

# STEADYING THE SHIP

*Smart Budgeting Strategies  
for Uncertain Times*



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EMPOWER YOUR PURPOSE

## Meet the Presenters

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# Session Outline

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Budget Process Fundamentals



Reviewing the Budget – an Auditor’s Perspective



Budget Games!



Budgeting for Uncertainty



# Budget Fundamentals

## Regulatory Requirements: Public Act 2 of 1968 Uniform Budgeting and Accounting Act

Budget should show revenue and expense & compare with estimates from current year

- Be Balanced
- Include significant assumptions used to estimate budgeted revenue and expenses

Budget be adopted prior to the start of the fiscal year

- In a government, the expenditure side of the budget is called “appropriations,” Appropriations are the legal authority granted by a legislative body to incur obligations and to expend public funds for a stated purpose.. It is illegal to spend more than the budget appropriations (P.A. 2 of 1968).

Level of budgeting required



## Establishing Management Expectations



DETERMINE PROGRAMMATIC  
NEEDS



PROBLEM SOLVE BALANCING  
NEEDS WITH AVAILABLE  
RESOURCES



ENCOURAGES MANAGEMENT  
PARTICIPATION IN FINANCIAL  
MATTERS

## Monitoring Outcomes

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Expenditures budget  
to actual reports



Monitoring meetings



Determine necessary  
amendments



Communicate results  
to the governing body





# The Budgeting Process



## The Budgeting Process



Set timeline



Determine the required level of budgeting



Establish “base” – maybe YTD actual



Incorporate known changes



## Gaining Input

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Management Departments

- Provide template
- Comparative information

Executives

Finance Committee?

A photograph of a man and a woman sitting at a wooden table in a meeting. The man, wearing glasses and a blue patterned shirt, is looking at the woman and speaking. The woman, with curly hair and wearing a white shirt, is looking at him. There are papers, a smartphone, and two coffee cups on the table. The background is a bright, out-of-focus office space.

# The Budget: A Management Tool

## An Internal Control

Are budgeted expenditures within expectations? If not, why?

- Fluctuation in costs month to month
- Inappropriate account coding
- Inappropriate spending
- Valid spending trends that warrant amendments

## Trending: Budget to Actual Reporting

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Monthly tracking of budget to actual

Report to management – Expect input on “why” trends differ than budget

Report to board – Provide explanation over an agreed upon % or amount





## Encourages Operational Communication

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Have there been changes in programs?

Have costs been higher than quoted?

Has revenue trended as planned?

Have staffing needs changed?

## Budget Amendments

- Must take place before year-end
- Should be supported by rationale
- Demonstrate impact on fund balance/net position





Budget – Did the local unit adopt a budget for all required funds?



Public Hearing – Was a public hearing on the budget held in accordance with State statute?



Line-Item Budget Deficits – Were the local unit's actual expenditures within the amounts authorized in the budget?

## Budget Guideline Resources

Uniform Budget Manual, revised April 2024:

[https://www.michigan.gov/treasury/-  
/media/Project/Websites/treasury/BLGSS/LAFD/Bulletins-Manuals-and-Forms/Final-  
APPROVED-Budget-Manual-April-  
2024.pdf?rev=34d4ead55d1548779eb479ec8bb79473&hash=D12716BC931BB0B7AA4  
B6115922FDB1A](https://www.michigan.gov/treasury/-/media/Project/Websites/treasury/BLGSS/LAFD/Bulletins-Manuals-and-Forms/Final-APPROVED-Budget-Manual-April-2024.pdf?rev=34d4ead55d1548779eb479ec8bb79473&hash=D12716BC931BB0B7AA4B6115922FDB1A)



# **Budget Review: An Auditor's Perspective**

## Reviewing the Audit with Council



Should not be the first time the budget is reviewed – budget review should happen regularly throughout the year with management



Let the auditors be auditors – your auditors shouldn't be giving you every detail about operations... management should! The auditors should provide context about important indicators and areas of concern that you should pay attention to.

## Reviewing the Audit with Council

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Have a clear and established process – make sure management is having audit exit meeting to review results before the public board meeting.



If the board has a finance committee – audit results are often presented in the finance committee in more detail than they are to the full board.

# Know where to find your Budget to Actual Statements

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## Statement of Revenues, Expenditures, and Changes in Fund Balance

Budget and Actual - General Fund

For the Year Ended June 30, 2024

	Original Budget	Final Budget	Actual	Actual Over (Under) Final Budget
<b>Revenues</b>				
Property taxes	\$ 6,498,794	\$ 6,507,909	\$ 6,505,281	\$ (2,628)
Licenses and permits	401,050	474,780	495,736	20,956
Intergovernmental	814,710	820,272	868,104	47,832
Contributions	50,000	51,910	57,288	5,378
Charges for services	1,373,752	1,939,447	1,926,535	(12,912)
Fines and forfeitures	10,500	14,515	16,273	1,758
Investment income	93,414	297,499	374,405	76,906
Rental income	167,728	150,041	152,257	2,216
Other	-	120,438	128,338	7,900
<b>Total revenues</b>	<b>9,409,948</b>	<b>10,376,811</b>	<b>10,524,217</b>	<b>147,406</b>
<b>Expenditures</b>				
Current:				
General government:				
City Council	30,650	33,645	29,929	(3,716)
City manager and communications	529,410	678,720	678,325	(395)
Finance and administrative services	339,965	369,430	358,319	(11,111)
Technology costs	206,580	255,741	236,279	(19,462)
Tax and assessing	226,515	229,595	226,267	(3,328)
City clerk	134,940	148,245	146,065	(2,180)
City attorney	152,000	238,000	228,909	(9,091)
Elections	138,275	133,775	118,266	(15,509)
Insurance and other	33,740	176,975	378,919	201,944
Planning, zoning, and inspection	491,100	1,195,466	958,554	(236,912)
Central supply	27,470	27,470	22,918	(4,552)
	<b>2,310,645</b>	<b>3,487,062</b>	<b>3,382,750</b>	<b>(104,312)</b>

# Understand the Auditing Procedures Report

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Budget	
* Did the local unit adopt a budget for all required funds (MCL 141.436)?	Yes
* Was a public hearing on the budget held in accordance with State statute?	Yes
* Were the local unit's actual expenditures within the amounts authorized in the budget?	No
* Are there any individual expenditures or other financing uses that exceed 10% of total expenditures?	Yes
* Are any of those over budget by 10% or more?	Yes

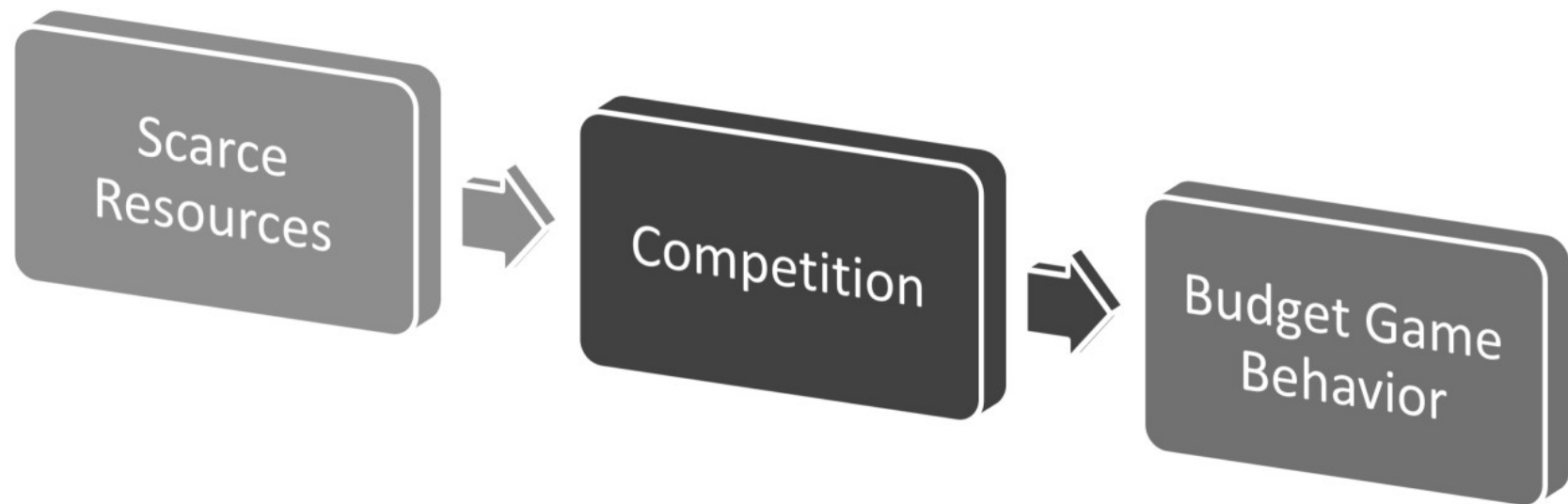




# Budget Games

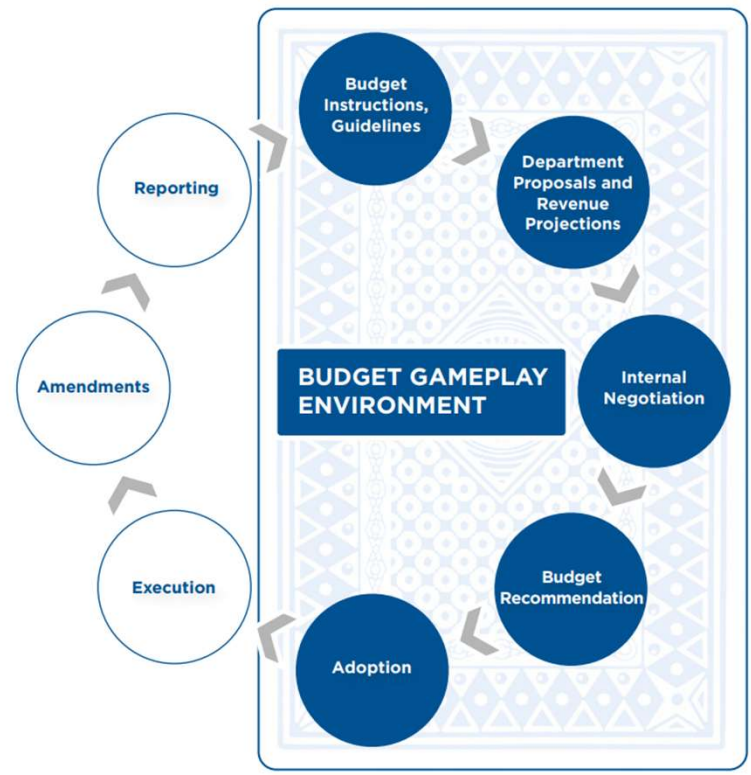
## Why Do Games Exist?

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Credit: GFOA Budget Games Presentation

**EXHIBIT 1** | Where Budget Games Are Likely to Happen in the Budget Process



Credit: GFOA Budget Games Presentation

## King – The Padding Play

Padding Play – Asking for more than you really need

- Similar to Highball Pricing in negotiations – Set the price high knowing you are willing to settle for less
- Utilizes the phenomenon known as “Anchoring Bias”

High success rate and widespread use; very common for governments to have material amount of padding in operating budget

- Can lead to spending more to justify need – and significant end of year spending.



Credit: GFOA Budget Games Presentation

## King – The Padding Play

Padding Play – motivated by perception of risk

- Insurance against unplanned and unavoidable costs
- Budgeting for contingencies

Also, a hedge against poor budget planning

- Buys time to “figure it out later”

Can create a perception of savings/thriftiness but ultimately results in potentially significant opportunity costs.



Credit: GFOA Budget Games Presentation



## Queen – The Crisis Card

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Claim of catastrophic outcomes to the public if the request is not fulfilled

- Often associated with warnings of apocalyptic issues

Appeals to natural risk aversion of public officials; don't want to be responsible for predicted outcome

Takes advantage of cognitive bias known as narrow framing

- Frames scenario as binary.... Approve this request or accept the resulting catastrophe

Effective game that plays on fear



Credit: GFOA Budget Games Presentation

## Jacks – Selling the Sizzle

Budget requests long on flash but short on substance

- Using production quality to mask lack of value to public
- Fine line between a well-reasoned budget argument and a flashy presentation

“Reasoning by Anecdote”

- Using a single example to imply a broader conclusion
- EX: Expensive traffic engineering solutions due to an accident based on human error



Credit: GFOA Budget Games Presentation



## Jacks – Selling the Sizzle

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### Technobabble

- Using jargon or technical language to impress audience or imply sophistication
- Plays on audience not wanting to seem like they don't understand

### Overconfidence in outcomes

- Overstating outcomes of the proposal or downplaying uncertainty

### Selective data presentation

- Present data in support, ignore data against – Confirmation Bias
- Related to the overconfidence game
- Often utilized by specific interest groups and can lead to low outcome budget allocations



Credit: GFOA Budget Games Presentation

## Jacks – Pet Project Play

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- Linking a budget request to a priority or project from a legislator
- Utilizes the phenomenon of the “Halo Effect”
  - Request associated with something positive in the mind of legislators, such as a pet project, even if there is no relationship
- Generally easy to attempt when legislative budget has broad policy objectives
- Also relatively easy to recognize with the savvy budget officer



Credit: GFOA Budget Games Presentation

## Jacks – Influence Operation

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- Lobbying for support for budget requests from legislators, community, executives, media
  - Refers to influence outside of the standard public process
- Not necessarily staff driven; often comes from outside stakeholders
  - Development project requesting concessions that result in less tax revenue and/or increased service demand



Credit: GFOA Budget Games Presentation

# Playbook for Countering Gameplay

- Financial Foundations for Budgeting
  - Won't eliminate but will help reduce/mitigate negatives

## Design Principles

Strong sense of identity and purpose for the local government	Fair and inclusive decision making	Monitoring agreed-upon behavior	Local autonomy
Graduated sanctions and rewards	Benefits proportional to cost	Fast and fair conflict resolution	Appropriate relations with other groups

Credit: GFOA Budget Games Presentation

# Using Target Based Budgeting

## Traditional Budgeting

1. Department request funding
2. Revenue estimates
3. Evaluate bottom line
4. Negotiate reductions with departments until you get to the desired bottom line

## Target-Based Budgeting

1. Decide desired bottom line
2. Revenue forecast
3. Set department targets (limits) for core services
4. Departments submit two proposals – core vs supplemental
5. Negotiate for supplemental decision packages

**Strong sense of identity and purpose**

**Fair and inclusive decision making**

**Monitoring agreed-upon behavior**

**Local Autonomy**

**Graduated sanctions and rewards**

**Benefits proportional to cost**

**Fast and fair conflict resolution**

**Appropriate relations with other groups**

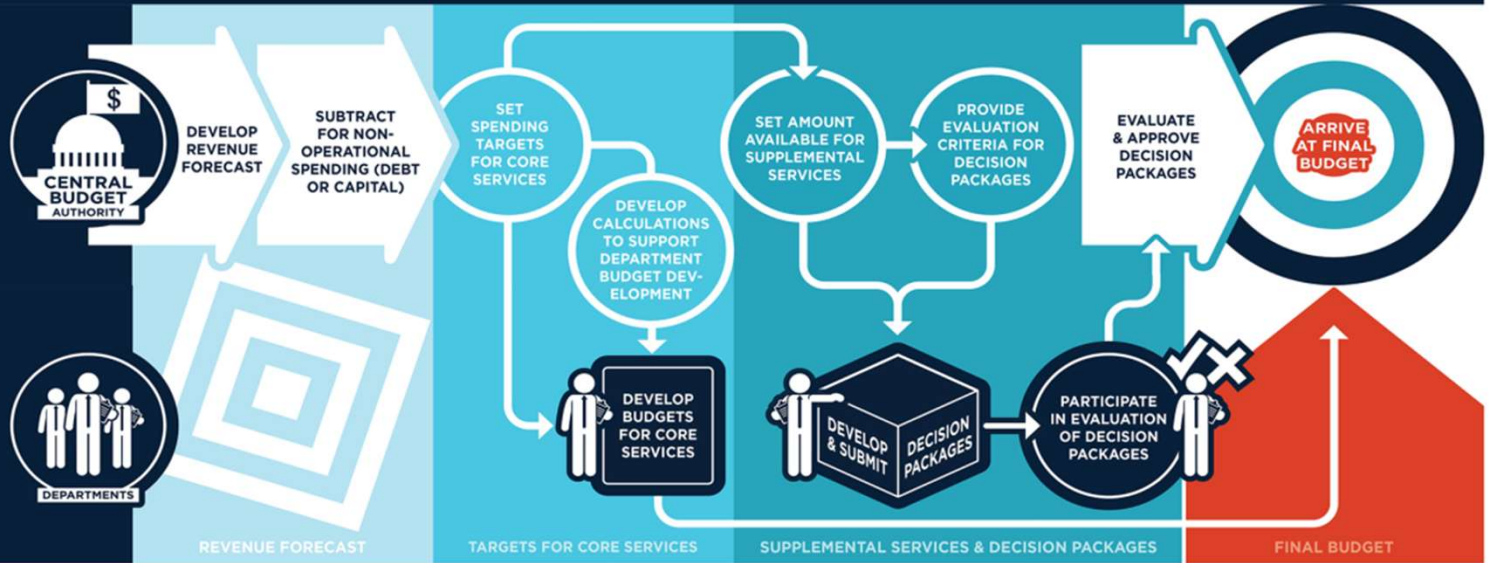
Credit: GFOA Budget Games Presentation



# TARGET-BASED BUDGETING

**TARGET-BASED BUDGETING (TBB)** gives departments a clear spending target for their plans. To receive more funding, departments must submit a decision-package to central budget authorities, who compare packages from across the government. Winning packages are given funding just for that year. The autonomy granted to departments to develop their spending plans within the target reduces the budgetary game play and zero-sum competition that can characterize a traditional budget.

The possibility of receiving more funding via decision-packages provides an avenue for departments to make their case for more funding and for central budget authorities to carefully evaluate proposals for new spending. The temporary nature of additional funding paired with firm spending targets keeps spending within available revenues.



**CONTROL SPENDING GROWTH.** By setting the target for core spending below total available revenue, TBB controls spending on its "core" services. Reviewing decision packages ensures that supplemental services are valuable uses of government funds.

**CLEAR BOUNDARIES.** Defining spending targets communicates core services, department budgets, and the budget for decision packages, including clear criteria for evaluating them.

**REDUCE "BUDGET GAMES".** TBB gives departments significant control over their budget. This allows departments to let their guard down because their core budget is not part of a zero-sum competition with other departments.

**FORECAST STRENGTH & WEAKNESS:** Because the forecast determines the spending target for core services and the amount available for decision packages, TBB will expose any lack of confidence in the forecast.

**REDUCING "SLACK" IN THE BUDGET.** Traditional budgeting often includes significant padding. Padding can act as a safeguard against unplanned, unavoidable costs, but also can make it harder to balance the proposed budget. TBB encourages departments to reduce padding.

Credit: GFOA Budget Games Presentation





# Budgeting for Uncertainty



## Proactive Steps to Manage Uncertainty

### Manage Funding Streams

Determine which aspects of your operational budget or services are directly dependent on uncertain funding sources, or on organizations — such as government agencies, nonprofits, businesses, contractors, or public schools — that do. Whether a vendor, partner, or client, the financial stability of these entities will affect yours if there are delays, cuts, or cancellations of essential resources.

Create a comprehensive list of the programs and projects that are tied to federal funds. Next, consider these actions:

- Manage cash flow to alleviate unexpected changes in funding. Ensure drawdowns are completed timely and in accordance with compliance requirements.
- Consider delaying any non-essential projects or purchases.
- Explore alternate funding strategies or sources — think philanthropic grants, financing, private investments, or public appeals — to cover potential shortfalls.
- Diversify funding streams, reducing dependence uncertain sources by broadening support through local and state-level resources, private donors, or partnerships.\*\*
- Maintain open lines of communication with oversight agencies so that you have the latest information when available should changes in funding occur.

## Proactive Steps to Manage Uncertainty

### Mitigate the Effects of Federal and State Staffing Shortages

Federal and State layoffs and hiring freezes may create staffing shortages in key departments that your organization relies on for coordination and oversight. This ripple effect may slow pertinent approvals, funding distributions, and communications. If your organization is experiencing reduced availability of federal and state agency staff, adjust project timelines to the best of your ability and communicate to pertinent stakeholders the potential for delayed processing times and stalled workflows.

#### Wherever possible:

- **Build Relationships Locally:** Strengthen ties with local representatives and state-level agency counterparts to reduce dependence on federal channels.
- **Centralize Internal Processes:** Streamline your reporting and response strategies to minimize inefficiencies caused by reduced federal and state agency staffing.
- **Advocate for Clarity:** Request clear communication from federal and state departments and oversight agencies regarding delays to adjust expectations accordingly.

## Proactive Steps to Manage Uncertainty

### Look for Opportunity in the Unexpected

Although many unknowns remain, and the level of uncertainty may feel overwhelming, history shows us that times of challenge and disruption often open doors for growth and innovation. Public sector entities positioned to adapt have a unique chance to shape the future.

#### Some opportunities to explore:

- **Data & Technology Improvements:** Invest in or optimize existing digital tools to help your organization streamline operational processes, streamline grant drawdowns, improve reporting compliance, and reduce bureaucracy.
- **Process Audits:** Assess financial management processes to identify areas for improvement.
- **Strengthen Community Partnerships:** Collaborate with local governments, businesses, and stakeholders to find creative solutions to funding and resource gaps.
- **Drive Advocacy:** Amplify your organization's voice through associations or coalitions advocating for support from decision-makers.

## Proactive Steps to Manage Uncertainty

### Move Forward with Confidence

Change presents challenges, but remaining informed, agile, and proactive will allow your organization to weather these uncertain times and emerge more resilient than before.

# Best Practices

## Strategic Planning & Governance

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### Form a Strategic Response Committee

- Assemble a cross-functional team (finance, compliance, operations, communications) to monitor risks and coordinate responses.

2

### Develop Contingency Plans

- Prepare for funding delays or cancellations by identifying alternative revenue sources, adjusting program timelines, and prioritizing essential services.

3

### Stay Informed on Policy Shifts

- Monitor executive orders, agency directives, and legislative changes that could impact grant eligibility or funding levels.

# 2025 Public Sector Webinar Series

## 2025 Governmental GAAP Update

Date: Jan. 22

Presenter: Dan Merritt

A deep dive into 2025 accounting pronouncements and other implementation guidance from the Governmental Accounting Standards Board (GASB).

## Seamless Transitions: Effective Succession Planning for the Public Sector

Date: April 30

Presenters: Kerreen Conley & Cheryl Kuch

An interactive session covering actionable strategies to set up your organization for smooth transitions during these critical times.

## From Risk to Resilience: Key Strategies to Improve Your Organization's Internal Controls

Date: Oct. 8

Panel Presentation

This webinar will provide essential insights and best practices for public sector leaders and board members to safeguard their organizations.

## 2025 Nonprofit Update

Date: Jan. 23

Panel Presentation

A deep dive into 2025 accounting pronouncements and other implementation guidance from the Financial Accounting Standards Board (FASB).

## 2025 Single Audit Update

Date: Aug. 20

Presenter: Dan Merritt

Hear the latest updates on recent guidance provided by the Office of Management and Budget (OMB), the Government Accountability Office (GAO), the American Institute of CPAs (AICPA) and more.

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**Thank you for joining us!**

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**Questions?**

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