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Office of the Assistant Secretary for Civil Rights
1400 Independence Avenue, SW
Washington, D.C. 20250-9410; or

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Revised/Reemplazado el Periódico July 2016

Budgeting for Fiscal Sustainability

MICHIGAN STATE
UNIVERSITY | Extension



Today's Presenters

- Eric Walcott
 - Michigan State University Extension
- Kayla Rosen, Roxanne Foster, Eric Cline
 - Michigan Department of Treasury



MSU Extension's Mission

Helping people to improve their lives through an educational process that applies knowledge to critical issues, needs and opportunities.



Government and Community Vitality

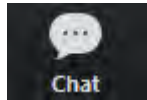
- Good Governance
- Leadership and Community Engagement
- Land Use
- Tourism
- Entrepreneurship
- www.canr.msu.edu/community



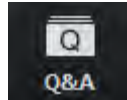
Instructions for Webinar Participation

Getting Started: Fiscal Sustainability will start at

- The webinar will begin at (add time).
- Audio is through your computer speakers or headset: **You may not hear sound until webinar begins.**
- Use the **Audio Settings** option to do a sound check.
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Chat



Q&A

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Ask
Questions

Sound
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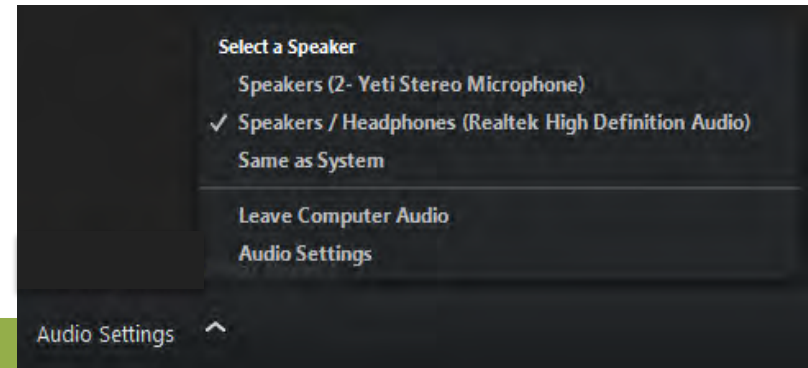


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2. Type your question in the box and click the Send button.

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Fiscally Sustainable Government

A government that can pay its bills now
and in the long term

- 1) without placing an undue burden on taxpayers;
- 2) while still ensuring the health, safety
and welfare of its residents



Fiscal Health

- Can be short-term or long-term
- **Solvency**: Does the government have the means available to cover its existing obligations in the long run?

Cash
solvency

Budgetary
solvency

Long-term
solvency

Service
solvency

Fiscal sustainability = long term fiscal health



The Fiscal Equation

Revenues = Spending

- Over what time period?
- What sources of revenue?
- Changes in spending pressures?

Fiscal Gap: Revenue < Spending

- Can be short-term (cash insolvency) or long-term



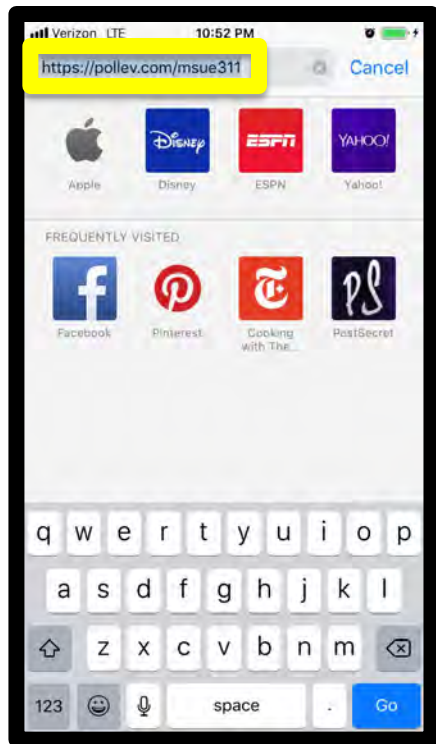
Budget Planning

- Frame the process around strategic plans and priorities
- Get comfortable with uncertainty
 - Use the best information you have, look at prior experience, plan for multiple scenarios

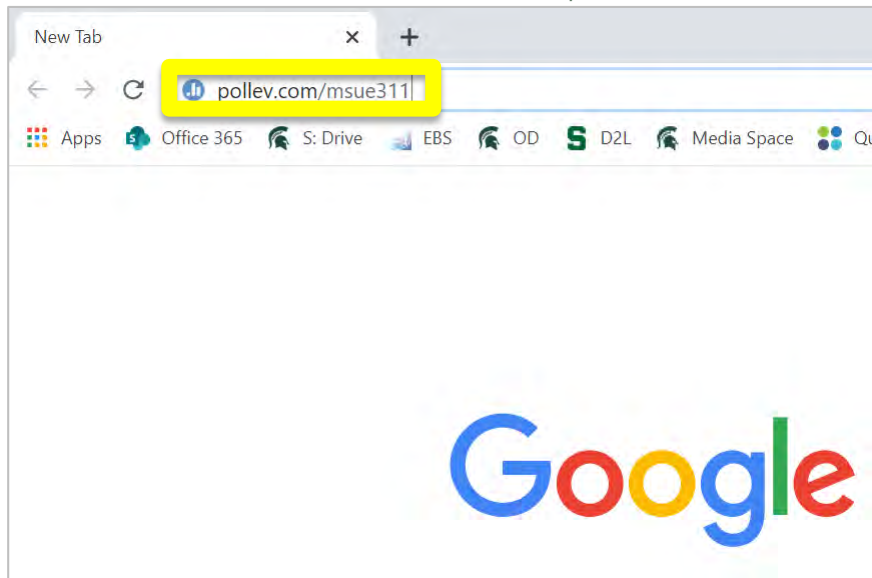


CONNECT TO POLL EVERYWHERE

Web browser on phone



OR web browser on computer



OR text message



pollev.com/msue311



In one word, describe the purpose of a budget

The Budget Is...

- A financial plan
- A policy document



***The most important document local governments
produce each year***



When faced with a decision on a specific budget item, what key factors influence your decision?

Key Questions When Putting Together a Budget

- What is the rationale for public provision of the service?
- If cuts are necessary how do you implement them?
 - Across the board or targeted?
- What are the results of downsizing or eliminating a service?
- How do you measure success?



Budget as Policy

Treat your budget as a set of strategies and tactics to address problems identified in your community.

- Evaluate options compared to each other
 - Cost/Benefit Analysis
 - “Social” Cost/Benefit Analysis
 - Trade-offs
 - Public Input



A “Fiscally Sustainable” Budgeting Process

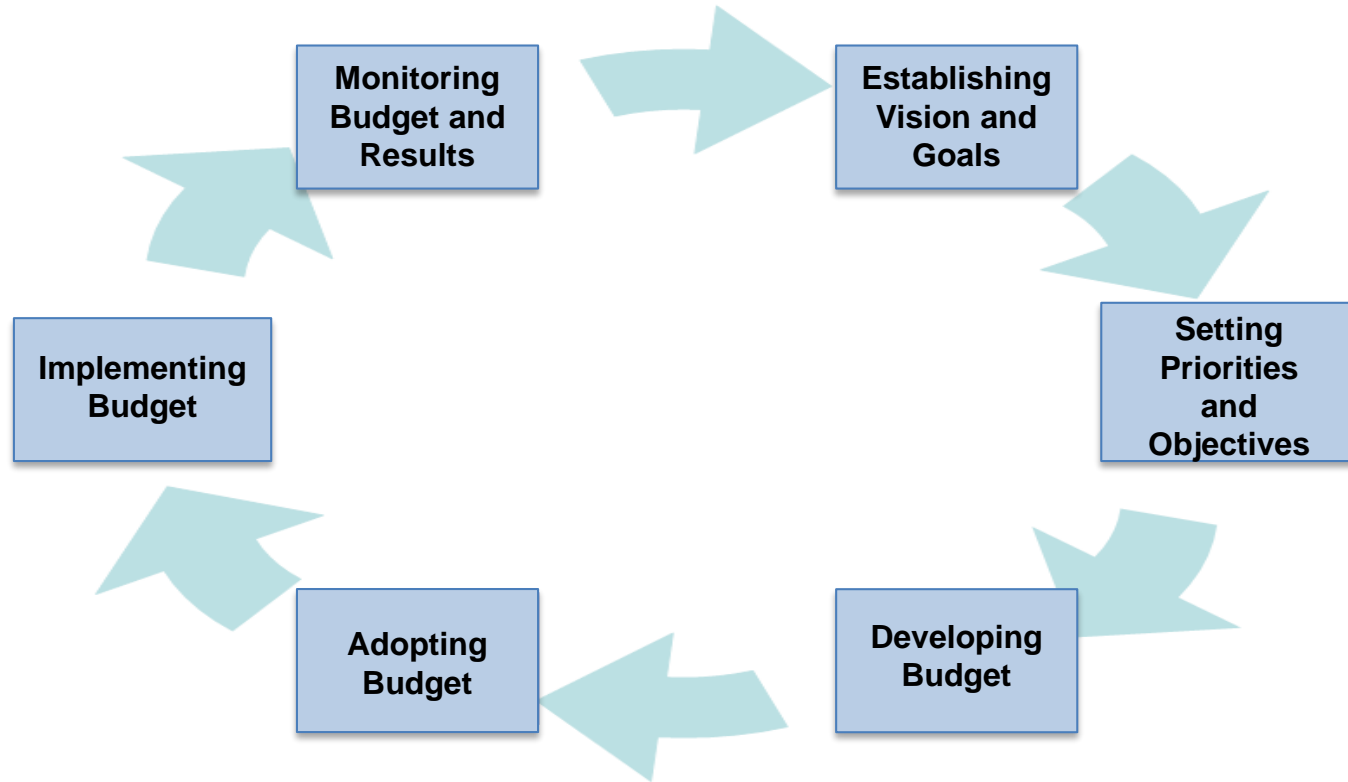
- Is multi-year in nature
- Addresses capital costs, legacy costs and reserves along operating costs
- Works at a strategic level rather than line-items (*performance measures included*)
- Is part of an overall strategic planning process



Best Practices for a Fiscally Sustainable Budget Process

- **Assess** Community Needs, Priorities, Challenges and Opportunities (*needs assessment*)
- **Establish** Broad Goals to Guide Governmental Decision Making (*strategic plan*)
- **Evaluate** policy options in addressing broad goals
- **Adopt** Financial Policies including multi-year budgeting and forecasting
- **Compare** actual to expected performance





Challenges to Strategic Planning

- Tendency to focus on outputs
- Poorly written outcomes
- Lack of political will to make decisions based on data from measures
- Strong desire to revert to incremental budgeting and decision-making



Effective Budgeting, Four Principles

- From the National Advisory Council on State and Local Budgeting (NACSLB)
 - Set broad goals to guide decisions,
 - Develop strategies and financial policies to achieve goals,
 - Design a budget consistent with strategies and goals, and,
 - Continually evaluate performance and make adjustments toward achieving goals.

NATIONAL ADVISORY COUNCIL
ON STATE AND LOCAL BUDGETING
GOVERNMENT FINANCE OFFICERS ASSOCIATION



Effective Budgeting, Five 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
 - Provides incentives to government management and employees.

NATIONAL ADVISORY COUNCIL
ON STATE AND LOCAL BUDGETING
GOVERNMENT FINANCE OFFICERS ASSOCIATION



Budgeting When Facing Uncertainty



Before making expenditure decisions:

- Understand your financial position and clearly articulate the goal of any budget cuts or changes
- Examine rainy day fund
- Look for ways to involve the public



Planning for Reduced Operating Expenses

- Consider long-term impacts of spending cuts
- Avoid across the board cuts that take funds away from higher priority programs and services
- Prioritize cuts that have a short time-to-benefit, are not complex, and are easily reversible



What are things your local units have done in response to financial uncertainty recently?

Proven Strategies

- Act quickly
- Take a long-term view
- Focus on core mission
- Foster creativity
- Manage revenue as carefully as expenditures
- Look for areas of consistent surplus in prior budgets



Evaluation!

<http://bit.ly/fiscalplan>

Eric Walcott

Government and Public Policy Specialist

walcott3@msu.edu





Michigan Department of
TREASURY

Engagement. Service. Improvement.

**Fiscally Ready Communities
Budgeting for Fiscal Sustainability**

Eric Cline, Community Services Division

Kayla Rosen, Community Engagement and Finance Division

Roxanne Foster, Community Engagement and Finance Division

October 27, 2020

Goals of the Fiscally Ready Communities Trainings

- Building resilient communities through strong operational and financial policies.
 - Providing guidance on operational and financial best practices.
 - Increasing educational fluency.
- Providing technical assistance.



Topics For Today's Training

- Process and Pitfalls
- Communication
- Design
- Budgeting for Tough Decisions in a Changing Economy
- How to Approve Budget
- Budget Performance, Review and Amendments
- Multi-year Forecasting
- Resources

Budget Process and Pitfalls

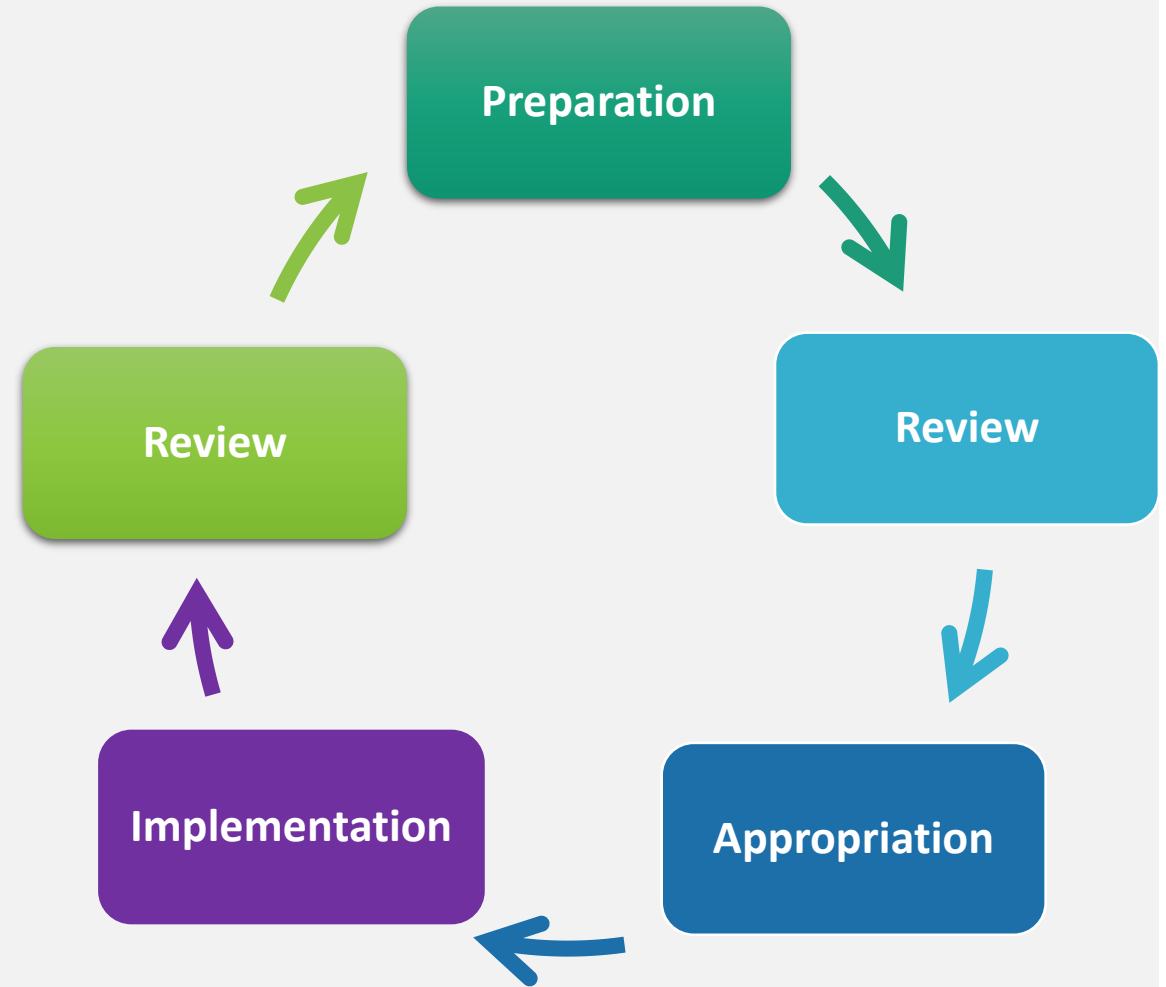


The Budget!

- More than a spreadsheet of numbers, it is:
 - A policy document
 - An operations guide
 - A financial plan
 - A communications device
- A plan that balances your immediate and long-term needs

Developing a Budget Document

- Charter and internal requirements
- Legal requirements
- Have a budget calendar
- Have a document to explain the budget
- Involve staff in draft developments
- Have workshops with the elected body
- Develop a balanced budget



Preparing for Your Budget

- When to start and what is the timeline
 - Create a check list
- Who to include internally
- Why and how to include the public
 - Citizen engagement is critical
- How to get feedback
 - Surveys, open hours, workshops, newsletters, budget summaries, using social media
- How to plan for future needs
- Tie to capital improvement plan (CIP), other plans and board organizational goals



Preparing: Questions to Ask Yourself

- How do you make decisions?
 - Who is making the decisions? (elected officials, department heads, committees, citizen input, combination, or all of these)
- How often do you review your process?
 - We recommend reviewing your process before each cycle starts.
- How often do you review your budget?
 - At a minimum quarterly.

Other Preparation Points:

- What is your local government's budget process?
 - It is important to identify who is involved in what steps, such as department heads (at a minimum)
 - Have separate timelines for the current and upcoming fiscal years (they will overlap)
- What are your local government's goals?
 - What are you trying to accomplish?
 - Are you trying to maximize your revenue, cut your expenditures this year, or just continue to provide key services?
- What factors affect your budget?
 - Do you have any labor negotiations for contracts?
 - Did/do you change staff work hours/lay-off staff?

Guidance on Adopting a Budget

- Provide enough time for review of the final draft
- Required notification times
- A public hearing
- Have a formal presentation
- Budget/Appropriations resolutions
- Distribute copies after approval



Common Budgeting Pitfalls

- Starting with no goals or strategy of what to accomplish
- Failing to forecast your revenue during the budgeting process
- Failing to include information from other sources (Capital Improvements Plan (CIP), Tax Increment Finance (TIF), Recreation Plan, etc.)
- Failing to account for changes such as new Collective Bargaining Agreements (CBA), debt payments, grants or one-time revenue
- Not reviewing/updating your fee schedule annually

Other Budgeting Pitfalls

- Rushing or having no timeline at all
- Having poor or no data on how past budgets performed
- Not educating or including elected officials in the budget process or in what is included in the draft budget
- Not involving staff in the development phase

Even More Budgeting Pitfalls

- Not providing a draft copy for public inspection
- Not holding a public hearing and/or failing to follow a proper adoption process
- Not adopting a budget resolution and an appropriations resolution
- Budgeting alone, without reaching out/reviewing to your neighboring communities

Benefits of Good Processes



- Help to reduce the risk of inefficiencies and fraud
- Allow regular review of your financial position
- Allow you to adapt to changing circumstances
- Minimize violations of Public Act 2 of 1968, as amended

Communication



Communicating the Purpose of Your Budget

- What is the purpose of a budget?
 - Not just adopting a spending plan but it tells the history
 - It is a plan for the future
 - A communication tool

Communicating the Purpose of Your Budget

- As communities face difficult decisions this year, it will be important that community leadership provide information to their communities and get feedback on those decisions.
 - Ask for public comment/public hearings
 - Take surveys
 - Interactive activities for public engagement
- Actively engaging residents up-front can minimize tension when difficult decisions must be made.

Budget Design



Designing Your Budget

Your budget should follow:

- Your budget policy
- Any Charter requirements
- State law
- Why is it important?
- Deciding what to include in your budget?
 - Minimum requirements under state law
 - More comprehensive budget document – going above and beyond
- Certain funds require a budget – governmental funds
 - General fund, special revenue funds
- It is recommended that funds have a budget for management purposes
 - Enterprise funds, internal service

Minimum Requirements for a Budget Document

- For Prior Fiscal Years:
 - The amount of accumulated surplus or deficit (ending fund balance)
- From the Prior Fiscal Year:
 - Actual expenditures and revenue data
- For the Current Fiscal Year:
 - Estimated expenditures and revenues
 - Estimate of expected surplus or deficit
- For the Next Fiscal Year:
 - Estimate of required expenditures
 - Estimate of revenues (by revenue source)
 - Estimate of amounts needed for deficiency
 - Estimate for contingent or emergency purposes
 - Estimate of expected surplus

Minimum Budget Requirements

- The prior fiscal year
- The current fiscal year
- The next fiscal year
- The accumulated surplus or deficit from the prior fiscal years (fund balance)

	2018-2019 Actual	2019-2020 Projected	2020-2021
REVENUE			
Taxes	38,558	39,041	39,600
Licenses and Permits	1,147	1,322	1,200
State Grant	41,350	42,625	43,000
Interest and Rentals	10,517	10,144	10,000
Other Revenue	2,420	1,100	2,000
Total Revenue and Other Sources	93,989	94,232	95,800
EXPENDITURES			
101 Township Board	2,889	2,500	2,600
171 Supervisor	5,556	3,084	4,000
215 Clerk	6,425	7,134	8,425
223 Audit	1,800	2,550	2,700
247 Board of Review	538	767	800
253 Treasurer	8,745	7,714	9,960
257 Assessor	13,041	10,420	10,700
262 Elections	1,539	600	11,700
265 Building and Grounds	26,751	19,050	30,000
266 Attorney	0	3,917	1,000
330 Liquor Law Enforcement	0	1,313	650
446 Road Improvements	0	0	25,000
567 Cemetery	492	385	1,500
701 Planning	4,001	4,369	4,500
702 Zoning	5,065	1,845	2,275
751 Parks and Recreation	2,272	4,091	5,000
790 Library	410	571	650
Total Expenditures and Other Uses	79,524	70,310	121,460
Net Revenues (Expenditures)	14,465	23,922	(25,660)
Beginning Fund Balance	136,521	143,105	160,185
Ending Fund Balance	150,986	167,027	134,525

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Sample Budget

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CAPITAL IMPROVEMENT PLAN

Budgeting for Tough Decisions in a Changing Economy



Making Hard Decisions!

- Why make tough decisions today?
 - Proactively address concerns and issues before they compound
- How to compare decisions?
 - You need a clear, defined way to evaluate your decisions and communicate how you made them
- Focus on outcomes
 - Follow your plans (budget cut plan, CIP, goals), this will help support your local government when you do have to make cuts
 - While there is flexibility in this, it is important to have a plan on how you will make cuts
 - Evaluate potential cuts based on the outcome they will have

Adapting Your Budget

- Be conservative for your revenue and expenditures
 - This way you are prepared for unexpected events
- Ensure transparency with employees and the public
 - Talk about what revenue areas might decrease and which expenditures will increase
- Use forecasting and update on a regular basis

Ensuring You Have Money for a Rainy Day

- It is important to build a fund balance and have cash reserves while the economy is good
 - Here are the approximate fiscal year 2019 median unrestricted general fund balances by government type (unrestricted fund balance as a percentage of general fund revenue excluding other financing sources)
 - Townships 152%
 - Charter Townships 103%
 - Villages 81%
 - Cities 42%
 - Counties 36%
 - It is important to plan ahead of cash needs (debt payments, utility bills, payroll, etc.)

What Projects/Expenditures Do You Prioritize?

- Debt payments
- Pension/OPEB required costs
- Payroll
- Utility payments
- Planned capital improvements

What Is Your Plan for Capital Projects?

- What is coming up in your approved schedule?
 - What projects can you delay? And what is the cost of delaying these projects?
 - Will this affect your partners that you are coordinating projects with?
 - What if the projections take a turn for the worse?
 - What is critical/mandatory and must be done?
 - Grant projects, federal or state requirements
 - What is your process to update your capital project schedule as changes occur?
- *Note: A 6-year CIP is required under the Planning and Enabling Act

Budget Approval



Approving Your Budget

- What level is your budget approved?
 - Activity or line item level
 - Activity level gives you more flexibility to reallocate within the activity
 - Line item allows for a more detailed look into individual revenue and expenditures
- You need to have a balanced budget
 - It is important to note that your budgeted expenditures **CANNOT** be higher than your budgeted revenue plus your fund balance
 - Therefore, it is important to include your fund balance in your budget

Required Actions for Budget Adoption

- The chief administrative officer:
 - Has the final responsibility for budget preparation and controls expenditures under the budget
 - Presents the recommended budget to the elected body **before** the start of the budget year. A timeline shall be followed to allow adequate time for review and adoption
 - Provides the elected body with information it requires for proper consideration of the recommended budget
 - Includes with the recommended budget a draft general appropriation act to implement the budget

Required Actions for Budget Adoption

- The elected body:
 - Considers the recommended budget provided by the chief administrative officer.
 - Holds a public hearing as required by the Budget Hearings Act (1963 (2nd Ex Sess) PA 43), and the Open Meetings Act, (1976 PA 267), before final adoption of a general appropriations act.

At least 6 days notice should be given of the hearing by publication in a newspaper of general circulation within the local unit. The notice **shall** include the time and place of the hearing and **shall** state the place where a copy of the budget is available for public inspection. The notice **shall** also include the following statement printed in 11-point boldfaced type: “The property tax millage rate proposed to be levied to support the proposed budget will be a subject of this hearing.”

A Sample Budget Timeline to Prepare to Pass Your Budget

Please review all charter requirements and state laws prior to passing your budget

Minimum time before your fiscal year end (FYE)	Step
4 months before your FYE	Chief administrative officer or fiscal officer asks department heads to compile budget requests for the coming fiscal year
3 months before your FYE	Department heads submit budget requests for the coming fiscal year
2 month before your FYE	Chief administrative officer presents the proposed budget to the legislative body
1 months before your FYE	Council review completed; revisions made; union negotiations completed, etc.
3 weeks before your FYE	If necessary, council adopts a resolution on the proposed additional millage rate for the coming fiscal year
2 weeks before your FYE	Publish notice of public hearing on proposed budget (6 days prior to hearing), including time, place, and where a copy of the budget is available for public inspection. The notice shall also include the following statement printed in 11-point boldfaced type MCL 141.412): “The property tax millage rate proposed to be levied to support the proposed budget will be a subject of this hearing.”
1 week before your FYE	Public hearing on budget; budget adopted

Preparing to Amend Your Budget

Review your revenue and expenditure report monthly

Amend your budget not less than quarterly if necessary— this should include all the same people as passing your budget.

- The governing body should approve any revenue or expenditures that have changed or expect to be changed.

Budget Performance, Review, and Amendments



Measuring Your Budget Success

- How often do you monitor your budget?
- What do you look for?
- When do you amend it?

Multi-year Forecasting



How to Begin Implementing Multi-Year Forecasting

- Be proactive!
- Best Practices:
 - 5-year forecast;
 - 2-year budget adopted annually.
- How to begin:
 - Start with a 2-year forecast and build complexity over time.
 - The first year should be the current fiscal year budget.
 - Update the forecast on a rolling basis, adopted with your budget annually.
- Link your forecast to your strategic plan and goals.
- Involve your staff in the forecasting process.

Multi-year Forecasting

- How do you do it?
 - Develop a rolling projection that becomes more accurate as the specific year gets closer
 - Process of multi-year forecasting runs concurrently with the budget process
 - Update on a rolling basis
- Revenue: conservative estimates
- Expenditures: realistic estimates
 - Prioritize required expenditures such as debt, payroll, pension & OPEB costs, etc.

Multi-year Forecasting

- What sources of information do you use?
 - Debt payment schedules
 - Capital improvements plan
 - Actuarial valuations for pension and OPEB
 - General ledger – Trial balances
- How do you project the unknown?
 - Identify costs that are fixed – debt payments, planned projects, payroll assumptions, healthcare, etc.
 - Three to five-year historical average for revenue and expenses.

Resources



Resources

- Fiscally Ready Communities – Best Practices
 - https://www.michigan.gov/documents/treasury/Treasury_FRC-_Best_Practices_652472_7.pdf
- Michigan Governmental Finance Officers Association
 - <https://www.gfoa.org/best-practices--resources>
 - Budget Awards: <https://www.gfoa.org/2019-budget-award-winners>
- Michigan Uniform Budget Manual (includes sample resolutions)
 - https://www.michigan.gov/documents/treasury/UniformBudgetManual_646292_7.pdf
- Michigan Municipal League
 - <http://www.mml.org/>
- Michigan Townships Association
 - <https://www.michigantownships.org/>
- Michigan Association of Counties
 - <https://micounties.org/>
- Michigan Association of Regions
 - <http://www.miregions.com/>

Questions



