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Section 1: Introduction

The purpose of this manual is to assist local units of government in applying legal requirements and establishing a sound budgeting process. Recommended practices that would enhance the budgeting process are also included. A budget is a financial plan that estimates revenues and expenditures for a single year. This allows the governing body of a local unit of government to exercise its control over the use of its resources primarily through budgeting and ongoing monitoring through financial reporting. A continuous process of proper accounting, budgeting, and auditing of the local unit is a critical factor in sound fiscal health of local governments. Budgets are the primary tool a governing body uses to ensure the local unit is heading in a desired direction both fiscally and operationally and should be used continuously throughout the year.

Most accounting, budgeting, and auditing requirements for Michigan local units are contained in [Public Act 2 of 1968](#) (PA 2), the Uniform Accounting and Budgeting Act, as amended. Note that local municipal charters may have different requirements. Also, [Public Act 359 of 1947](#) (PA 359), the Charter Township Act, contains budgeting requirements specifically pertaining to Charter Townships. PA 2 requires that all local units of government in Michigan adopt balanced budgets, set appropriation levels (i.e., levy of taxes), to establish responsibilities and define procedures for the preparation, adoption, and maintenance of the budget, and to require certain information for the budget process.

A strong budget process and a properly adopted budget is the driver for most all other governmental operations, services, and activities. A budget is an important policy document and allows for the implementation of the local government's strategic vision to achieve its goals and objectives. A budget is a financial plan that allows the local government to balance immediate and long-term needs and is an important communication device to staff and the public.

Effective Date:

This manual is effective for fiscal year beginning July 1, 2024, and after.

Michigan Uniform Budget Manual for Local Units of Government
Section 1: Introduction

General Budgeting Timeline

Step	Stage	Legally Required	Major Activities	Responsible Party	Recommended Timeline
1	Budget Initiation	Yes	Prepare a final recommended budget package	Chief Administrative Officer and department heads and administrators with budgetary responsibilities	Starting 7-8 months prior to, and completing 3-4 months prior to beginning of ensuing fiscal (budget) year ¹ .
2	Budget Adoption	Yes, for all local units of government in Michigan that use a general fund or special revenue fund	Pass a general appropriations act reflecting formal budget approval	Governing body	Required to be adopted before the beginning of ensuing fiscal (budget) year. Suggest adopting 1-3 months prior to beginning of ensuing fiscal (budget) year.
3	Budget Administration	Yes	Periodic review budgetary comparison schedules and other information	Chief Administrative Officer	Monthly basis
4	Budget Amendment	Yes	Pass an amended budget	Governing body	As soon as a deviation is projected.

¹ [MCL 42.24](#) of the Public Act 359 of 1947, the Charter Township Act, requires Charter Townships to submit budget to township board not later than 120 days prior to commencement of the fiscal year. A public hearing on the proposed budget shall be held not later than December 15 and adopted not later than December 31, in the year preceding the calendar year covered by the budget.

Section 2: Budget Initiation – Prepare A Budget Package

This section provides guidance on how to initiate the budgeting process and prepare a final recommended budget package before adoption.

PA 2 requires adequate time for review and adoption by the governing body before commencement of the budget year. If a budget is not passed before the end of the fiscal year, a local unit is not able to incur expenses, pay bills, or conduct any other general business involving the expenditure of funds. There is no provision in the law to allow for a “continuation budget” from the last budget or any other alternative to a full budget.

The budget is the responsibility of the chief administrative officer who also has responsibility to present the budget and recommended general appropriations act for adoption to the governing body. Department heads and administrators with budgetary responsibilities are responsible for providing necessary information to chief administrative officer.

In the table below, steps for budget initiation are provided. Please note that the timing in the table is recommended and may not apply to each local unit of government.

For illustration purposes, assume that it is currently fiscal year 1 and the budget for fiscal year 2 needs to be prepared.

Step	Activities	Recommended Timing	Responsible Party	Notes
1	Prepare and distribute preliminary budget preparation information to department heads and other administrators with budgetary responsibilities.	7-8 months prior to beginning of Year 2 and 9-10 months for some larger local units	Chief Administrative Officer	Preliminary information should include: <ul style="list-style-type: none"> • Standard budget preparation forms, rules, procedures, and documentation requirements. • Discussion of necessary assumptions, constraints, and program/service emphasis for Year 2. • Other data pertinent to budget preparation, such as economic and revenue forecasts, computational factors, etc.

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Step	Activities	Recommended Timing	Responsible Party	Notes
2	Prepare and submit budget information (budget estimates and supporting documentation) to Chief Administrative Officer	5-6 months prior to beginning of Year 2	Department heads and administrators with budgetary responsibilities	Supporting documentation for budget estimates should include: <ul style="list-style-type: none"> • Staffing schedules for salary and benefit expenditures. • Assumptions and bases for estimates of contractual services, materials, and supplies, and capital outlay items.

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Step	Activities	Recommended Timing	Responsible Party	Notes
3	Consolidate budget estimates received from department heads and other administrators.	4-5 months prior to beginning of year 2	Chief Administrative Officer	<p>Budget estimates should be consistent with information requirements of MCL 141.435. Documents must at a minimum include:</p> <ul style="list-style-type: none"> • Actual revenues and expenditures for the most complete fiscal year (usually it may be the year prior to Year 1). • Estimated current year revenues and expenditures for Year 1. • Estimated expenditures and revenues, by source of revenue, to be raised or received for Year 2. • An estimate of the amounts needed for deficiency, contingent, or emergency purposes. • Capital outlay requests including costs and methods of financing. • The amount of the projected ending fund balance of year 1. • The amount of the projected ending fund balance of budget year 2. • Other data relating to fiscal conditions that the Chief Administrative Officer considers to be useful in considering the financial needs.

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Step	Activities	Recommended Timing	Responsible Party	Notes
4	Transmit the recommended budget and the general appropriation act to the governing body following an appropriate time schedule	Allow adequate time for review and adoption by governing body before beginning of year 2	Chief Administrative Officer	<ul style="list-style-type: none"> • MCL 141.434 states that the recommended budget should be accompanied by a suggested general appropriation act to implement the budget. In general, the recommended budget can be prepared at more detailed level. • The adopted general appropriation act aggregate expenditures into the level of control that the governing body chooses to exert over the spending practices. • Treasury required the budget for expenditures for General Fund be adopted at activity level as the control level, at the minimum. • For revenues, it is required that revenues be adopted by source and be reported with details below sub-control accounts level. For detailed information on revenue sub-control accounts, please refer to the Uniform Chart of Accounts. Please refer to Numbers 5 and 6 under Section 8: Common Budgetary Issues for examples.

Section 3: Budget Adoption

This section provides guidance on the process of adopting a budget. A budget must be adopted prior to the beginning of the next fiscal year. PA 2 [MCL 141.439](#) provides that no expenditure of public monies in Michigan may be made without an appropriations act passed by the governing body of a local unit (a formal resolution); the passage of the general appropriations act provides the budget for which expenditures can be made. Throughout the year, individual expenditures must be reviewed and approved by the governing body.

To adopt a budget, the governing body shall pass a general appropriations act for all local units of government in Michigan that use a General fund or special revenue fund. Once the budget package is transmitted by the chief administrative officer, the governing body shall consider the recommended budget and hold a public hearing as required by PA 2 ([MCL 141.434](#)) and Public Act 43 of 1963, Budget Hearings of Local Governments, [MCL 141.411 to 141.415](#). Public hearings must be conducted consistent with the Open meetings Act, [MCL 15.261 to 15.275](#). Proper notice and the public hearing must be conducted before final passage of a general appropriations act and before the end of the fiscal year.

Step	Activities	Recommended Timing	Responsible Party	Notes
1	Receive budget package from chief administrative officer	Allow adequate time for review and adoption by governing body before the beginning of year 2	Governing body	Please refer to step 3 and step 4 under Section 2: Budget Initiation for what should be included in a budget package.
2	Consider recommended budget		Governing body	This can be accomplished by the governing body holding one or more workshop sessions. This allows the CAO to discuss the proposed budget, department heads to discuss proposed changes or needs, the governing body to discuss priorities, and to obtain input from the public.

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Step	Activities	Recommended Timing	Responsible Party	Notes
3	Give notice of the budget hearing	At least 6 days before the hearing	Governing body	<p>PA 43 of 1963 (MCL 141.412) states that the local unit shall give notice of the hearing by publication in a newspaper of general circulation within the local unit at least 6 days before the hearing. The notice shall include:</p> <ul style="list-style-type: none"> • The time and place of the hearing. The place where a copy of the budget is available for public inspection. • The 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." <p>For a charter township, PA 359 of 1947 MCL42.26 states:</p> <ul style="list-style-type: none"> • The notice of such public hearing shall be published at least 1 week in advance by the township clerk. • A copy of the proposed budget shall be on file and available to the public for inspection during office hours at the office of the township clerk for a period of not less than 1 week prior to such public hearing.
4	Hold a public hearing	At least 6 days after the notice of public hearing	Governing body	<p>Public Act 43 of 1963, Budget Hearings of Local Governments, and Public Act 267 of 1976, Open meetings Act, and PA 359 of 1947, the Charter Township Act.</p>

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Step	Activities	Recommended Timing	Responsible Party	Notes
5	Pass general appropriations act, for local units of government that use a general fund or special revenue funds	Prior to the beginning of fiscal year 2		<p>MCL 141.436 states that the general appropriations act shall:</p> <p>Include all funds except fiduciary, internal service, enterprise, debt service or capital project funds. This means that the general appropriation act is required for general fund and each special revenue fund.</p> <p>Set forth the total number of mills of ad valorem property taxes to be levied and the purposes for which that millage is to be levied (also known as the “truth in budgeting act”).</p> <p>Set forth the amounts appropriated by the governing body to defray the expenditures and meet the liabilities of the local unit for the ensuing fiscal year.</p> <p>Set forth a statement of estimated revenues, by source, in each fund for the ensuing fiscal year.</p> <p>Be consistent with the Uniform Chart of Accounts prescribed by the Michigan Department of Treasury.</p> <p>Indicate permission for the chief administrative officer to execute transfers within limits between appropriations. Please refer to Number 8 under Section 8: Common Budgetary Issues for an example. Ensure estimated total expenditures, including an accrued deficit, do not exceed total estimated revenues, including an available surplus and the proceeds from bonds or other obligations issued under the fiscal stabilization act, PA 80 of 1981, MCL 141.1001 to 141.1011, or the balance of the principal of these bonds or other obligations.</p> <p>The adopted budget for General fund revenues by source and expenditures by activity level. Budgeting by total revenue and total expenditures or budgeting at the function level for expenditures for General Fund is not acceptable. The governing body can require the periodic reporting on a line-item basis.</p>

Section 4: Budget Administration

The budget should always be referred to when approving expenditures. The governing body may also require that the chief administrative officer provide periodic reports on the financial condition of the local government. Interim reporting is a tool to help actively monitoring budgets and improving communication between governing body and appointed staff. Monitoring actual expenditures against appropriations will help identify potential problems early. These regularly instituted practices will help ensure budgets are not overspent and the direction of the governing body is followed. The governing board shall review and monitor the actual budget. It is encouraged that this be done on a monthly basis and no less than quarterly. This report can be provided by the clerk, chief administrative officer or other assigned appointed or elected official. For townships, there may be statutes such as [MCL41.65](#) of Revised Statutes of 1846 that provide certain requirements. The statement provided to the board may include:

- Each activity, function, or account as approved by the appropriations act. Higher level of detail may be provided to meet the local unit's needs.
- Original approved budget.
- Final Approved budget.
- Actual expenditures
- Encumbrances.
- Total remaining budget
- Percent remaining.

Section 5: Amending the Budget

Any deviation from the approved budget shall not be made without amendment. The governing body of the local unit shall amend the budget as soon as it becomes apparent that a deviation is imminent, and the amount of the deviation can be estimated. Additionally, PA 2 requires the chief administrative officer or the governing body to present recommendations to prevent a deficit budget. Recommendations shall include proposals for reducing appropriations in a manner that would cause the total appropriations to not be greater than the residual surplus and the total revised estimated revenues of the fund or proposals for measures necessary to provide revenues sufficient to meet expenditures of the fund, or both. At the end of the fiscal year, a fund may not have an unrestricted budget deficit or have functions or activities that exceed amended appropriations.

[MCL 141.437 of PA 2 of 1968](#) states that (1) Except as otherwise provided in section 19, a deviation from the original general appropriations act shall not be made without amending the general appropriations act. Subject to section 16(2), the legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined.

To be in compliance with the PA 2 of 1968, local units of government shall not amend the budget after the year end.

An amendment shall indicate each intended alteration in the purpose of each appropriation item affected by the amendment. Possible amendment alternatives are listed as follows:

- An amendment is required when the actual and probable revenues in a fund are less than the total of estimated revenues plus the fund balance from the prior year and the proceeds from bonds and other obligations issued.
- Budget amendments may include increased or decreased appropriations or revenues, moving funds between accounts, using fund balance to offset increased expenditures.
- Transfers between the appropriations may be made by the chief administrative officer within the permissions and limits approved by the governing body.

When a budget violation (i.e., over-spending) occurs, the cause of any budget overages should be evaluated. Local government officials should ensure that all of the government's departments are operating within the spirit of the budget act and attempting to limit their spending to approved amounts.

Section 6: Budget Reporting

For the requirements for the budget reporting, please refer to the [Uniform Reporting Format](#) issued by the Treasury.

Section 7: Recommended Practices

The budget is the single most important policy document that a local unit of government produces. The budget development process should be formally laid out and logical, with clearly defined roles and procedures. By using historical data and reasonable assumptions, a local unit budget provides an overview of the community's fiscal condition. The Chief Administrative Officer and the governing body are then able to prioritize the service delivery needs now and into the future. The budget development process provides contact to guide decision making.

The budget should be viewed as a tool to implement the community's vision that is sustainable for both the short and long term. This allows the translation of the community's needs and priorities into services. The budget process needs to be deliberate, well thought, uses accurate data, allows for stakeholder input and highly transparent.

Establishing budgetary goals and review financial policies

A good way to improve the efficiency of the budget process is by making sure that the budgetary goals and strategic priorities of the governing body are clearly known to those who will be offering input to the budget so that the proposed budget supports those goals. The governing body's determination of what the budget goals and potential directives are key components of the budget process and should be done at the very beginning to afford staff with the most opportunity to effectively incorporate them into the budget. To facilitate this, consider having a special meeting dedicated to budgetary goal setting. At this meeting, the governing body would be updated by staff on the status of current-year budgetary goals and directives, as well as any matters that are expected to be budget challenges for the upcoming year. The governing body should receive updated financial forecasts for the ensuing fiscal year as well as future years (three to five years). The governing body is then able to discuss and formally communicate and adopt the upcoming year's budgetary goals and directives.

The governing body at this time should also review the financial policies. These policies have a direct impact on the budget. These policies can include the following:

- **Fund Balance Policy-** Policy that establishes minimum fund balance in at least the general fund to ensure that the local unit has enough resources held in reserve to avoid a negative impact on services during unplanned or unexpected events lasting one or more years. May also include what might happen if the fund goes below this minimum and establish a maximum fund balance.
- **Debt management-** The effective use of government debt is a critical tool in maintaining services and managing the finance of the local unit. A debt policy helps define when and how debt will be used (permissible debt instruments, conditions under which debt may be used, allowable levels of debt, and compliance with continuing disclosure requirements).
- **Financial Monitor-** Documents the timing, responsibilities, and approach to regular ongoing monitoring of budget and finance. This ensures that department heads and the governing body are reviewing and adjusting the budget as needed and not being surprised at the end of the fiscal year or when the audit is completed.

- Investment Policy - Describes the parameters for investing government funds and identifies the investment objectives, preferences or tolerance for risk, constraints on the investment portfolio, and how the investment program will be managed and monitored.
- Cost Allocation – Defines how indirect costs are to be allocated to departments for items such as liability insurance, gas, and electricity costs, etc.
- Capital Assets Policy - Defines what is a capital asset based on useful life and dollar value. This policy can also describe the capital budgeting process including establishing criteria/ranking and capital financing strategies. Many local units need to develop a Capital Improvement Plan (CIP) under the [Planning Enabling Act](#), this policy should ensure that the local unit is compliant with these provisions and describes how the CIP will be developed.

Budget Schedule

Proper planning is imperative for having a successful budget process. One of the best ways to plan for the budget process is to create a comprehensive budget schedule. A proper budget schedule should identify all required deadlines of budget significance, such as when the budget is to be submitted to the governing body to begin the public process, and when the governing body is required to officially adopt the budget. All internal deadlines and milestones that are needed to keep the budget process on track should also be included. The document should be made available to staff who are engaged in the budget process. It may be provided to and adopted by the governing body at the beginning of the budget process.

Budget package

Beyond the statutory required provisions of the budget, the following sections add value to the budget document. Along with being a policy document, the budget can provide a narrative for stakeholders and provides other critical pieces of information about the local unit.

- *Table of Contents:* Budget packages will range in the number of pages of content, depending upon the size and complexity of the local unit. Its inclusion could make it easier for the reader to find what they need. Adding direct links within a table of contents then allows the user to easily navigate and quickly access the information needed within the budget.
- *Budget Message:* The underlying goal of creating the budget is to communicate the financial plan for how a local unit will accomplish the budgetary goals as set forth by its governing body. As such, consider including an introductory section that provides a summary of budget highlights that can be brought to the reader's attention. They could include high level overview, millage changes, utility rate increases, historical trends, significant budgetary items, or priorities. Adding an explanation for budgeted amounts and significant variances from year to year and what led to those changes can be helpful. A clear summary of changes from previous years, long term financial goals, and upcoming challenges provides readers with an executive summary of the full budget document.
- *Strategic Priorities:* The budget document is an opportunity for the governing body to highlight the strategic direction. By providing the goals and objectives of the local unit, it provides value in understanding the course and decisions on individual revenues and expenses within the budget.

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Clearly defined community and budget priorities help ensure that the budget can be used as a tool for running and advancing the community.

- *Organizational Chart:* This provides a graphical overview of the structure of the organization to allow the reader to gain insight into how the local unit runs and operates.
- *Staff Levels:* Salary and benefits generally make up the largest cost center for a budget. A chart with current and past approved staffing levels provides a clear summary of resource allocation within the local unit.
- *Budget Overview:* Governmental accounting and budgets are complicated and can be difficult to understand. Providing a summary of the organizations budget structure (e.g., fund and department structure), explaining key terms, defining the basis for budgeting, etc. provides a new reader to the budget the information they need to decipher and understand the document.
- *Budget Process and Timeline:* A well-defined process and timeline are important to a well-developed budget. The budget document should provide all the steps in developing the budget and timelines. This not only provides clarity on how the current year budget was developed, but also sets an outline for our future budgets that will be developed to ensure they are done timely and that the process is transparent.
- *Capital Budget:* The management of capital assets has a major impact on current and future budgets. Consider including information on projects that impact the budget. Another option is to include the entire Capital Improvement Plan.
- *Performance Measure:* Understanding change and monitoring key performance indicators allows the local government to better understand the situation and make informed decisions. The budget document is an opportunity to implement policy that will have a short and long-term impacts on the direction of the community.
- *Financial Policies:* Good financial management practices start with the budget and implemented by through the adopted financial policies. By listing these policies in the budget, it allows the governing body to review them yearly, reinforces their importance and provides transparency to stakeholders.
- *Graphics:* Consider using graphics. A well-organized graphic can catch the reader's attention.
- *Departmental Budget:* When one reviews a departmental budget, it is useful to not only see a reporting of revenue and expenditures, but it is also useful to see what services that department is providing, how it is organized, and how and why it has changed over the past 3 to 5 years. By providing detail on activity areas (i.e., departments) it provides more clarity on how resources are being allocated. This can include providing a description of the department, goals, summary of assumptions used and changes from the previous year's budget, graphs showing historical trends, line-item detail that provides summary of expected expenses.
- *Accessibility:* The Proposed Budget Package should be made available for public review after it has been delivered to the governing body of the local unit. Consider making hard copies available at multiple locations (such as the public library and city clerk's office) as well as making it easily viewable on the local unit's website.
- *Financial System:* Accessing the data to populate financial schedules can be a daunting task. Most of the software products in use today include report writing capabilities - the ability to export data to spreadsheets, or other business analytics that will allow direct access to data for updating spreadsheet templates. For smaller documents, this type of effort may not be cost effective. For larger organizations, setting up these types of tools may be worth the extra effort.

Trends and Summaries

Consider including one or more of the following schedules to provide the reader with a historical perspective of trends:

- Budget Consolidation Schedule: Combines the budgets for each fund included in the budget package.
- Multi-Year Historical Actual Totals by Function for General Fund Revenue and Expenditures: This provides the reader with a perspective of how revenue components and departmental or functional costs have changed over time.
- Consolidated Capital Outlay Schedule: This provides a complete listing of expenditures planned for capital purchases and construction projects for all funds included in the budget package.
- Authorized Employees by Fiscal Year: A multi-year listing that shows full-time and part-time positions by department as authorized to be funded by that year's budget.
- Multi-Year Comparative Schedule of Millage Rates: Reports the detail of each year's total millage rate over time.
- Schedule of Taxable Values: Reports the breakdown of taxable value between real and personal property, by taxpayer type (residential, commercial, industrial, etc.), with yearly comparisons.
- Top Ten Largest Taxpayers: Identifies the payer, taxable value, and percent of total taxable value for the year being budgeted.

Budget Training

Establish a Budget Committee that maintains fiscal responsibility for the entity. Typically, the Budget Committee would consist of members of the Finance Department or its equivalent, with periodic input from upper management. Budget committees typically review and approve the budget. Provide staff with a budget training manual which may include the following information:

- A copy of the Budget Schedule.
- Identification and explanations for the various budget forms that will need to be completed and when they are due.
- Instruction as to the threshold for classifying something as capital versus operating.
- Identification of those items that departments are responsible for budgeting, versus those items that will be budgeted by the budget committee. For example, someone on the budget committee may be responsible for budgeting all matters related to debt service, or property and liability insurance.
- Identification and direction for those accounts where more detailed information is required, such as travel, training, tuition reimbursement, or dues and memberships.
- Assumptions to be used for utility rates, fuel and oil costs, mileage reimbursement rates, minimum wage increases for departments who budget for their own seasonal and part time labor, and any other general information or reminders that are relevant to the budget process.

Other Activities

It is important to be aware of other parallel public processes that may be occurring during the budget process and are critical to the completion of the budget process. These might include appealing to the citizenry for requests for public improvements like streets or sidewalks, or the involvement of other committees, such as a Housing Commission, or Planning Commission, or Parks and Recreation Commission that may need to convene to approve rate changes, capital improvements, or additional budgetary approvals as may be required by law.

Departmental budget review process

Many activities in the budgeting process are planned with the intent of departmental engagement. In general, there are four steps involved in departmental budget review:

- Departments are provided detailed instructions and training on what is required of them to build their departmental budgets. They should be given a list of tasks and due dates, and they should submit their requested budget to the Budget Committee or the team in charge of the budgeting process to begin the next step.
- If your local unit uses Internal Service Funds, consider having those funds due sooner than other fund types so their user fees will be available to be included in the other funds as they are submitted. For example, an Equipment Revolving Fund should complete its budget earlier so that the rental fees it will be charging the user departments will be known and can be included in those departmental budgets.
- The Budget Committee or the team in charge of the budgeting process will perform a detailed review of the information provided by the department, down to the line-item level, if needed, to determine whether the budget requested by the department appears complete, accurate, and in accordance with the budgetary goals established by the governing body. The revised budget detail is given to the department for their final review and approval.
- The final step involves the Department reviewing any changes and recommendations put forth by the Budget Committee or the team in charge, providing any missing information, and collectively agreeing upon a proposed budget for that department. After a final review by the committee or the team in charge, this budget is ready to be included in the budget package at the appropriate level of detail.

It should be noted that if the overall budget (combined departmental budgets) does not accomplish budget goals put forth by the governing body, it may be necessary to revisit one or more of the departmental budgets to bring the total budget in line. The Budget Committee will need to work with the departments to determine areas that can be adjusted to accomplish this.

Once the Proposed Budget Package is set for the public inspection and the public hearing process, it is recommended to hold one or more workshop sessions to discuss the proposed budget, proposed changes or needs, and other budget related matters. This is an important step in sharing the budget challenges among departments so everyone can see how these challenges were met, how each department was impacted, and see first-hand, how the budget will be presented to the governing body and public. Knowing the message will enable everyone to be prepared to respond to questions, should they be called upon during the process.

Budget Elements

Revenues

It may be helpful to let the governing body know what revenue sources are expected before the budget package is prepared by the Chief Administrative Officer. This allows them to provide some input on spending and could potentially increase the likelihood of building a consensus on expenditures.

- **Property taxes** typically provide a large percentage of a local government's revenue. The budget team should seek guidance from the assessing or equalization department to determine what the expected taxable values will be for the upcoming year. Tax abatements, tax increment finance authorities, the projected CPI, current and expected tax appeals or settlements, significant investments to be added to the roll, significant removals from the roll, and changes to the General Property Tax Act should be considered.
- **Intergovernmental revenues** such as state shared revenue or personal property tax reimbursements are dependent on several variables and should not be assumed to increase each year. For intergovernmental revenues that are significant to your organization, be sure to inquire with the source (for example, Michigan Department of Treasury, or Michigan Department of Transportation), to understand their planned funding for the period. Be conservative in the estimates to help mitigate a negative impact on falling short.
- **Charges for services and admission fees** should be reviewed periodically to make sure they are covering the portion of related costs as intended. This can include water and sewer fees, pool admission fees, inspection fees, or a wide array of other fees a local unit may collect. If a fee increase is being planned, be sure to review the government's ordinance requirements to make sure there is adequate time built into the budget schedule to process the increase. Also consider the nature of the fee and the expected impact of the increase as to whether a more conservative approach should be taken in budgeting additional revenue generated during the first year of the increase.
- **Other revenues** might include grants, investment earnings, outside contributions, or sales and other miscellaneous sources. Consider asking the local unit's Treasurer's office for average cash and equivalent balances and average rates of return for a requested period. These will help in projecting future investment earnings. Be cautious of budgeting outside contributions/donations of any significance unless there is a commitment letter from the donor.
- **Interfund transfers** should be reviewed and studied and make sure that both the "transfer in" and "transfer out" are included in the appropriate proposed fund budgets.

Expenditures

- **Payroll** is typically the largest cost type of a municipal budget. Accordingly, it is worth the time to thoroughly review the costs of payroll changes prior to making them. Examples of projections to consider are:
 - Authorized positions
 - Increases or decreases in the number positions
 - Conversions of changes to full-time positions and part-time positions

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- Upgraded or downgraded positions within the pay scale
- Potential retirements for vacation and sick bank payouts
- Special pays, such as certificate pay, or education pay
- Allowances, such as car, phone, or clothing allowance
- Funding requirements for defined benefit retirement plans. Some may not have an updated actuarial report in time to make this determination, so consider having a discussion with an actuary to get an estimate for budgeting purposes.
- Health insurance costs for both active and retirees
- Worker's compensation experience modification rate
- Life insurance premiums
- Short-term and long-term disability insurance premiums
- Payroll cutoffs, both beginning and ending for accrued payroll

Many employees work mostly or almost exclusively for a single department and their costs can be assigned directly to that department where they will stay. Employees of the Finance and Human Resources Departments are good examples of this.

Other employees work for several departments and charge their time to different departments throughout the year. Common examples are Public Service Departments.

The payroll budget for each department needs to be adequate to fund these distributed payroll costs. For smaller communities with few employees, this can likely be managed using spreadsheets. For larger communities with numerous departments, this can be daunting. Budgeting modules of accounting enterprise software packages routinely will include a payroll distribution module to help facilitate this process. However, an analysis of where these costs expect to be distributed to will likely need to be done for the payroll distribution module to function, as well as to review the distribution for reasonableness.

- **Supply** account budgets are relatively predictable unless there is a specific request that will cause a change from the norm. If gas and oil are budgeted within supply accounts, be aware of the potential price volatility and provide adequate budget to mitigate that risk. For more activity-based expenses, reviewing historical data and trends may help project future costs. Examples of these may include:
 - Printing and Publishing
 - Insurance (check with agent on expected rate changes)
 - Utilities such as gas, electric, water, sewer, and refuse pickup
 - Internal Services such as overhead allocations, administrative service charges, or technology charges
 - Repairs and maintenance to equipment, buildings, etc.
 - Rentals for equipment or buildings
 - Miscellaneous for anything that still does not fit someplace else

Capital projects are ideally budgeted as part of a long-term capital improvement planning process. In larger local units of government, this is a coordinated effort of the engineering, planning, and utility functions to identify, coordinate, and prioritize capital projects that need to be done while using the municipality's limited resources effectively. This multi-year plan can be used to identify the budgetary

needs for a significant share of the capital projects. For smaller local units of government, they may consult Department of Public Works employees and contracted engineers.

Debt service It is relatively less complex to budget for debt services. Structured debt, whether it is bonded indebtedness or lease payments are generally defined by an amortization schedule. If a debt is related to bonds, they may be revenue bonds, general obligation bonds, or special assessment bonds.

- Revenue bonds are generally issued with the intent of paying them back with user fees generated by enterprise funds. An example would be Sewer Improvement Bonds that are issued to pay for infrastructure improvements, with the repayment of the bonds coming from the Sewer Fund.
- General Obligation bonds (GO bonds) are issued with the idea that the local unit can repay them through the levying of property taxes. There are two types of GO bonds and the distinction between the two is important.
 - Limited tax GO bonds repayments are limited by the cap the local unit is allowed to levy for property taxes. For example, if a local unit has limited tax GO bonds with an annual debt service of \$150,000, and the local unit is levying its millage cap of 15 mills, the \$150,000 debt service payment will need to be paid out of the tax proceeds already being generated – no additional property tax revenue will be collected to make the debt payments.
 - Unlimited tax GO bonds are issued by a local unit with the authorization from the voters within that jurisdiction to increase property taxes in an amount required to make the annual debt payments regardless of a statutory property tax cap.
- Special assessment bonds are generally issued for projects that will involve improvements to infrastructure, such as a new sewer, sidewalk, or street that will provide benefit to and enhance the value of those properties adjacent to or near the improvement. A local unit may issue special assessment bonds to fund all or a portion of the project, and each of these affected properties may be assessed an additional tax that will be used to repay the bonds. True Special Assessment bonds will legally secure the future assessments of the property owners as a basis for securing the bonds. It is important to note that local units can accomplish this same task by simply issuing Limited Tax GO bonds and using the special assessment process to pay for all or a portion of the debt service. In order to appropriately identify and budget activity related to special assessment projects, it is important to determine whether the associated bonds are special assessment bonds, or limited tax GO bonds.

Reserve for Contingencies is an amount that is set aside to manage the risk of unknowns that could occur during the year being budgeted. This is a line item within the expenditures of a particular fund's budget. It enables the party responsible for the budget to deal with unanticipated situations that cannot wait until next year and are not considered elsewhere in the budget. The contingent amounts are NOT intended to be an account to make expenditures from, but rather a temporary classification for unforeseen or unanticipated expenditures. In fact, if such an expenditure is necessary, an amount to cover the expenditure should be transferred by budget amendment from the contingency amount to the proper appropriation category describing the expenditure. When constructing a budget, it is important not to use a contingency reserve simply as a "catchall" to pick up outflows not included in the budget elsewhere.

Financial Forecasting

Three to five-year financial forecasts or multi-year budgeting (which is generally a greater level of detail than forecasting), can be provided to governing bodies as they begin to deliberate the budget. Please note that even if multi-year budgeting is used, the budget must only be for the single ensuing year.

Section 8: Common Budgetary Issues

This section provides several common budgetary issues and recommended solutions.

1. GAAP requires that expenditures be recorded in the period in which they were incurred. Before the current year-end, some attempt to make purchases or obtain services and put them in the next budget. Regardless of when the payment is being made, the expenditures must be recorded when the goods were received, or the services rendered.

Solution: Budget amendments from the governing body should be obtained to match the expenditures to the period in which they were incurred and still be within the budgeted amount.

2. It is common for governments to get a late start on a project that is budgeted for the current year but will not be started or completed until the next fiscal year. In this case, some governments look to prepay the vendor so that they can get the expenditures recorded in the current fiscal year to align with the budget. Recording the expenditures in the period before the service or good is provided is a GAAP violation. Prepayments should be recorded as a prepaid asset in the current year and not budgeted until the ensuing year.

Solution: A budget amendment from the governing body should be obtained to match the expenditures to the period in which they were incurred and still be within the budgeted amount.

3. Expenditures are recorded to the wrong account because the appropriate account will be or is already over budget. This is not only a GAAP violation, but it also makes it more difficult for accurate forecasting and budgeting for future years.

Solution: A budget transfer between the two accounts or a budget amendment may be made with approval from the governing body.

4. Reversing prior year accruals without setting up new accruals can result in dramatically understating expenditures throughout the year. For example, assume that a calendar year end government is billed monthly for contracted assessing services. The bill typically arrives around the 20th of the following month and is paid two weeks later. The November bill would be paid in early January, and the December bill would be paid in early February. If the accrual of those two payments to the prior year is reversed, the government would always be two months behind in reporting its expenditures in monthly reporting. That is, a report run for August would not include 8 months of cost, but only 6. This could significantly distort budgetary comparisons, and lead to budget violations at year end.

Solution: Ensure to set up new accruals when reversing prior year accruals.

5. A local unit has adopted general appropriations act at the line-item level (or at account number level. For detailed information on account numbers, please refer to Uniform Chart of Accounts). It budgets \$50,000 for office supplies as a line item for its Treasurer's Office under function for General Government. It has spent \$45,000 year to date and has received office supplies that have not yet

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been paid for in the amount of \$3,000. The Treasurer also would like to order \$5,000 of office supplies for the same fiscal year. Would this result in a violation of PA 2?

Solution: Yes, this would be a violation of PA 2 because the total amount of supplies that's going to be ordered will be \$53,000 (\$45,000+\$3,000+\$5,000), which will exceed the corresponding appropriation, the adopted level. To avoid violation, an increase of appropriation for office supplies should be made passing a budget amendment or supplies can be ordered for the following budget year, assuming that there is an appropriation approved for the following budget year. A transfer from another budget line-item could be made to cover the cost, if applicable.

6. A local unit has adopted their budget at the activity level (For detailed information on activity numbers, please refer to Uniform Chart of Accounts). The total appropriation for treasury activity under general government function is \$180,000, and the budget for the office supplies line-item is \$50,000. It has spent \$45,000 year to date and has received office supplies that have not yet been paid for in the amount of \$3,000. The Treasurer also would like to order \$5,000 of office supplies for the same fiscal year. Would this be a violation of PA 2?

Solution: No, this is not a violation. The total amount of supplies that is going to be ordered will be \$53,000 (\$45,000+\$3,000+\$5,000), and it exceeded the total budget for that line-item. However, because the budget was adopted at activity level, which is \$180,000, an overspending at a lower level, the line-item level would not be a violation.

7. Assuming all the same facts as number 5, would there be a violation of PA 2 if the Treasurer asked Public Works to pay for the Treasurer's office supplies because Public Works has available Office Supplies budget?

Solution: Yes, this would be a PA 2 violation. Expenditures must be charged to the proper appropriations category.

8. The local unit governing body approved the enablement of the Chief Administrative Officer to transfer up to \$5,000 appropriations in total for the year between activities without prior approval by the governing body. Assuming all the same facts as number 6. The Chief Administrative Officer found that it is probable that the clerk activities will not use \$3,000 of remaining budget during the year. If the Chief Administrative Officer approved to move \$3,000 appropriations from the clerk activities to the treasury activities, and this is the only transfer being made for the year, would it be a violation?

Solution: No, it would not be a violation because the governing body approved the Chief Administrative Officer to make transfers up to \$5,000. It did not exceed the \$5,000 limit. However, the Chief Administrative Officer is required to report to the governing body as soon as possible after the transfer was made. If the governing body did not approve the Chief Administrative Officer to make transfers, it would be a violation.

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An Example of a General Fund Budget

City of XXXX Fiscal Year July 1, 20x1 - June 30, 20x2			
	Prior Year	Current Year Budget	Budget Year
<u>Property Taxes</u>			
Dedicated - Police	3,220,500	3,520,000	3,525,000
<u>Income Taxes</u>			
City Income Tax	37,450,725	31,400,800	29,400,800
<u>Return on Equity</u>			
Board of Water and Light	23,100,000	25,000,000	25,000,000
<u>State Revenues</u> Revenue			
Sharing	14,400,900	13,600,900	15,600,000
<u>Charges for Services</u> Public			
Safety	4,120,725	4,100,400	4,400,900
<u>Fines and Forfeitures</u> Fines			
and Forfeitures	1,540,900	1,803,100	1,780,600
<u>Licenses & Permits</u> Cable			
Franchise Fees	1,370,175	1,000,000	1,000,000
<u>Interest & Rents</u> Interest			
Income	650,720	140,000	210,000
<u>Other Revenues</u>			
Donations & Contributions	100,700	65,000	65,000
Total Revenues	85,955,345	80,630,200	80,982,300
General Government			
Attorney's Office	1,240,420	1,450,925	1,575,250
Public Safety			
Fire Department	19,275,900	20,120,460	20,325,100
Community Development			
Economic Development & Planning	3,630,990	3,290,885	4,335,975
Public Service			
Public Service Department	9,270,040	9,705,190	9,915,180
Parks & Recreation			
Parks & Recreation Department	5,510,105	5,940,285	6,432,700
Internal Service Fund Retirement/Fixed			
Benefits	39,870,345	40,810,260	46,415,240
Other Financing Uses			
Transfers Out	5,280,000	2,430,710	5,525,000
Total Expenditures	84,077,800	83,748,715	94,524,445
Net Change on Fund Balance	90,520	(4,690,408)	(18,200,000)
Beginning Fund Balance	159,700,000	159,790,520	155,100,112
Ending Fund Balance	\$ 159,790,520	\$ 155,100,112	\$ 136,900,112

An Example of a Township General Appropriations Act

Sample Township
Proposed General Appropriations Act for FY 20X1-20X2
Resolution 20X2-1

At a regular meeting of the Township Board of Trustees of the Sample Township, Sample County, held at Street name, City, State, Zip code on the 13th day of Jan, 20X2 at 7 o'clock in the evening:

PRESENT: XXX, XXX, XXX,
XXXABSENT: None

A resolution to establish a general appropriations act for Sample Township; to define the powers and duties of the Sample Township officers in relation to the administration of the budget, and to provide remedies for refusal or neglect to comply with the requirements of this resolution. The Board of Trustees of Sample Township resolves:

Section 1: Title

This resolution shall be known as the Sample Township General Appropriations Act for FY 20X1-20X2.

Section 2: Chief Administrative Officer (CAO)

The Manager of the township shall be the Chief Administrative Officer and shall perform the duties of the Chief Administrative Officer enumerated in this act. If the township does not employ a manager, the supervisor of the township shall be the Chief Administrative Officer. (Please note that the description of the CAO is just an example and may not apply to all local units of government in Michigan. For detailed definition of the CAO, please refer to [MCL141.422b\(3\).](#))

Section 3: Fiscal Officer

The Clerk shall be the Fiscal Officer and shall perform the duties of the Fiscal Officer enumerated in this act.

Section 4: Public Hearings on the Budget

Pursuant to MCLA 141.412; MCLA 141.413, notice of a public hearing on the proposed budget was published in a newspaper of general circulation on March 01, 20X2, and a public hearing on the proposed budget was held on March 09, 20X2.

Section 5: Estimated Revenues

Estimated township general fund revenues for fiscal year 20X1-20X2, including an allocated millage of 1,000 mills or less pursuant to Headlee rollback; voter-authorized millage of 1.5000 mills or less pursuant to Headlee rollback, and various miscellaneous revenues shall total \$1,058,781.

<u>Cost Center</u>	<u>Acct. Numbers</u>	<u>Budget</u>
Taxes – General	101-000-410 through 101-000-447	\$175,700
Licenses and Permits	101-000-478	\$14,000
Revenue Sharing	101-000-574	\$303,922
Charges for Services	101-000-608 through 101-000-629	\$5,600
Interests and Rents	101-000-665 through 101-000-668	\$9,110
Other Revenue	101-000-687	\$600
Total Revenue		\$508,332

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<u>Cost Center</u>	<u>Acct. Numbers</u>	<u>Budget</u>
Restricted Revenue		
Available Revenue		
Other Funds:		
Cemetery	150-000-630.001 through 150-000-690	\$36,000
Road	204-000-405 through 204-000-690	\$203,744
Fire	206-000-613 through 206-000-665	\$293,853
Round Lake	841-000-672	\$16,252
Total Revenue	General and Other Funds	\$1,058,781

• Michigan Department of Treasury notes that these account numbers are consistent with the Uniform Chart of Accounts

Section 6: Millage Levy

The Sample Township Board shall cause to be levied and collected the general property tax on all real and personal property within the township upon the current tax roll an amount equal to 2.5 mills or less pursuant to Headlee rollback as set forth under state law.

Section 7: Estimated Expenditures

Estimated township general fund expenditures for fiscal year 20X1-20X2 for the various township activities are as follows:

<u>Function/Activities</u>	<u>Acct. Numbers</u>	<u>Budget</u>
Legislative – Committee	101-102-701 through 101-102-980	\$52,950
Legislative – Trustee	101-101-702 through 101-101-955	\$5,512
General Govt – Supervisor	101-171-702 through 101-171-955	\$15,884
General Govt – Clerk	101-215-702 through 101-215-955	\$22,914
General Govt – Data	101-228-800.001 through 101-228-800.004	\$12,240
General Govt – Board of Review	101-247-702 through 101-247-800	\$2,100
General Govt – Treasurer	101-253-702 through 101-253-955	\$19,164
General Govt – Assessor	101-257-702 through 101-257-800.004	\$25,513
General Govt – Elections	101-262-702 through 101-262-980	\$10,200
General Govt – Building and Grounds	101-265-727 through 101-265-970	\$68,400
Public Safety – Law Enforcement	101-301-801	\$1,000
Public Works – Drains Contracts	101-445-803	\$5,000
Health and Welfare – Aging	101-672-800	\$500
Community and Economic Development – Supplies	101-721-727	\$12,500
Recreation and Culture – Supplies	101-751-727 through 101-790-800	\$19,000
Contingency for IT Department	101-228-955	\$0
	101-228-955.150 to Cemetery Fund	\$0
	101-228-955.204 to Road Fund	\$0
Capital Outlay	101-901-970	\$0
Transfer in Fire	101-931-995	\$0
Total Expenditures		\$272,877

• Michigan Department of Treasury notes that these account numbers are consistent with the Uniform Chart of Accounts

Section 8: Adoption of General Fund Budget

The Board of Trustees of Sample Township adopts the 20X1-20X2 fiscal year general fund budget for revenues by source, and expenditures by activity. Township officials responsible for the expenditures authorized in the budget may expend township funds up to, but not to exceed, the total appropriation authorized for each activity and may make transfers among the various line items contained in the activity appropriation. Transfers of appropriations between activities may occur with prior board approval by budget amendment. No transfers of appropriations for line items related to personnel or capital outlays may be made without prior board approval by budget amendment.

Section 9: Appropriation Not a Mandate to Spend

Appropriations will be deemed maximum authorizations to incur expenditures. The Fiscal Officer shall exercise supervision and control to ensure that expenditures are within appropriations and shall not issue any township order for expenditures that exceed appropriations.

Section 10: Periodic Fiscal Reports

The Fiscal Officer shall transmit to the board at the end of each of the first three quarters, and at the end of each month occurring during the fourth quarter, a report of financial operations, including but not limited to:

- a) a summary statement of the actual financial condition of the general fund at the end of the previous quarter.
- b) a summary statement showing the receipts and expenditures and encumbrances for the previous quarter and for the current fiscal year to the end of the previous quarter.

Section 11: Limit on Obligations and Payments

No obligation shall be incurred against, and no payment shall be made from any appropriation account unless there is a sufficient unencumbered balance in the appropriation and sufficient funds are or will be available to meet the obligation.

Section 12: Budget Monitoring

Whenever it appears to the Chief Administrative Officer or the Township Board that the actual and probable revenues in any fund will be less than the estimated revenues upon which appropriations from such fund were based, and when it appears that expenditures shall exceed an appropriation, the Chief Administrative Officer shall present to the Township Board recommendations to prevent expenditures from exceeding available revenues or appropriations for the current fiscal year. Such recommendations shall include proposals for reducing appropriations, increasing revenues or both.

Section 13: Violations of this Act

Any obligation incurred or payment authorized in violation of this resolution shall be void and shall subject any responsible official or employees to disciplinary action as outlined in P.A. 621 (1978) and the Sample Township Policies and Procedures manual.

Section 14: Board Adoption

Motion made by XXX, seconded by XXX, to adopt the foregoing resolution. Upon roll call vote, the following voted yes: XXX, XXX, XXX, XXX. The following voted no: None. The supervisor declared the motion carried and the resolution duly adopted on the 13th day of Jan, 20X1.

CERTIFICATION

I, the undersigned, duly qualified Clerk of Sample Township, do hereby certify that the foregoing is a true and complete copy of a Resolution adopted by the Sample Township Board of Trustees as a regular meeting held on Jan 13, 20X1.

XXX
Township Clerk

STATE OF MICHIGAN

COUNTY OF XXX

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An Example of a Budget Amendment

Municipality Name

RESOLUTION #20 OF 20XX

BUDGET AMENDMENT RESOLUTION

At a special meeting of the Board/Council of the Municipality Name, held in the City/Village/Township Hall in the Municipality Name, County Name, Michigan, on the 26th day of December, 20XX there were

PRESENT:

EXCUSED:

The following resolution was offered by _____ and seconded by _____.

WHEREAS, a budget was adopted on December 21, 20XX to govern the receipts and expenditures of various City/Village/Township funds for the next fiscal year of the City/Village/Township, and

WHEREAS, as a result of unanticipated cost, it is necessary to modify the aforesaid budget and,

NOW THEREFORE BE IT RESOLVED, that the aforesaid budget be modified as follows:

Increase the following line items:

Account Number	Previous Budget	Increase/(Decrease)	Amended Budget
206-000-978- Equipment	\$10,000	\$5,000	\$15,000

This increase of \$5,000 will be from the General Fund unassigned fund balance account number 101-000-390.

Account Number	Previous Budget	Increase/(Decrease)	Amended Budget
101-171-705(Supv. Benefits)	\$5,000	\$600	\$5,600

The increase of \$600 will be from the General Fund unassigned fund balance 101-000-390.

Upon a roll call vote, the following voted:

YES:

NO:

RESOLUTION DECLARED ADOPTED

I, the undersigned, the Clerk of the Municipality Name, County Name, Michigan, do hereby certify that the foregoing is a true and complete copy of certain proceedings taken by the Township Board/City/Village Council of said municipality at its special meeting held on December 26, 20XX,

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relative to adoption of the resolution therein set forth; that said meeting was conducted and public notice of said meeting was given pursuant to and in full compliance with the Open Meetings Act, being Act 267, Public Acts of Michigan, 1976, and that the minutes of said meeting were kept and will be or have been made available as required by said Act.

Dated: December 26, 20XX

_____ Clerk's Name

Section 10: References

The following references and websites are provided as suggested resources for local units of government in the preparation and execution of budgets:

GFOA Best Practices: www.gfoa.org/best-practices

Robert Bland and Michael Overton, Fourth Edition, 2019, [A Budgeting Guide for Local Governments](http://www.icma.org/budgetingguide)
www.icma.org/budgetingguide

Michigan Municipal League, Ann Arbor MI, [Handbook for General Law Villages](http://www.mml.org/resources/publications) chapter 18 Budgeting
www.mml.org/resources/publications

Michigan State University Extension, [Forecasting for Local Government Budgets 2018](http://www.canr.msu.edu/news/forecasting-for-local-government-budgets)
www.canr.msu.edu/news/forecasting-for-local-government-budgets

National Advisory Council on State and Local Budgeting, [Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting](http://www.gfoa.org/services/nacslb)
www.gfoa.org/services/nacslb

Section 11: Glossary

Use of Terminology

Activity Level – The Uniform Chart of Accounts states that an activity is an office or department to which specific revenues and expenditures/expenses are to be allocated, such as activity number 191 for accounting department and 262 for elections.

Amending the Budget – When revenues or expenditures are anticipated to exceed the governing body approved budget, the current budget must be amended through a budget adjustment. The amendment must be approved by the governing body prior to the expenditure being made. This is not only a requirement of the Budget Act but also a requirement of sound budgeting theory. The purpose of a budget is not only to approve expenditures but also to control expenditures.

Appropriation – An authorization granted by a governing body to incur obligations and to expend public funds for a stated purpose. An appropriation is granted through general appropriations act or through a subsequent amendment to the general appropriations act (referred to as a budget amendment).

Budget – A plan of financial operation for a given period of time, including an estimate of all proposed expenditures from the funds of a local unit and the proposed means of financing the expenditures.

Balanced Budget – A budget in which the projected ending fund balance is equal to or greater than zero. This includes the use of legally allowed fund balance to offset any expenditures that exceed the total revenues.

Basis for Accounting and Reporting – The budget information must be prepared on the same method and basis as the actual amounts will be reported in the financial statements. Oftentimes, governments maintain their internal books on a cash basis throughout the year and adjust at year end to comply with GAAP (modified accrual reporting). Governments should be mindful of these accruals and consider the potential that a budget may be exceeded once accruals are recorded.

Budget Adoption Level – Also known as budget control level. [MCL 141.436](#) of PA 2 requires that the adopted budget be consistent with the Uniform Chart of Accounts prescribed by the state treasurer. The Uniform Chart of Accounts provides that information can be accounted for at three levels, which are function level (i.e., General Government), activity level (i.e., Planning Department), and account number level (also referred to as line-item level). General fund budget for expenditures is required to be adopted at least at the activity level and for revenues to be adopted by source. The budget for special revenue funds' expenditures can be at function level. The budget document may show line-item levels, which is more detailed than activity level as designated by the [Uniform Chart of Accounts](#) but does not need to be adopted at that level. The general appropriations act resolution must reference the level at which the budget was adopted.

Budget Package – A packet of information given by chief administrative officer to the governing body. It allows them to make an informed decision prior to voting on the general appropriations act. [MCL 141.435](#) requires specific information to be included so that the governing body has sufficient information to consider the general appropriations act.

Budget Transfers – The governing body may permit the chief administrative officer to execute transfers within limits between appropriations. If the governing body allows transfers, the permission and limits for such transfers must be indicated in the appropriations act. Allowing such transfers might eliminate the necessity for budget amendments for miscellaneous and insignificant amounts.

Contingencies— PA 2 indicates that an estimate should be made for amounts needed for deficiency and contingent or emergency purposes. The contingent amounts are not intended to be an account to make expenditures from but rather a temporary classification for unforeseen or unanticipated expenditures. In fact, if such an expenditure is necessary, an amount to cover the expenditure should be transferred by budget amendment from the contingency amount to the proper appropriation category describing the expenditure. Contingencies amount should be small. To the extent possible, if expenditures should be anticipated, they should be appropriately classified in the budget rather than grouped in the contingency category.

Chief Administrative Officer – The individual with responsibility for preparing a budget for consideration of the governing body. Typically, the chief administrative officer will be the county executive, manager, or controller; city or village manager; mayor, township manager or supervisor, village manager or president (in the absence of a manager). For detailed definition, please refer to [MCL141.422b\(3\)](#).

Deficit Budget – A deficit budget is one where the estimated accumulated fund balance at the end of the budget year is negative (estimated beginning of year fund balance, plus estimated revenues, less appropriations equals a negative number). PA 2 prohibits the adoption of a deficit budget ([MCL 141.435 \(2\)](#)).

Deficit Spending – Deficit spending is when estimated revenues exceeds appropriations without the use of fund balance.

Expenditure – The cost of purchased goods or services, which is to be recognized at the time the goods are received or the services are rendered regardless of when payments are being made.

Encumbrances – An encumbrance is a reservation of a portion of the budget for a future planned expense, normally associated with a purchase order. The concept is most commonly used in governmental accounting, where encumbrances are used to ensure that there will be sufficient budget available at year end to pay for specific obligations. By using encumbrances, a government entity can be assured that it will not over-extend its approved budget. Encumbrances are recognized as expenditures for budgetary purposes, but never for preparation of financial statements.

Function - A group of related activities intended to accomplish a major service or regulatory program is a function, such as general government function and public safety function. Please refer to Uniform Chart of Accounts for detailed information about Functions.

General Appropriations Act – (References are to PA 2) The mechanism used by the governing body for adopting a budget (section 16 (1)) and includes two items (section 16 (2)(3)):

- 1) **Budget** - A plan of financial operation for a given period of time, including an estimate of all proposed expenditures from the funds of a local unit and the proposed means of financing the expenditures. (See section 15 for the contents of the budget.)

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- 2) Truth in Budgeting Act - sets forth the total number of mills of ad valorem property taxes to be levied and the purposes for which that millage is to be levied.

Section 16 (3) The general appropriations act shall set forth the amounts appropriated by the legislative body to defray the expenditures and meet the liabilities of the local unit for the ensuing fiscal year, and shall set forth a statement of estimated revenues, by source, in each fund for the ensuing fiscal year.

Section 16 (4) The general appropriations act shall be consistent with Uniform Charts of Accounts prescribed by the state treasurer.

Line-Item Level – The account number level. Account numbers are provided in the Uniform Chart of Accounts prescribed by the state treasurer.

Level of Control – Please refer to the term “Budget Adoption Level”.

Special Appropriations Act – The resolution adopted by the governing body that passes an optional budget for debt service funds, capital project funds, proprietary funds, or fiduciary funds.

For more information on function, activity, and account number, please refer to Uniform Chart of Accounts. Please refer to Section 8 of this manual: Common Budgetary Issues for examples.