

Budgeting Best Practices.



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Meet the Presenter



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Professional Designations:

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Our Agenda for Today

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Budgeting: Why do it?



Evaluating Financial Stability



Budgeting Practices:



Aligning Financial Planning & Community Goals



Realistic 5-year Capital Improvement Plans



Why Do We Budget?

Regulatory requirements: MCL 141

- General appropriation act (required):
 - General fund
 - All Special Revenue Funds
- Special appropriation act (optional):
 - Agency,
 - Internal service,
 - Enterprise,
 - Debt service
 - Capital Projects

Regulatory requirements: MCL 141

- Expenditure data:
 - Most Recently completed fiscal year
 - Estimated expenditures for the current fiscal year
 - Estimated expenditures for the next year
- Revenue data:
 - Most Recently completed fiscal year
 - Estimated revenues for the current fiscal year
 - Estimated revenues, by source of revenue, for the next year
- Surplus/Deficit (Fund Balance)
 - Surplus or deficit from prior years
 - Estimated surplus or deficit for the current fiscal year
 - Estimated expenditures for the next year
- Estimate of amounts needed for deficiency, contingent or emergency purposes

Operational Planning

- What services are we expected to provide?
 - Public Safety
 - Public Works
 - Health and Welfare
 - Community/Economic Development
 - Recreation and Culture
- What do we need to provide these services?
 - Employees and related expenditures
 - Purchased goods and services
 - Equipment and Real property

Financial Planning

- What resources are available to fund expenditures?
 - Tax levies\Special assessments
 - Fines and fees
 - Charges for services
 - Federal, State, and Local Grants
 - Investment Income
 - Proceeds from sale of bonds or property
 - Historical surpluses (Fund Balance)
- What resources are already obligated?
 - Long-term debts
 - Future obligations to employees for retirement and healthcare
 - Funding agreements with grantors
 - Contractual obligations to vendors



Evaluating Financial Stability/Resilience

Historical Surpluses/Deficits



Evaluate by Fund & Government Wide



Consider One-time/ Non-reoccurring items



Evaluate Trends



What needs to change?

Tax Levy

**Consider Trends in
Taxable Values**

Levy Renewal Risk

**Realistic Tail for
Expenditures**

**Communicate results
to the governing**

Federal/State/Local Grants

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**Anticipating
changes in
Grantor
Priorities**

**Required
Grant Closing
Costs**

**Realistic Tail
for
Expenditures**

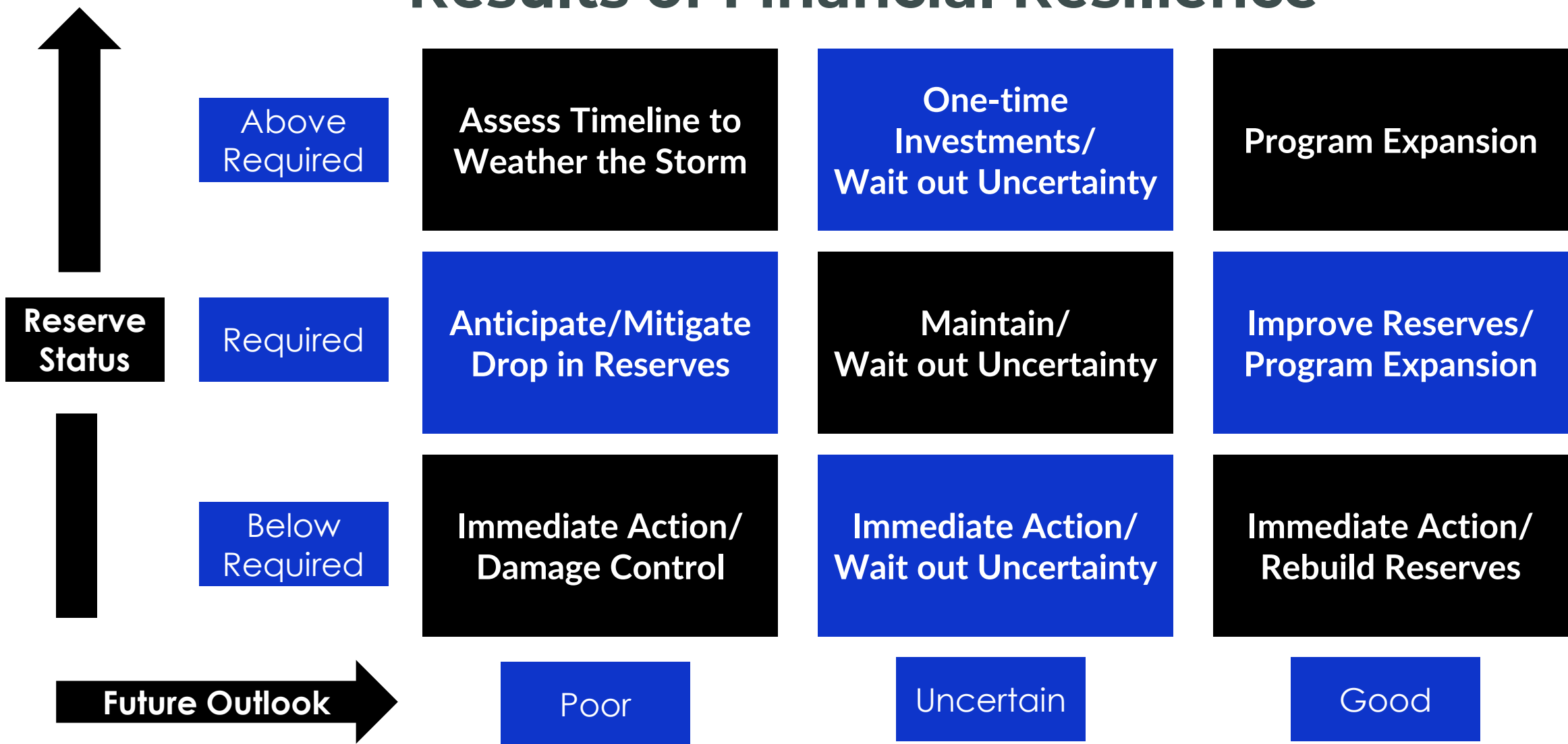
Evaluate Cost/Cash Trends

- Personnel Costs
 - Collective Bargaining Agreements
 - Conservative Benefit Trends
 - Adequate funding for Retirement and OBEP Obligations
- Contractual Costs
 - Consider Consumer Price Indexes for cost of goods
 - Don't forget contractual increase commitments
- Increases in debt service requirements
- Capital Purchases or Repairs due to delayed maintenance
- Don't Forget Cash Flow In Business Type Activities



Expectation Setting/ Community Goals

Results of Financial Resilience



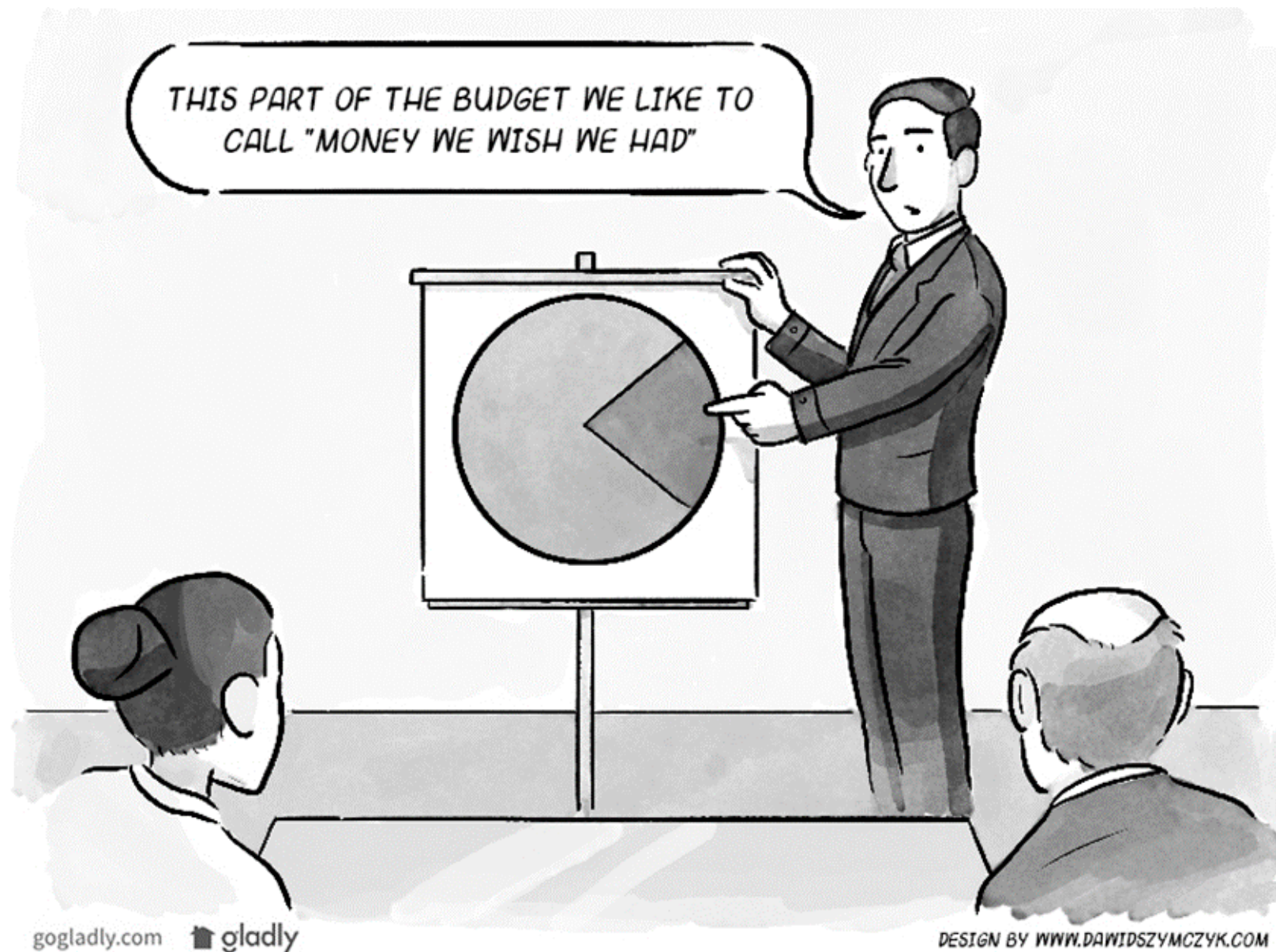
Future Outlook = Poor or Uncertain

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**Start
Engaging
Stakeholders
Early**

**Identify and
Prioritize
Essential vs
Acceptable vs
Ideal levels of
service**

**Emphasis on
limited
resources or
uncertainty**



Poor or Uncertain Outlook – Program Modification

- How severe are modifications based on resources available and statutory requirements
 - Is full elimination allowable/practical?
 - Is a partial elimination/redesign possible/practical?
- Will program modifications further impact funding?
 - Will program modification cause further reductions in grant or interlocal agreements
- Consider changes that must be initiated before the new year
 - Contract notices
 - Termination fees
 - Layoff notices
 - Impact to shared services or interlocal agreements

Future Outlook = Good

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**Build
Reserves if
needed**

**Identify
Services that
need
expansion**

**Consider the
impact in the
event the
future
outlook shifts
quickly**

Good Outlook – Program Modification

- Remember that eventually Poor or Uncertain outlook will return
 - First, focus on health reserves
 - Establish a fund balance or net position policy for funds
 - Reserves can avoid program reductions in uncertain times and delay them when the future outlook turns poor
- Be thoughtful and strategic with Expenditures
 - Consider one-time expenditures that may improve the future outlook
 - ✓ Investments in economic or community development that will encourage growth in tax base
 - ✓ Investments in Infrastructure, Property, and Equipment that can reduce future repairs and maintenance
 - Project future resources and expenditures for expanded or new programs
 - ✓ Consider Large up front investments or obligations
 - ✓ Consider resources that would be required to eliminate or end programs

Key Takeaways

- A single balanced budget is not necessarily a structurally sound budget.
- Resilience requires recurring revenues, manageable obligations, adequate reserves, and contingency planning.
- Community expectations need to be managed, and priorities should drive resource allocation and measurable outcomes.



Five-Year Capital Improvement Planning

Planning...Starts with a Plan

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What do we
have?

What do we
need/want?

Why is it
important?

The trap...“We don’t have the resources right now”

The “Why?” Can Drive Resources

Grants/
Loan Subsidies

Bonds

Assigned
Fund Balance

Tax Levies

Defining the purpose, scope, governance, and annual update cycle of the plan

- Identify the decisions the plan will support, including project sequencing, funding, and debt issuance.
- Define which assets, funds, departments, and project types are included.
- Assign responsibility for submissions, technical review, prioritization, approval, and annual monitoring.

Creating a complete asset and project inventory

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- Compile assets and proposed projects across included departments and funds.
- Record location, age, condition, remaining useful life, and service function.
- Use a standard project request process to capture scope, justification, dependencies, and responsible department.

Estimating project costs, operating impacts, contingencies, and timing

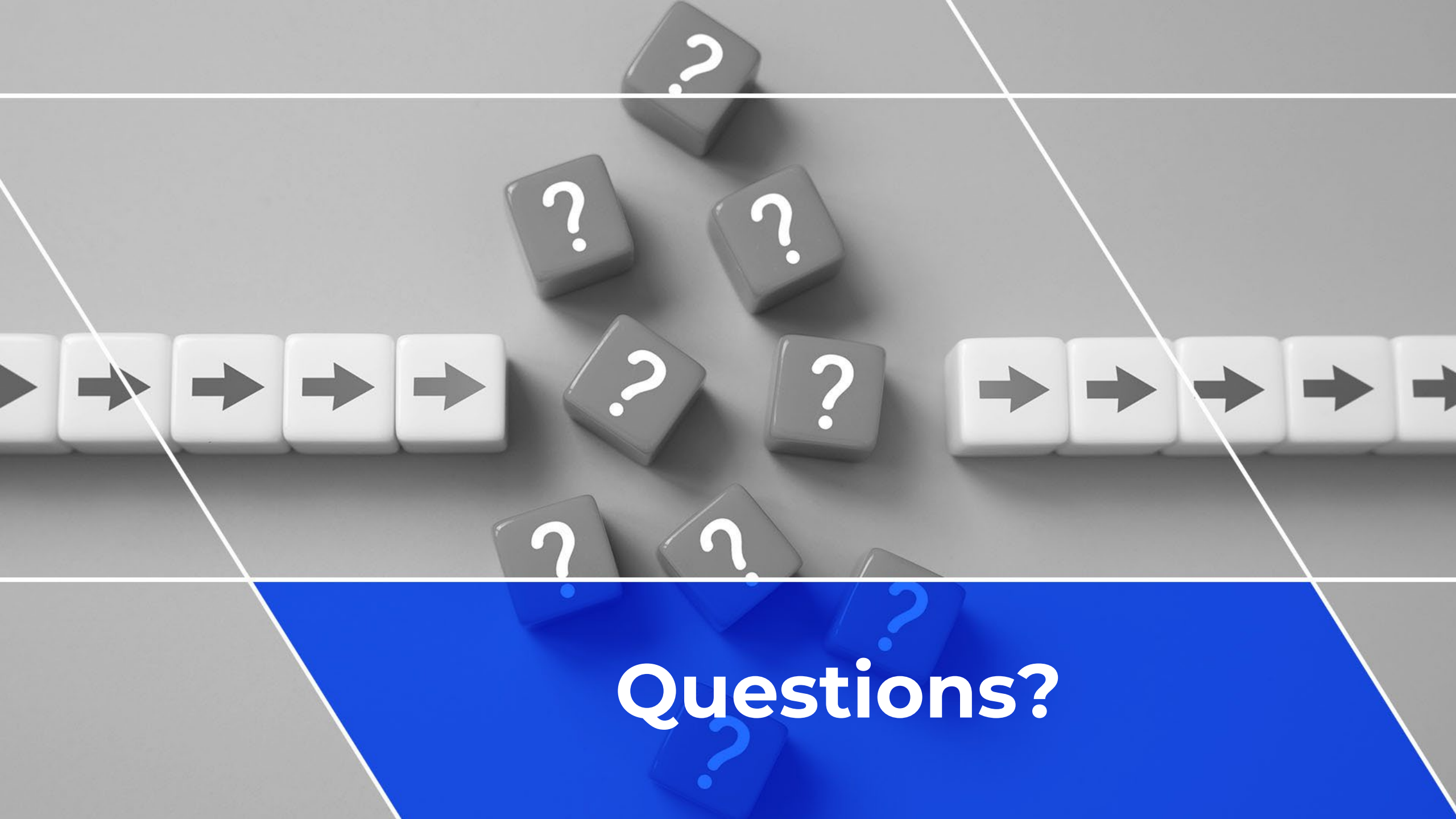
- Develop planning-level estimates using current unit costs, rough engineering estimates, and comparable projects.
- Include allowances for design, land, permitting, equipment, and contingencies.
- Estimate ongoing staffing, maintenance, utilities, technology, and replacement costs created by the project.

Matching projects to realistic funding sources

- Identify eligible sources such as current revenues, reserves, grants, special assessments, and bonds.
- Test annual debt service against legal limits, policy targets, and long-range operating forecasts.
- Align the useful life of the asset as closely as possible with financing terms.

Ranking projects using objective criteria

- Define each criterion clearly and use a consistent scoring scale across departments.
- Weight mandatory, safety-critical, and high-risk factors when reflecting community priorities.
- Document scores, assumptions, and reviewer comments so recommendations are transparent and repeatable.



Questions?