthetically pleasing document reflects well on the township's professionalism and instills public confidence that the township's finances are safe. ■

Portions of this article were excerpted from "Packing More Punch: Budgets Provide Townships with a Foundation for Financial Management," which appeared in the February 1997 issue of the Michigan Township News. David Williamson, CPA, of Post, Smythe, Lutz & Ziel, also contributed to this article.

The MTA book, "Building a Better Budget," is being updated, and will be available by summer 2003. Watch future issues of Michigan Township News for availability.



**Have more budgeting questions?**  
"Adopting the Budget" is one of more than 50 classes being held at the MTA Annual Educational Conference, January 28-31, 2003, in Detroit.

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**Mark A. Eidelson, AICP**  
President  
(517) 347-2120

4211 Okemos Road  
Suite 15  
Okemos, MI 48864