



This continuing education article and accompanying self-assessment is worth 2.0 elective credits in MTA's

Township Governance Academy. See page 29 for details.

OBJECTIVES

- Discuss the various roles of the township budget on future township planning
- Provide insights into township budgeting methods and approaches

CORE COMPETENCIES

- To work effectively with individuals, departments and committees to achieve desired outcomes
- To demonstrate knowledge about township government responsibilities, functions and powers
- To be aware of financial matters affecting the township, including revenue sources
- To understand the township budget and role in monitoring budget

The long view: Budgeting best practices

The origin of the word “budget” is the Latin bulga, a little pouch or knapsack in which money and documents are kept; both French and English traditions imply it was made of leather. By the end of the 16th century, “budget” referred to the contents of one’s bag as well as the container itself. It was not until the early 18th century that a version of the annual budget emerged in government. The historical purpose of the annual budget was to control public funds, while control-oriented budgets were designed to limit corruption by allowing detailed scrutiny of expenditures.

The contemporary budget, rather than a vehicle for simply controlling expenditures and allocating resources, is increasingly seen as a tool to promote governmental accountability, stability and effectiveness. The township budget is the “managerial road map to guide your municipality.”¹ The Government Finance Officers Association (GFOA) of the United States and Canada suggests that the budget has four main purposes: that of a policy document, a financial plan, an operations guide and a communication device. It is also important for township officials to understand that budgeting is an ongoing and multi-year process—and that the budget process should “not be simply an exercise in balancing revenues and expenditures one year at a time.”⁵

The Governmental Accounting Standards Board (GASB) views the budget as so fundamental to government as to be an environmental characteristic; as intrinsic to government as the Great Lakes are to Michigan. GASB further states the budget is an expression of public policy and financial intent. It is also of critical importance that the budget incorporate a long-term perspective.

THE BUDGET AS MANAGEMENT'S TOOL

First and foremost, the township budget is a management tool—not an accounting convention. Presenting and apportioning money to the services and programs that promote a township's long-term goals and strategies, the approval of the annual budget appropriations is the township board's opportunity to formally support the goals of the community.

In truth, there is no right way to budget and there are as many budget formats as there are budgets. The method of providing programs and services, as well as the method of determining the monetary allocation, is unique to each municipality. As a management tool, the budget format should be designed in a manner that best communicates municipal goals and objectives, and also facilitates analysis and decision-making for your township. Your budget format will be unique.

The following excerpt from a training manual on program budgeting explains the importance of the budget presentation:

People react to what you place in front of them. If people see a line-item budget, they will ask one set of questions focusing on the control orientation presented. If you ask people to judge the same activities in a program budget format, their review and selection criteria will be totally different. This issue has been phrased by Jess Burkhead (1956) as follows: "The 'means' of budgeting affects the 'ends' of budgeting—people think about what is put in front of them."¹

Innovations in methods, such as program budgeting, performance budgeting and priority-driven budgeting, are all a result of the changing focus of the budget process from one of control toward analyzing alternative goals and achieving strategic objectives with available resources. (See sidebar article on page 24 for more on budget types and appropriation methods.)

In a recent GFOA article, the budget is described as the "key decision-making process" and the legally adopted budget as the "government's most significant financial document." The appropriations process, by allocating funds to services, programs and capital expenditures, legally approves the township's direction; the previous year direction is reaffirmed or realigned based on new information.

THE BUDGET SERVES FOUR MAIN PURPOSES

The following budget purposes incorporate a long-range perspective. "Recommended budget practices encourage governments ... to ensure that the impacts of budget decisions are understood over a multi-year planning horizon and to assess whether program and service levels can be sustained."⁵

1. Budget as a policy document

Deciding how to spend a community's scarce resources is perhaps the most important policy decision made during any



Deciding how to spend a community's scarce resources is perhaps the most important policy decision made during any fiscal year. Officials must make decisions that contribute the most to township goals—thus, budgeting can be viewed as the process by which governmental policy is made.

fiscal year. Officials must make decisions that contribute the most to township goals—thus, budgeting can be viewed as the process by which governmental policy is made.¹ An example of a financial policy would be an unassigned general fund fund balance target equal to 15 percent of expenditures at year-end.

The GFOA recommends including in the township's budget:

- A statement of entity-wide long-term financial policies and long-term non-financial goals.
- A list of short-term objectives and initiatives guiding the budget development.
- A message that articulates the priorities and issues in the budget year.
- Clearly stated goals and objectives of the organizational units (departments, etc.). Unit goals should always be derived from government-wide goals.

Of course, government resources are always less than what is needed, so budgeting involves examining and judging the worth of things—and making choices. A formal expression of public policy on the township's goals and objectives, the budget showcases the choices and priorities of the municipality and how the available resources will be used to add value to the community.

2. Budget as a financial plan

As a financial plan, the main purpose of budgeting is to achieve structural balance between revenues and expenditures. Structural balance is a long-term perspective; although individual annual budgets may run at a surplus or deficit, in the long term, the sum of the years' expenditures must not

exceed the sum of the years' revenues. The budget should include detailed objectives to be achieved by the proposed expenditures and can suggest alternative plans for achieving those objectives.

Townships may wish to consider incorporating the following into the annual budget:

- A description of all funds subject to appropriation.
- A summary of major revenues and expenditures, including an explanation of the underlying assumptions for the estimates and any significant trends.
- Revenues and expenditures for three years—prior, current and proposed budget year.
- An explanation of changes in fund balance.
- Note capital expenditures and the effect these will have on operating expenditures.
- Current debt obligations and their effect on operations and legal debt limits.

As the annual financial plan for your community, the budget gathers executive and legislative decisions in one document.

3. Budget as an operations guide

The budget, as an operations guide, apportions funds to operating departments so that resources are spent on programs and services in accordance with the approved decisions. The budget increases management responsibility and accountability by providing a means for measuring accomplishments against goals and by comparing actual with planned outcomes.¹

Best practices can include:

- A description of activities, functions and programs provided by the organizational units.
- Objective measures of progress toward accomplishing government-wide goals.
- An organizational chart.
- A summary of personnel and position counts for three years—prior, current and budget year.

The budget motivates departments by setting forth targets and limitations, and by serving as a mechanism for obtaining involvement and commitment of operating departments.

A properly designed budget can also foster administrative efficiency and economy.

Budget types and appropriation methods

Since every township is unique in the type of services and programs provided and further unique in its method of providing those services and program, there can be no standardized budgeting formats or appropriation analysis. Still, the following definitions—although subject to variation—can be useful when thinking about your budget process and budget format.

TYPES OF APPROPRIATION METHODS

1) Zero-Based Budgeting—The basic tenet of zero-based budgeting is that the existence of all program activities and services must be justified annually. Everything starts with a zero budget.

2) Incremental Budgeting—Incremental budgeting is the typical approach to governmental budgeting. Only variances from past years must be justified based on the assumption that the “baseline” is automatically approved.

3) Priority-Driven Budgeting—Resources should be allocated according to how effectively a program or service achieves the goals and objectives that are of the greatest value to the community. The township identifies

its most important strategic priorities, and then ranks programs or services according to how well they align with the priorities.³

TYPES OF OPERATING BUDGETS

1) Line-Item Budget—A line item budget focuses on the types of expenditures (salaries, supplies, etc.) and accountability derives from not spending over the limit legally authorized for individual accounts. The line-item budget offers the most control but does not provide any information on programs or services provided by the township.

2) Cost Center Budget—This budget adds some management flexibility to the budget by allowing township departments to shift resources from one line item to another within their specified cost center, but does not allow budget transfers between cost centers without township board approval. The fire department, for example, may operate several cost centers, such as personnel, equipment and supplies.

3) Performance Budget—At its broadest definition, performance-based budgeting emphasizes management efficiency in

expenditure allocations by measuring outcomes.² First, objectives or service levels are established that align with the overall goals, then measurement tools are established to gauge the success of the outcomes. Lump-sum appropriations are allocated to the activity, and department heads are provided with flexibility to utilize government resources as needed in return for their commitment to achieve said performance results. In some cases, township operations are restructured on the basis of the functions, activities and projects producing the outcomes.

4) Program Budget—A program budget emphasizes the benefits that citizens gain from municipal expenditures.¹ A program is viewed as an integrated group of activities, cost centers, functions and projects, usually under a single manager, that consume resources to contribute to a specified policy objective. Budgeting and accounting is carried out on a program basis.² The focus is long-range planning, and in smaller communities, the program may be limited to a single department—for example, the zoning department. The funds are again appropriated in a lump sum manner to the program.

4. Budget as a communications device

The budget document is the mechanism by which the township can inform residents about community financial limitations, opportunities and trends. A clear, thoughtful budget reduces uncertainties. It communicates significant information to residents, business owners, policy-makers, investors and municipal officials about the predictability of revenue streams and continuity of services and programs.

As a communications device, the budget converts goals and priorities into financial instructions for operating departments.

Including the following GFOA best practices in the township budget may enhance its use as a communications tool:

- Include an executive summary of significant budgetary issues, trends and resource choices.
- Explain the long-range strategic, financial and capital plans effect on the budget and budget process.
- Describe the township's budget process, including the amendment process.
- Use charts and graphs, where appropriate, to highlight financial and statistical information.
- Explain the relationship between the operating units and the township's funds.
- Include a table of contents and glossary of terms.
- Present community and demographic, infrastructure, and economic data.
- Design the document for readability and consistency.

THE BUDGET AS THE PREAMBLE TO A LONG-TERM FINANCIAL PLAN

Long-term perspective, long-term financial plans, strategic plan, capital improvement plan, multi-year budget process—sounds overwhelming, doesn't it? What exactly do these terms mean, and how exactly do they coordinate with the annual budget?

The real significance of the annual budget exists in the context of the long-term direction—it is the current action plan of a long-term operation. There is a direction—and you are moving toward it whether you have a plan or not. Approval of the annual budget infers understanding and approval of the long-term direction.

A long-term perspective simply means township officials are thinking about the effect their decisions will have in subsequent years. Although a township's multi-year budget process may not be comprehensive or formalized, many of township financial decisions involve activities that extend beyond the current year—the average employee will be with the township more than 10 years; vehicles last three to five years; labor contracts are usually three years in length; the township hall or municipal building must be maintained for its life; water and sewer systems last 50 years; residents expect services to last the duration of their home ownership. Even leasing a copier involves a three-year commitment.



Faced with local governments' current financial challenges, it's critical to understand the need to focus on defining the goals and strategies that provide the greatest value to the community, and then developing a budget that funds those goals.

Since many township annual operating decisions are actually affecting the long term, the question is do officials know exactly what the long-term impact is and do officials have a long-term perspective? A single-year focus ignores the fact that decisions officials make have ramifications beyond the current year.

Following are two actual examples of looking—or not looking—beyond the current year.

1) A township contracts with the county sheriff for police services. The county did an analysis of its pricing structure and determined it was undercharging the local governments that use their service. The county increased the fees substantially, and due to the increase, the township's general fund could no longer afford to support those services. The township fire department millage was also up for renewal and the township board decided to ask the voters for a combined public safety millage that would support both fire and police services.

How to determine the millage rate? If the millage rate was set looking at current year taxable value and current year expenses, it would have been too low. The analysis to determine the needed millage rate included several long-term pieces:

- 1) an assumed loss of or slow growth in property values over the duration of the millage
- 2) the police service rate increases as per the contract with the county
- 3) the increase in the cost of fire services as per the labor contract

Relationship between the budget and long-term township financial planning

If you view the budget as simply the preamble to the long-term financial plan, then extrapolating the information from the current budget another five to 10 years into the future doesn't seem so daunting. According to Laurie Van Pelt, Oakland County management and budget director, "Adjusting the current and following year(s) budget at the same time allows ready updating of long-term scenarios."



Strategic Plan → Long-term Financial Plan

- A strategic plan along with short- and long-term objectives and strategies must be grounded in fiscal reality. Otherwise, it can create citizen, political and staff expectations that may not be realistic or attainable.
- A long-term financial plan provides financial standing for the objectives in the strategic plan. A strategic plan not supported by a long-term financial plan is just a list of nice ideas.

Strategic Plan → Capital Improvement Plan

- Does the project align with the strategic plan?
- What service level objective is correlated to the capital project?
- What is the impact on deferring the capital project?
- How will changes to the project scope impact changes to the service levels?
- Is there an opportunity to combine capital project requests for efficiency gains? With other local government agencies?

Capital Improvement Plan → Long-term Financial Plan

- Which capital projects are approved for the planning period?
- What is the cost of the project?
- What are the funding sources? Pay as you go? Millage? Debt financing?
- Are there capital projects for which a funding source has not been identified?
- What is the impact on the current or future operating budget?
- What are the potential funding sources for the additional operating expenses?

Budget → Long-term Financial Plan

- Does the budget flow logically into the long-term plan?
- Is the long-term plan adjusted as the budget is amended?

The projections were determined solid enough to ask for a five-year, instead of a three-year, millage. Since the goal was to break-even over five years using the current assumptions, the board was able to support the millage request as reasonable, and the voters agreed.

2) Another township contracted for a new, larger police and fire building to be financed through a bond issuance. The debt service payments would be made, in part, with income from a special millage and in part with an annual allocation from the general fund. However, the township did not look beyond the current year to estimate the effect of the increased operating and maintenance costs of the new building on the budget.

As a result, the general, police and fire budgets were placed under great stress—not only the debt service contribution but also the increased operating expenses needed to come from existing revenues. Had the township been using long-term financial planning, the analysis would have taken into account the effect of capital changes on the operating budget, and this problem would have been apparent.

Assuming your township accepts the necessity of a long-term perspective, why not take the following two steps?

1) When adopting the budget, simply add one more year.

Instead of looking at a three-year timeline (prior year actual, current year budget and proposed budget), add a "planned budget" for the year after the proposed budget. It takes a simple *Excel* spreadsheet to manage this. Although the township board approves the appropriations act for one year at a time, you can adopt a multi-year budget. When amendments occur in the current year, the township budget approval process will incorporate those amendments into the following year. The township now has a multi-year budget.

2) Commit some long-term township perspectives to paper.

Find a perspective (goal) that is supported by the township board. Identify one perspective—or goal—at a time. A goal is defined as a general and timeless statement of broad direction, purpose or intent based on the needs of the community.¹ Goals should be realistic and timely.

- Write down the common perspective.** This is a township-wide goal. Assess the strengths and challenges that exist toward reaching the goal.
- Write down the plans (or strategies) for getting to that goal.** These plans, taken together, are your strategic plan. A strategic plan defines the township services needed to reach the goal and how those services will be delivered.¹
- Enter the cost of implementing the strategic plan into a spreadsheet.** Begin with the multi-year budget and estimate into the future as many years as you comfortably can—include both operating and capital costs. This is your long-term financial plan.

d) Evaluate the long-term financial plan. Based on the results, the board may need to change its strategies or, more seriously, adjust its goals. Or, officials may want to adjust a different service, incorporate those changes into the long-term financial plan, and analyze the impact on the township's financial situation.

(See sidebar article at left for more on the relationship between the budget and other long-term township plans.)

A long-term financial plan is the “most powerful tool in your arsenal”⁶ when evaluating township strategies. The methods of achieving the government-wide service goals make up the strategic plan. For example, the goal may be to have police service response times below five minutes for every location in the township. The strategy to achieve that goal might be coordinating with the state police and funding six full-time patrol officers. The long-term financial plan then assists management in exploring service and financing scenarios to implement that strategy.

In addition, the long-term financial plan evaluates financing options for the capital acquisitions identified in the capital improvement plan and also evaluates the effect of capital asset changes on the operating budget.

The long-term financial plan advances the goals and strategies of the township—it collects all financial data into a single place and allows a comprehensive look at what is needed to fund future desired services, programs and capital needs. If your township doesn't have a long-term financial plan, it may be forced into short-term crisis decision-making. Long-term planning allows elected officials to evaluate the financial impact of alternative choices so that challenges can be addressed before reaching a crisis status.

THE BUDGETING PROCESS

The budget process includes the planning, development, adoption and execution phases of the budget. As defined by the National Advisory Council on State and Local Budgeting (NACSLB), the budget process “consists of activities that encompass the development, implementation and evaluation of a plan for provision of services and capital assets.”⁵ A good budget process rolls seamlessly from one year to the next, with information from the execution phase of the current budget year feeding into the analysis for the upcoming budget year.

The budget for services is called the “operating budget” while the annual expenditures for the capital improvement plan are the “capital budget.”

Most governments do not distinguish between the two but include both operating and capital expenditures into one annual budget.

According to the NACSLB, a good budget process:

- Incorporates a long-term perspective.
- Establishes links to broad organizational goals.

- Focuses budget decisions on results and outcomes.
- Involves and promotes effective communication with stakeholders.
- Provides incentives to government management and employees.⁵

The key characteristics of the budget process tie into the strategic and long-term financial plans. Faced with local governments' current financial challenges, it's critical to understand the need to focus on defining the goals and strategies that provide the greatest value to the community, and then developing a budget that funds those goals.

Evaluating the effectiveness of the results and outcomes will ensure that scarce resources are allocated to the programs or services that most effectively achieves the desired objectives. Once the effectiveness of a given program or service is confirmed, the township board and staff can focus on achieving efficiencies in delivery. Effectiveness refers to whether a program or service is meeting the goals—is the program serving the constituents as it was intended? Efficiency refers to the use of resources needed to achieve results. A program can be incredibly efficient, but ineffective. Likewise, an effective program can be inefficient. Ongoing evaluations of both effectiveness and efficiency will help maintain the focus on results. ▶

Appreciating the all-encompassing nature of the budget, township officials and staff should view the budget as their opportunity to communicate important information about the programs and services provided by the township to all stakeholders. The budget format should showcase the particular attributes of your community. Treating it as the preamble to the long-term financial plan allows easy updating of long-term scenarios. The process is ongoing—the planning, development, adoption and execution phases of budgets overlap each other from one year to the next. There is no beginning and no end to the budget process since townships should constantly monitor the programs and services offered to the community, evaluate the results of those services, and adjust its budget to reflect the resulting decisions.

Just as the English and French protected and carried the leather “bulga,” the modern-day budget is an integral part of everyday government. ■

Colleen M. Coogan, Executive Director
Michigan Government Finance
Officers Association

*For more information, contact
executive@migfoa.org or
visit www.migfoa.org.*



FOOTNOTES

- ¹ Rosenberg, Philip. “Program Budgeting: Modernizing Financial Management for Hungarian Local Governments.” The Urban Institute, Washington, DC, and the Metropolitan Research Institute, Budapest, Hungary. June 1998.
- ² Diamond, Jack. “From Program to Performance Budgeting: The Challenge for Emerging Market Economies.” IMF Working Paper. June 2003.
- ³ Kavanagh, Shayne. Johnson, Jon and Fabian, Chris. “Anatomy of a Priority—Driven Budget Process.” Chicago, IL. Government Finance Officers Association. March 2011.
- ⁴ Fishbein, John. “Preparing High Quality Budget Documents.” Chicago, IL. Government Finance Officers Association. March 2010.
- ⁵ National Advisory Council on State and Local Budgeting. “Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting.” Chicago, IL. Government Finance Officers Association. June 1999.
- ⁶ Kavanagh, Shayne C. “Financing the Future: Long-Term Financial Planning for Local Government.” Chicago, IL. Government Finance Officers Association. 2007



See page 29 for a continuing education self-assessment, worth 2.0 elective credits in MTA’s Township Governance Academy.

Continuing Education Self-Assessment

Participants enrolled in the Township Governance Academy (TGA), MTA's credentialing program, may obtain 2.0 elective credits for successful completion of this quiz. *(To receive credit, this quiz must be completed by Dec. 1, 2015.)* To obtain credit, participants must answer the following 10 multiple-choice questions by circling the correct answer and receive a minimum passing score of 70 percent. The questions are based on content from the article, "The long view: Budgeting best practices," beginning on page 22. There is no charge for MTA members to take the quiz or to obtain TGA credit. Completed quizzes should be sent to: MTA Education Center, 512 Westshire Dr., Lansing, MI 48917, or faxed to (517) 321-8908. MTA will notify you of your results within two weeks after receiving your quiz. **IMPORTANT:** Please keep a copy of your completed quiz in your TGA binder. For more information about TGA, visit www.michigantownships.org/tga.asp.

TGA Continuing Education—December 2011 The long view: Budgeting best practices

NAME: _____ **TOWNSHIP & COUNTY:** _____

ADDRESS: _____ **CITY/ZIP:** _____

EMAIL ADDRESS: _____

- 1) **When did the annual budget emerge in government:**
 - a) early 16th century
 - b) end of the 16th century
 - c) early 18th century
 - d) end of the 18th century
- 2) **Which of the following is not one of the four main purposes of a budget as suggested by the Government Finance Officers Association (GFOA)?**
 - a) a policy document
 - b) a scrutiny of expenditures
 - c) an operations guide
 - d) a communications device
- 3) **The GFOA describes the legally adopted budget as:**
 - a) an expression of public policy and financial intent
 - b) an accounting convention
 - c) key to government's decision-making process
 - d) government's most significant financial document
- 4) **As a financial plan, the main purpose of budgeting is to achieve:**
 - a) structural balance between revenues and expenditures
 - b) revenues and expenditures for three years
 - c) a description of all funds subject to appropriation
 - d) debt obligations and their impact on operations and legal limits
- 5) **The budget for services is called the:**
 - a) annual budget
 - b) capital budget
 - c) operating budget
 - d) general budget
- 6) **When evaluating the effectiveness of outcomes to ensure resources are allocated to programs and services to achieve desired objectives, "effectiveness" refers to:**
 - a) whether the program or service overlaps another from one year to the next
 - b) whether the program or service showcases your township's attributes
 - c) whether the value of the program or service is communicated to stakeholders in an efficient manner
 - d) whether the program or service is meeting the goals
- 7) **The typical approach to governmental budgeting is:**
 - a) priority-driven budgeting
 - b) incremental budgeting
 - c) zero-based budgeting
 - d) performance budgeting
- 8) **Which of the following budgets adds some management flexibility by allowing township departments to shift resources from one line item to another but does not allow transfers without board approval?**
 - a) cost center budget
 - b) line-item budget
 - c) program budget
 - d) performance budget
- 9) **The budget motivates departments by:**
 - a) reducing uncertainties and obtaining involvement
 - b) providing a description of activities, functions and programs provided
 - c) setting targets and limitations, and obtaining involvement and commitment
 - d) offering an objective measure of progress toward accomplishing a goal
- 10) **As a communications device, the budget:**
 - a) is the most powerful tool in your arsenal
 - b) means township officials are thinking about the effect their decisions will have in the coming year
 - c) infers understanding and approval of the long-term direction
 - d) converts goals and priorities into financial instructions