

**PROPOSED
LOCAL GOVERNMENT
UNIFORM BUDGETING SYSTEM**

CITIZENS RESEARCH COUNCIL OF MICHIGAN

**500 Guardian Building South
Detroit, Michigan 48226**

**834 Michigan National Tower
Lansing, Michigan 48933**

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Table of Contents

PREFACE	i
THE ELEMENTS OF A GOOD BUDGET PROCESS.....	1
Introduction	1
Defining the Budget Process	1
Preliminary Work.....	2
Preparation of the Budget.....	2
Executive Review of Budget Requests	11
Legislative Review of Budget	13
Action to Authorize Implementation of Budget	14
Budget Execution-Appropriation Administration.....	17
Conclusion.....	18
LOCAL BUDGETING PRACTICES.....	19
Budgets Not Available.....	19
Providing an Overall Picture of Resources and Expenditures	19
Budgeting Revenues.....	20
Budgeting Expenditures.....	21
Narrative Explanation and Statistics.....	23
The Appropriation Measure	23
HOW EXISTING STATUTORY PROVISIONS MEASURE UP	24
Counties, Townships, School Districts, Cities.....	24
Summary.....	26
STRENGTHENING EXISTING LEGISLATION.....	27
 APPENDIX	
Sample Budget Preparation Calendar	37
Table 1: General Organizational and Financial Items.....	38
Table 2: Elements of Preparatory Phase of Budget Process.....	39
Table 3: Measures to Effect the Budget	40
Table 4: Elements of Appropriation Administration and Control	41

PREFACE

As an operating plan, the budget is of paramount importance to every unit of government. Today all local governments are faced with heavy demands. There are pressures, for example, for improvement in the quality and quantity of existing services; for service extensions arising from a concern for the environment and the general attractiveness of the community; for better pay and improved working conditions; and, for expanding public payrolls to offset private sector job losses. Inflation and the mandates of superior levels of government add their burdens. At the same time there is a growing concern with the heights to which governmental costs have risen. Financial and political realities demand that these divergent pressures be brought into an acceptable balance, which is to say that scarce resources be put to the best possible use. Units of government that do not have an adequate budget process with which to achieve this end find themselves in a fiscal pressure cooker that has no relief mechanism.

Each governmental unit, no matter how well run, has an interest in the operation of all other governmental units because public perceptions stemming from the travail of governments in crisis affects even those that are not. As a result, access to traditional means of dealing with financial problems becomes more restricted. Borrowing, for example, encounters investor resistance and higher interest rates. In addition, there looms the prospect of federal legislation requiring far greater disclosure of the financial condition and fiscal procedures of governmental units as a means of reassuring the potential investor. This commonality of interest among governments in good budgeting practices extends to all of the nation's taxpayers.

With well over half the revenues of most local units flowing from the state and federal governments, the day has passed when the responsibility of a local unit of government for sound fiscal practices is limited to its own residents. All taxpayers have a direct concern in the fiscal conduct of each and every county, city, township, and school district.

In Michigan, the significance of recent changes in local government accounting systems would be enhanced by improved local budgeting. These changes, designed to fulfill records and reporting needs of the public official and citizen alike, stem from legislative implementation of a 1963 constitutional requirement of uniform local government accounting systems. These laws apply to schools, counties, cities, villages, and townships. Their ultimate value depends upon the adequacy of the budgeting practices in use in the various units because the budget imposes vital limitations on what can be done with resources and sets requirements that must be met by accounting procedures.

This survey of local government budgeting practices is prompted by the importance of the budget process to financial planning, administration, and accountability and to the fact that in the experience of the Citizens Research Council Michigan governmental units in acute fiscal distress have often evidenced minimal budget procedures. The survey (1) identifies the basic requirements of effective governmental budgeting; (2) reviews the budgeting practices in use in 52 Michigan local governmental units of various types; and (3) examines the strengths and weaknesses of state statutory provisions governing budgeting practices of local units in the light of these basics. The product of the study is a series of proposed budget procedure oriented amendments to the uniform accounting act. Designed to complement the requirements of the accounting act, the proposed amendments would establish a uniform budgeting process that would achieve local executive and legislative consideration and authorization of proposed uses of resources; insure a tailoring of proposed expenditures to fit the cloth of available revenues; and provide a control document effective in the direction, control, and reporting of operations throughout the year.

While there are several types of budgeting, including the traditional, program, performance, PPBS (Program, Planning, Budgeting System), and zero base approach, this report does not recommend a particular method. That is a local decision. There are, however, common elements in a sound budget process regardless of the type of budgeting approach used. These common elements are dealt with herein.

In this study, the Research Council enlisted the aid of an advisory committee to assist in the evaluation of data and provide a forum for the discussion of issues and alternative recommendations considered. Represented on the committee were: *the Executive Office of the Governor* -- by Paul H. Wileden, Director, Intergovernmental Relations, State Department of Management and Budget; *the Attorney General* -- by Milton I. Firestone, Assistant in Charge of Municipal Affairs, Social Services and Health; *the State Department of Education* -- by Robert N. McKerr, Associate Superintendent for Business and Finance; the Michigan Department of Treasury -- by John Wolenberg, Bureau of Local Government Services; *the State House of Representatives* -- by Representative Joseph Forbes; *the State Senate* -- by Eugene Farnum, Director, Senate Fiscal Agency; *the Michigan Association of Counties* -- by Wes Freeland, Director of Finance, Kalamazoo County; *the Michigan Township Association* -- by John W. Beutler, Michigan Townships Association Educational Coordinator; the Michigan Association of School Administrators -- by Dr. C. Robert Muth, Michigan State University; *the Michigan Municipal League* -- by William L. Steude, Assistant League Attorney and Legislative Counsel; *the Michigan Chapter of the Municipal Finance Officers Association* -- by Frank Warden, City Treasurer, City of East Lansing; and, Kenneth J. Kunkel, CPA, Plante and Moran.

The committee considered two basic approaches to the establishment in law of a uniform budgeting process applicable to local governments in Michigan:

1. The provision in statute of detailed procedural requirements to govern budget preparation, consideration, and execution. The specific provisions considered under this alternative were taken from "Sample Budget Act," Report of the Governor's Special Commission on Local Government, Appendix C, 1972.
2. The provision in statute of the basic requirements of a budgeting procedure to include: the assembly of estimates covering all obligations and resources; a comparison of the estimates with actual revenues and expenditure experience; the assembly of the data in a proposed budget document; the adoption of the budget through legislative enactment of the appropriation measure; and the control of expenditures by the executive to insure compliance with legislative stipulations so expressed. Under this alternative, the basic statutory requirements would provide the framework for local budgeting and for implementation through local ordinance or resolution.

It was the general consensus of the advisory committee that the second alternative providing for statutory delineation of general procedures establishing the basic elements of the budget process was the more appropriate of the two if legislation were to be recommended. Specific provisions in keeping with the second alternative are recommended in this report. They are presented in the form of amendments to the uniform accounting act. Sample provisions are being developed for guidance of local units in the implementation of the general statutory language through ordinance or resolution enacted by local legislative bodies.

While the Citizens Research Council is most appreciative of the many constructive suggestions contributed by the members of the advisory committee, the conclusions reached and recommendations contained herein are solely those of the Citizens Research Council of Michigan.

CHAPTER I

THE ELEMENTS OF A GOOD BUDGET PROCESS

Introduction

The success of any organization depends upon the ability of its administrators to direct, control, and coordinate its activities. The absence of these attributes spells disorganization.

The direction, control, and coordination of the activity of an organization requires administrative planning. This may involve planning the work of a single unit or the work of several units to bring them into focus on a common purpose. Hence, everyone in the organization must participate in the planning process from the chief executive down to the lowest line supervisor. Each superior level in the structure must review the plans developed at the operating level to insure that they are consistent with each other and with broad service policies.

Local governments are public organizations subject to the administrative requirements of any other organizations. The activity of a local government centers on the provision of public services financed by public revenues. In order to provide a given amount and quality of service according to prescribed priorities within an available amount of revenue, the municipal manager must plan.

Financial and operational planning is the primary purpose of the budgeting process. The objective of budgetary planning is the development of a proposed course of governmental action for a specific future period of time. Decisions concerning the governmental service policies, the organization required for the direction and control of the enterprise, and the distribution of manpower, material and money necessary to perform proposed activities are arrived at through the budgeting process. To insure that the steps of the process follow a logical and controlled sequence, they are scheduled chronologically. A budget calendar insures that the planning process is coordinated among the participants and allots to each participant the time necessary to complete each stage of the process. It defines the process.

Defining the Budget Process

The major phases of the budgeting process are; the assembly of expenditure estimates (i.e., budget requests) covering all financial obligations and needs as well as the anticipated revenues available to meet them; central budget agency review of the revenue and expenditure estimates; executive preparation and review of a proposed budget for presentation to the legislative body; legislative review of the executive budget followed by legislative action to adopt the budget, certify the tax rate, and enact the appropriation measure; and executive administration of the

References include: Lennox L. Moak and Kathryn W. Killian, *A Manual of Techniques for the Preparation, Consideration, Adoption, and Administration of Operating Budgets*, (Chicago: Municipal Finance Officers Assn., 1970); R. M. Mikesell and Leon E. Hay, *Governmental Accounting*, Richard D. Erwin, Inc., Homewood Ill., 1970; The International City Managers' Association *Municipal Finance Administration*, Chicago: 1962; Michigan Department of Treasury *Charts of Accounts for Counties, Cities, Villages, and Townships*, Lansing, 1975; Michigan Department of Education *Chart of Accounts for Michigan School Districts*. Lansing, 1976.

budget including the control of expenditures to insure compliance with the stipulations of the legislative body.

Preliminary Work

Budgeting begins with the organization of the process. This includes the development and printing of the budget calendar; the development of a preliminary budget forecast for the chief administrative officer;¹ the development and distribution of an executive policy statement along with the necessary budget forms and instructions to the departments.

Budget Forecast. The preliminary budget forecast includes a review of economic conditions, a review of revenue yields, an interim estimate of operating costs for the current fiscal year and a projection of anticipated revenues and operating costs for the new budget year. This statement is used by the chief administrative officer to develop his budget instructions and policy statement.

Executive Policy Statement. A statement of executive policy issued by the chief administrative officer is an effective catalyst in the budgeting process. It provides the chief administrative officer an excellent opportunity to put the budget preparation effort into perspective and to supply constructive material for use in the calculation of estimates. Typically, an executive policy statement considers the following topics: brief review of economic circumstances which prompt a recommended course of budgetary action; any proposed expansion or contraction of spending; revenue projections; factors to be used to account for cost-of-living increases; and any other special instructions necessary to aid department heads in the preparation of the required budget request forms.

Preparation of the Budget

A primary purpose of the budget is to provide comprehensive and detailed information in support of spending plans. Traditionally, requests prepared by organizational units set forth the objects that are to be purchased such as personal services, materials, supplies, and equipment. Standard forms together with detailed instructions for their completion should be provided the departments by the budget office for an orderly presentation of data.

A series of forms illustrating a summarization of data regarding budgetary requirements on an organizational basis is provided on pages 3 through 7. The first form summarizes personnel by position title. It shows the number of positions currently authorized, the number filled as of a given date, the number requested, and the number recommended by the executive and approved by the legislative body.

¹ A term intended to be applicable to a mayor, manager, superintendent and township supervisor.

(Name of Governmental Unit)

Budget 1977
Page of

POSITION REQUEST DETAIL

General FUND

DEPT: Secondary Education

DIVISION: Fairview High School

Account No. 2390

Class Title	Pay Range	Number of Positions Authorized 1975-76	Number of Positions Filled as of	Department Request (1976-77)	Executive Recommended (1976-77)	Approved by Legislative Body (1976-77)
Principal						
Assistant Principal						
Department Head						
Teachers						
Clerk Typists I						
TOTAL						

(Name of Governmental Unit)

SALARY REQUEST DETAIL

General FUND

DEPT: Secondary Education DIVISION: Fairview High School

Account No. 2390

Principal

Class Title	Actual Expenditures (1974-75)	Estimate Current Year (1975-76)	Department Request (1976-77)	Executive Recommended (1976-77)	Approved by Legislative Body (1976-77)
Principal	\$	\$	\$	\$	\$
Assistant Principal					
Department Head					
Teachers					
Clerk Typist I					
TOTAL					
Plus Overtime					
Other (specify)					
GRAND TOTAL					

(Name of Governmental Unit)

OTHER CURRENT EXPENSES DETAIL

General 2390 FUND Secondary Education DIVISION: Fairview High School
 Account No. _____

	Actual Expenditures (1974-75)	Estimate Current Year (1975-76)	Department Request (1976-77)	Executive Recommended (1976-77)	Approved by Legislative Body (1976-77)
Contracted Services					
Legal Services					
Audit Services					
Bond Administration					
Total					
Supplies:					
Textbooks					
Office Supplies					
Total					
Other Expenses:					
Travel					
Auto Allowance					
Total					

(Name of Governmental Unit)

OTHER CURRENT EXPENSES DETAIL

General FUND _____
 DEPT: Secondary Education DIVISION: Fairview High School
 Account No. 2390

	Actual Expenditures (1974-75)	Estimated Current Year (1975-76)	Department Request (1976-77)	Executive Recommended (1976-77)	Approved by Legislative Body (1976-77)
Fixed Charges					
Telephone Service					
Property Insurance					
Total					
Capital Outlay:					
New Equipment					
Equipment Replacement					
Alterations					
Total					

(Name of Governmental Unit)

General FUND

2390 DEPT: Secondary Education DIVISION: Fairview High School
Account No.

Object	Actual Expenditures (1974-75)	Estimate Current Year (1975-76)	Department Request (1976-77)	Executive Recommended (1976-77)	Approved by Legislative Body (1976-77)
Salaries					
Contracted Services					
Supplies					
Other Expenses					
Fixed Charges					
Capital Outlay					
TOTAL					

Form 2 summarizes salary amounts by position title. It shows actual salary expenditures for the prior year, the estimate for the current year, and that requested, recommended and allowed for in the ensuing budget year. Other personal services expenses such as overtime are included.

Forms 3 and 4 summarize non-salary expenses of the budget unit (a high school in the example). The forms display actual expenses for the prior year, the estimate for the current year, requests, recommended, and approved amounts by detailed object of expenditure. Separate forms may be provided to justify capital outlay requests. Also, when program, performance or other types of budgeting are in use, forms may be prescribed to obtain workload and performance data.

Form 5 provides a method of summarizing the salary and non-salary amounts by major object of expense for the smallest budget unit. Totals for each of the major objects are extracted from the previous Forms 2 through 4 and are recorded on Form 5. This provides a comparative summary schedule for each of the sub-organizational units for review by a department head.

Form 6 (see page 9) provides a departmental summary showing total expenses of each of the sub-organizational units within the department. The purpose of this form is to point up trends and variances as may exist between units within a department. Form 7 provides summary totals by department (see page 10).

While the number and exact design of the forms found on the preceding pages will vary with legal requirements, size of the local governmental unit, manpower and equipment available, components of compensation and classification plans, type of budgeting in use, and other local preferences, they should provide information essential to an analysis and evaluation of spending proposals. This will include provision for the display of comparative data for the prior fiscal year, and the current year-to-date with estimate for balance of the year, as well as the departmental estimate for the coming year, the chief executive's recommendations, and the approved budget for the coming year.

The budget officer should record historical expenditure data on those forms, prior to distribution to the departments, on the basis of standard classifications used for budget and accounting purposes. This provision of historical information by standard expenditure classifications has the advantage of insuring the comparability of data. A standard classification of expenditures is legally required in many local governmental units. Michigan's Public Act 2 of 1968, for example, provides:

... The state treasurer shall prescribe uniform charts of accounts (categories of expenditure and revenue classification) for all local units of similar size, function or service designed to fulfill the requirements of good accounting practices relating to general government. Such chart of accounts shall conform as nearly as practicable to the uniform standards as set forth in the publication of the Municipal Finance Officers' Association of the United States and Canada entitled 'A standard classification of municipal accounts, 1953' or as revised or changed. The official who by law or charter is charged with the responsibility for the financial affairs of the local unit shall insure that the local unit accounts are maintained and kept in accordance with the chart of accounts...."

(Name of Governmental Unit)

DEPARTMENTAL SUMMARY BY DIVISION

General _____ FUND _____

DEPT: _____ Secondary Education _____

Account No. _____

Division	Actual Expenditures (1974-75)	Estimate Current Year (1975-76)	Department Request (1976-77)	Executive Recommended (1976-77)	Approved by Legislative Body (1976-77)
Fairview High School					
Colfax High School					
Total					

(Name of Governmental Unit)

SUMMARY BY DEPARTMENT

General FUND

Department	Actual Expenditures (1974-75)	Estimate Current Year (1975-76)	Department Request (1976-77)	Executive Recommended (1976-77)	Approved by Legislative Body (1976-77)
Board of Education					
Superintendent's Office					
Elementary Education					
Secondary Education					
School Housing					
Total					

The classification prescribed by the State Treasurer is arranged to provide highly detailed information where local officials legitimately desire it for analytical purposes. It should be noted here for purposes of discussion later that to simply compile this detailed level of information in a budget document would be overwhelming for legislative review and control purposes. Yet, the detail cannot be discarded completely in favor of budget summaries developed therefrom because budgetary accounting records must be kept in sufficient detail to meet legal and executive control requirements. This matter will be discussed in more detail in a subsequent section entitled "Making Appropriations."

Role of the Departments. An estimate of need is calculated by each department head for his department. In this effort he distributes the prescribed forms to each bureau, division, section or other management level within his department having responsibility for determining the use of available money, personnel, equipment and facilities in the conduct of a program or activity. This includes estimates of all planned expenditures for the approaching year's program except debt service requirements and other non-departmental expenses which should be estimated by the budget officer. These estimates of need are collected, reviewed, and revised at each superior management level within the department for transmittal to the department head. They are then reviewed and revised by the department head to form a coherent departmental program of action. It is at this time that the department heads and the sub-units responsible to them have the greatest opportunity to contribute to and influence budgetary planning for their departments.

Central Budget Agency. The budget officer compiles the departmental budget requests into a manageable form. It is his responsibility to review, revise, and consolidate the requests in a proposed budget to be submitted to the chief executive. This involves verifying the mathematical accuracy and completeness as well as the substantive content of the material. The budget officer may in this effort conduct hearings with department heads preparatory to preparing any necessary recommendations for revising requests to bring the whole within anticipated revenue. It is customary for the budget officer to confer with the chief administrative officer concerning budget decisions during the course of his initial tailoring of the requests. With such proper preliminary work, most of the major issues will have been dealt with prior to the review of the spending proposals by the chief administrative officer. Following this review and revision of the requests, a proposed budget is then prepared for forwarding to the chief administrative officer. At this stage, the proposed budget includes the departmental requests and the recommendations of the budget officer recorded tentatively in the "executive recommended" column for the chief administrative officer to review, revise, and approve in the preparation of his own recommendations for submission to the legislative body.

Executive Review of Budget Requests

As stated earlier, the budget process provides a decision-making mechanism for establishing governmental service plans, determining the resources and work methods required to implement those plans, and establishing priorities for the use of available revenues. Obviously the budget process itself does not automatically make decisions--the decisions must be made consciously at each administrative level, reviewed and evaluated at each superior level of the administrative structure up to and including the chief administrative officer whose authority and responsibility covers the entire organization.

This is not to suggest that all decisions on the budget are to be made by the chief administrative officer in the executive review session. The executive policy statement issued by the chief administrative officer to initiate the annual budgeting process should indicate the direction in which decisions will fall, thereby encouraging initial requests along lines acceptable to the chief administrative officer.

It is important that the chief administrative officer participate directly and personally in the executive review process. The department head has his day in court. The chief administrative officer has an opportunity to insure that departmental administrators have thought out their work programs and properly prepared their budget requests. This done, the chief administrative officer can take responsibility for those decisions necessary to recommend a balanced budget that will provide the best possible work program within the limitations of available funds. This procedure requires that the chief administrative officer set aside a sufficient period of his time to allow opportunity for the departmental hearings and the final determination of budget contents. His involvement should occur early enough in the budget schedule to permit necessary internal adjustments in departmental budgets to accommodate to prescribed revisions.

Executive Departmental Hearings. The departmental hearings provide a formal setting for listening to arguments in support of spending proposals. This affords the chief administrative officer an opportunity to review the content and implications of the requests; to assess the objectives of new programs, the soundness of the approach underlying the requests, and the adequacy of supporting data. For the successful implementation of the budget this procedure must involve more than a review and assessment of the validity of the arithmetic, the internal consistency and apparent inadequacies of the requests. In fact, such matters are more appropriately the concern of the budget officer who should resolve any problems regarding the completeness of the data prior to the submission of the requests to the chief administrative officer.

For the chief administrative officer this stage of budget preparation marks the culmination of firm operational planning. The departmental planning effort is subjected to tests of reality. Unlimited departmental proposals designed in good faith to provide an optimum level of service must meet the tempering judgment of the chief administrative officer as to: priority of need; what existing economic conditions will bear; and what realistically can be accomplished by the operating units. While the budget officer should make recommendations regarding the departmental requests and their potential inclusion in a financial plan, the chief administrative officer must weigh any operating problems and make the final decisions as to what will be proposed for legislative consideration.

In this connection, the departmental hearings afford the chief administrative officer an opportunity to establish a meeting of the minds with departmental administrators regarding the levels of service and modes of operation that will prevail under varying amounts of financial support. In this manner, the hearings serve to forge a personal commitment on the part of departmental administrators to provide agreed-upon services at a funding level to be proposed by the chief administrative officer. The budget officer should note the particulars of any agreed-upon conditions for later reference in his review of spending proposals to insure their compliance with executive and legislative intent.

The hearings provide the department heads their "day in court. This is not to suggest that it need be an adversary proceeding. It is a formal opportunity for the department heads to present to the chief administrative officer their views of the budget requests; to add supplemental documenta-

tion in support of the estimates; and to suggest a priority to the requests which may differ from that recommended by the budget officer.

Final Determination of the Executive Budget. At the close of the departmental hearings the chief administrative officer must make those decisions necessary to permit the compilation of the requests into a recommended balanced budget. Once the chief administrative officer has made his final decisions, the budget officer must insure that the necessary revisions are incorporated in the budget to be recommended by the chief administrative officer (“executive recommended” column. See Forms.). This will include any necessary final adjustments authorized by the chief administrative officer to bring the budget into balance. This final adjustment effort should be scheduled so as to allow sufficient time for departmental involvement in making specific changes in what will constitute portions of the recommended executive budget, particularly if the decisions of the chief administrative officer are made in broad terms which allow for discretion in making detailed changes.

Transmittal of the Budget to Legislative Body. The chief administrative officer should transmit the budget document to the legislative body. A budget message should highlight circumstances which prompt his recommended course of budgetary action, the long-range fiscal picture for the governmental unit, and major increases and decreases that are found in the document.

There are three alternative procedures which may be followed in transmitting the budget to the legislative body. The chief administrative officer may:

1. transmit the budget document to the legislative body “as is” in the expectation that the legislative body will give the revenue and expenditure proposals legal effect through the adoption or enactment of the budget;
2. transmit along with the budget a draft of an appropriation measure summarizing the budget in general terms;
3. transmit the budget “as is” in the expectation that the legislative body will draft their own version of an appropriation measure.

Units Lacking Chief Administrative Officer. In counties lacking a chief administrative officer, the responsibilities discussed in this section entitled “Executive Review of Budget Requests” rest with the legislative body. It behooves such units of government to delegate to some administrative official or legislative committee the responsibilities described above for the preparation of a recommended budget for consideration by the legislative body.

Legislative Review of Budget

The legislative body of a local governmental unit has no greater power than that which is exercised in its consideration of the budget and enactment of the appropriation measure giving it effect. It is at this stage of the budget process that the legislative body is presented with its best opportunity to discharge its obligation to set policy for and review the conduct of the operations of a governmental unit. If it is to obtain maximum advantage from the opportunity, the legislative body must review the executive budget critically both as a financial plan and a service and operating plan for the following year. There should be included, therefore, a review of organiza-

tional arrangements, operating policies and procedures, and work programs currently in force as well as those proposed for the following year.

The scheduling of this phase of the budget process should allow sufficient opportunity for: a presentation and defense, in the sense of proving the validity of recommendations, of the budget by the chief administrative officer, budget officer, and departmental officials; the consideration of revisions or amendments to the budget by the legislative body; any final adjustments necessary to incorporate prescribed revisions in the document; a public hearing on the budget as required by law; and any revisions required subsequent to the public hearing.

Action to Authorize Implementation of Budget

At this stage of the process, the legislative body is faced with the need to accomplish three distinct acts: (1) the certification of the tax levy; (2) the approval of the budget; and, (3) the appropriation of the sums required to finance the budget.

Certification of Levy. The budget schedule should recognize that these three actions are interrelated and, therefore, should occur at the same time. The legislative body must certify to the appropriate tax collection agency the amount of taxes that are required to be raised to finance the approved budget. Hence, this action will follow upon approval of the budget.

Budget Approval. The approval of the budget constitutes legislative acceptance of a pattern of spending and revenue generation detailed therein. As an approved operating plan for the governmental unit, the budget serves as a primary executive control device. The detailed information contained therein provides a finely graduated measuring device against which budget, personnel, purchasing and other agencies charged with monitoring the implementation of the budget can compare spending proposals to insure that the spending is in compliance with executive and legislative intent. Proposed actions found to be in conflict with the budget detail constitute an early warning of prospective deviations from approved operating and spending plans. Once adopted, therefore, the budget continues as a primary executive control device and the administration should be authorized to enforce the details of the budget in the process of administering the appropriations. The process of administering appropriations integrated with budget execution activities imposes no additional operating costs.

Making Appropriations. Going to the other side of the system of checks and balances, the power to originate spending authorizations is vested in the legislative body as the primary determinant of fiscal policy. The legislative body exercises this power in the enactment of the appropriation measure. For this reason it is recommended that every local unit have both a budget document and an appropriation document. The primary advantage of having an appropriation document separate from the budget document is that the budget can be prepared in detail and the appropriation measure can be prepared in summary form to serve legislative oversight purposes. Because the appropriation measure is the single most important instrument defining legislative intent with regard to spending control, the legislative body should carefully consider the form its appropriations will take so that they may best serve expenditure control needs. Not only should the dollar amounts to be appropriated be considered, but also the period of time--fiscal period(s)--over which the spending authorizations are to be exercised by the administration.

Both of these attributes serve to differentiate types of appropriations and define legislative intent. The National Committee on Governmental Accounting defines an appropriation as “an authorization granted by a legislative body to make expenditures and to incur obligations for specific purposes.” The Committee notes that “an appropriation is usually limited in amount and as to the time when it may be expended.” Further, the Committee defines an indeterminate appropriation as “an appropriation which is not limited either to any definite period of time or to any definite amount, or to both time and amount. “A continuing appropriation is defined by the Committee as “an appropriation which, once established, is automatically renewed without further legislative action, period after period, until altered or revoked.”²

An example will illustrate an application of these approaches. If sound financial planning requires that the entire cost to construct a building be included in the executive budget the legislative body may appropriate the full sum involved and indicate that the appropriation is to continue in effect until the building is constructed. This is a continuing appropriation. Under this approach the budget officer need not include any further appropriation for the purpose in future budget requests, although he might include data on the current status of the project as an information item in future budget documents. For any one of several reasons the legislative body may not wish to appropriate in this fashion. Instead it may wish to appropriate only an amount sufficient to cover a single year’s anticipated construction expense. In this case the legislative body would indicate that the amount appropriated is authorized for a single fiscal year with any year-end balance lapsing to surplus. Under this approach the budget officer must provide annual appropriations each year until the building is completed.

Further, as the legislative body considers what form its appropriations, shall take it should bear in mind the needs of the appropriation accounting system and the post-audit procedures. P. A. 2 of 1968 provides that:

All local units of local government of less than 1,000,000 population shall have an annual audit of its financial records, accounts and procedures except that in units of local government having populations of less than 2,000 such audit shall be required not less frequently than biennially.³

The appropriation is important to the proper conduct of an audit. The National Committee on Governmental Accounting in recommending an audit procedure states:

The first step in auditing the expenditures of a municipality is to ascertain what appropriations have been made and to see that they have been properly recorded in the appropriations accounts. This applies not only to the appropriation shown in the original appropriation ordinance but also to changes made in appropriations after the budget is adopted. Having done this, the auditor is ready to audit the

² National Committee on Governmental Accounting, Governmental Accounting, Auditing, and Financial Reporting, Chicago: Municipal Financial Officers Association, 1968, pp. 153-162.

³ A city, village, township or any authority, board or commission thereof established by a city, village, or township ordinance or charter. Units over one million are required to have an audit not less frequently than each five years, if internal auditing procedures for all public moneys are established. P.A. 71 of 1919 requires an audit of county governments.

vouchers, payrolls, and other evidences of expenditure made and charged against the appropriation accounts.

Among the items included in a checklist of specific procedures recommended by the Committee with respect to the appropriation are:

- a. Examine budget for the year under audit.
- b. Determine if the budget and appropriations ordinances comply with governing legal provisions.
- c. Check appropriation amounts and purposes
- d. Test to determine if expenditures are charged to proper appropriations. (emphasis added)
- e. Note whether appropriations are properly encumbered and determine if expenditures plus encumbrances are within appropriations. (emphasis added)⁴

For these purposes the appropriation is a vital element in documenting the fact that expenditures were properly authorized and incurred and that cash disbursements were properly made. It is the backbone of any sound system of internal financial control. A skeletal framework of expense and cash disbursement documentation is tied to it.

In view of the fact that the auditor will be expected to examine each of the appropriations and that the governmental unit's accounting records Must arrange expense data according to each appropriation, the legislative body should carefully determine the level of detail at which it wishes to establish appropriation controls. That is, it should determine what classification of expenditure is significant for reporting purposes or, stated another way, where it wishes to establish checkpoints to insure that no more than a given amount is spent for specific purposes. Appropriations might be made, for example, in lump-sum amounts (i.e., by activity, organizational units, or the major objects of goods and services to be purchased). Revenues are customarily listed by major source.

Because the approved budget detail is more often appropriate to specific operating plans and can be best monitored for executive purposes, an appropriation instrument can usually be better designed as a separate instrument to serve legislative purposes in general oversight of administrative operations. It should be apparent from the foregoing that when the appropriation measure is said to consist of an approval" of the detailed budget (i.e.. enactment of the budget detail as an appropriation instrument) the result can be an extremely inflexible appropriation measure. The consequence may be unreasonably strict limits on the exercise of executive discretion; a premium on frequent legislative action to adjust or amend the appropriation details; and a records-keeping and reporting burden on accounting and auditing personnel. The upshot of such short-cutting of a workable appropriation process is complete collapse of Internal control procedures.

⁴ While the basis of accounting may vary, it is important to note whether the appropriation carries provision for financing the expenditure involved.

Budget Execution-Appropriation Administration

The formal adoption of the budget authorizes the implementation of the operating Plan. The enactment of the appropriation measure authorizes the expenditure of money. It is the purpose of a budget execution and appropriation administration system to:

1. ensure that the governmental unit maintains a balanced budget;
2. provide for an orderly financial procedure facilitating the work of operating units which must provide the services contemplated in the budget;
3. ensure that commitments and obligations are incurred consistent with the appropriations;
4. conserve resources of the governmental unit which are not legitimately required for the budget year; and
5. provide financial reports for operating needs and to document a proper discharge of responsibility for custody of resources.

The chief administrative officer has the basic responsibility of exercising supervision and control to ensure that program objectives are realized within the appropriations. While the expenditure of money appropriated is under the control of the chief administrative officer, the operating departments must provide the services to be financed from the appropriations.

Thus, in carrying out his responsibility, the chief administrative officer must see to it that the heads of spending units accomplish the objectives of programs and activities set forth in the approved budget within the limits of the funds appropriated. The head of each spending unit is a manager and it is his responsibility to manage the resources made available to him to accomplish the work of his unit. In this connection, an appropriation measure which provides sums by organizational unit enables the chief administrative officer to hold the heads of these units responsible and accountable for their appropriations. The head of each unit uses the budget detail supporting the appropriation to his unit to guide his spending and keep it within his maximum appropriation authorizations.

To assist the chief administrative officer, budget officer, and the heads of operating units in the discharge of their responsibilities, a system of controls is applied to the exercise of budget and appropriation authorizations. This will typically include most if not all of the following:

1. the identification of amounts appropriated to each organizational unit, activity, or object of expenditure;
2. an encumbrance procedure which records obligations against Appropriations when incurred;
3. an allotment procedure which divides the appropriation for periods of time (e.g., monthly, quarterly);

4. a position control procedure which accounts for each position, indicates whether it is filled or vacant, and insures that employment commitments do not exceed amounts budgeted by position or position class;
5. a purchase, requisition approval procedure;
6. a supplemental appropriation and appropriation revision procedure for review and approval of requests for major adjustments of the budget in the course of the year; and,
7. a financial reporting procedure.

It is the function of the budget, personnel, purchasing, and accounting units to monitor the progress of spending by the operating units through the use of these devices. The legislative body and the chief administrative officer should review the system periodically to insure that all the elements are being properly maintained. A careful review of internal monthly and annual financial reports as well as the post-audit report should be made for this purpose and to determine specific facts regarding the progress of budget and appropriation administration.

Conclusion

A sound budgetary and appropriation process is the means by which the local legislative body can exercise effectively its responsibility to determine levels of expenditure and the purposes for which public moneys are to be spent. If legislative bodies fail in this fundamental responsibility the people are deprived of their principal opportunity to participate in the formulation of public policy and to hold their government accountable. Furthermore, budgeting is indispensable to proper financial planning, administration, control, and in the last analysis--public accountability.

A well defined statutory budget process applicable to local units of government will increase the value of presently mandated uniform accounting systems and financial reports designed to insure the legal disbursement of public funds and safeguard the credit of the state and its local units. For these reasons there is need to strengthen existing statutes by including general procedures establishing the basic elements of a budget process for use by local units of government in Michigan.

CHAPTER II

LOCAL BUDGETING PRACTICES

Local units of government in Michigan are legally required to have a budget.⁵ The Attorney General has indicated that ...“The authority of each local unit to expand the funds of that unit must be found in the budget and in the appropriations therefrom. Except for funds budgeted and appropriated in accordance with governing law, there is no basis for levying or collecting taxes or otherwise making available or disbursing public moneys....” A survey of local budgeting practices in the state indicates that beyond providing this required legal basis for the expenditure of funds, relatively few local government budgets are adequate to the needs of fiscal planning, administration and public accountability.

In order to measure existing local government budgeting and appropriation practices, budgets were secured from a sample of local units and examined for attributes of effective governmental budgeting.

Ninety-five Michigan local governmental units were requested to furnish 4 copy of their then current (1975-76) budget as approved by their legislative body and a copy of the appropriation resolution passed by their legislative body giving the budget effect. Fifty-two local units responded -- 12 counties, 13 cities, 18 school districts, and nine townships. The budgets of these participating” units proposed expenditures totaling \$888.8 million.

Budgets Not Available

Officials of two units reported that as of December 19, 1975, the governing body of their unit had not adopted a budget for the then current fiscal year beginning the previous June, but were hopeful that a budget would be adopted by mid-January, 1976.

Providing an Overall Picture of Resources and Expenditures

An examination of the 52 documents submitted reveals marked differences in their quality as an instrument serving administrative officials, governing bodies and citizenry participating in local funding decisions. Considerable variation was evidenced in the volume, arrangement and nature of the information provided.

The budgets of 20 units proposing expenditures of \$228.9 million, for example, provide a mere listing of proposed disbursements and estimated ‘revenues (the latter not always provided) for the budget year only. No explanatory or comparative historical data are provided for evaluative purposes. Twelve of these units, with expenditures ranging from \$123,674 in a township to \$30.5 million in a school district, display their proposed spending in documents of less than five

⁵ Letter Opinion of the Attorney General of Michigan dated January 13, 1970.

pages. Four units do not identify the fund (general or other) from which the expenditures are to be made. One, a county, provides a one-page "1976 proposed budget" listing a 61-item admixture of organizational units, activities, and objects of expenditure with an "amount" column opposite each.

By way of contrast, a township proposing expenditures of \$2.2 million provides 23 pages of material setting forth historical comparative data, staffing by unit, and an explanation of increases proposed. A city proposing municipal general fund expenditures of \$17.0 million provides a 15page explanation of revenue and expenditure changes, the influence of factors such as inflation, and policies respecting property tax rates. Thirty-two of the 52 documents evidenced no similar effort to set forth policy, explain the data presented or otherwise provide a perspective for better public understanding of the amounts recommended in the budget.

Relatively few of the units identified trends respecting principal elements of local resources. Only 16 of the participating units, for example, included in their budget documents a statement of changes in their state equalized valuation, property tax rates and levies.

Thirty-seven of the units did not include in the budget document a summary statement of the current financial position of the unit. Fifteen provided such a statement which included information such as beginning cash balance, projected revenue and expense, and the projected year-end net cash position of the unit.

Only two units included a summary statement of debt service requirements by fund and purpose for the current and future years. Nine list debt service requirements for the current year only. Two units reported reserves in debt funds. One unit reported the margin of debt available for bonding.

Budgeting Revenues

The availability of revenue is a necessary prerequisite to the incurrence of expenditures. In this connection, public and private organizations experiencing severe financial problems are said to be more likely to exhibit inaccuracy in their revenue estimates than in their expenditure estimates.⁶ Prudent fiscal management would require the preparation of revenue estimates prior to the proposal of detailed expenditure plans.

Four of the participating local units (two counties, a school district and a township) proposing a combined expenditure of \$29.7 million made no mention of anticipated revenues necessary to finance the proposed spending. Less than one-half (42Z) of the units provide comparative revenue collection experience to evidence the soundness of budgeted revenue estimates. Sixteen

⁶ Reports by New York State Controller Arthur Levitt state that "the city (of Now York) grossly overstated 'receivables'" -- the amount of federal and state aid still to come in -- and then "borrowed against the sum. " (New York Times, October 25, 1975) Mr. Albert V. Casey, Chairman of American Airlines and member of the Emergency Financial Control Board created by the Now York State legislature to take control of New York City's fiscal affairs observes "...I've dealt with several bankrupt companies in the past. In those cases, your expensed are determinable. It's your revenues that are soft." (New York Times, October 14, 1975).

units (four school districts, four townships, four counties, and four cities) proposing a combined expenditure of \$214.0 million provide a listing of revenues for the budget year only, with no comparative historical data whatsoever. Another ten units (five school districts, three cities, and two counties) present only proposed and estimated current year budgeted revenues. They do not show actual revenue collection experience for a last completed fiscal year. Thirteen units (seven school districts, three cities, two townships and a county) provide proposed revenues along with actual revenue data for the last completed fiscal year; eight (three cities, two townships, two counties, and a school district) provide the above actual data for the second prior year as well; and one (a county) provides actual data for three prior fiscal years. Only eight of the 52 responding units include in their budget documents an explanation of the revenue estimates which sets forth the assumptions upon which the revenue projections are based.

Budgeting Expenditures

The presentation of expense estimates in the budget represents the administration's request for appropriations. This involves not only satisfying legal prescriptions but also managerial purposes to be served by the document. Narrative and comparative information explain and justify expenditure proposals. The arrangement of the estimates by department and activity describes an organizational structure which underlines the operating plan and sets forth the delegation of responsibility and authority contemplated in the proposed budget. Expenses listed by detailed object of expenditure within organizational and activity areas provide the basis for directing and controlling the rate of outlay involved in the performance of activities as changing operating circumstances might require.

Some 20 of the participating units list a combined outlay in excess of \$194.0 million without providing any comparative expenditure information. The documents are little more than a listing of budgeted amounts for general (rather than specific) purposes. With few exceptions, these documents offer no explanatory information; no indication of the number of positions that are to be Authorized by lump sum salary amounts; and an otherwise limited breakdown of expenses by object. The practice is not limited to a particular type of local unit. This manner of presentation is represented in the documents provided by: six counties, five school districts, five townships, and four cities. Nine units (five school districts, three cities, and a county) provide only the current budget amounts for comparison with those estimated for the ensuing fiscal year. No other estimate of current experience is included.

Twenty-three units (eight school districts, six cities, five counties, and four townships), less than one-half of the number participating, provide actual expenditure data for comparative purposes. Five of these units also include actual data for the second prior year as well; and one provides actual data for four prior fiscal years.

Practice varies considerably in the amount and form of the detail that is provided to indicate the allocation of funds to organizational units, activities, and for the purchase of goods and services.

While the functions of governmental units often parallel the organizational units, emphasis is placed upon one or the other for budget-making purposes. In this regard school districts differ from the other types of governmental units considered in the survey. The school districts give primary emphasis to function, grouping the detailed expenditures on a functional basis, while the other local governmental units place greater emphasis on the organizational structure, classifying expenditures according to departments, bureaus, etc. This difference in approach to the classifi-

cation of expenditure estimates is worth noting, because it has implications for the appropriation process.

It is difficult if not impossible to ignore the organization or working units of the government in the appropriation process and still be able to fix responsibility for fiscal and work program management. Thus, in order to fix responsibility upon the department, the bureau, or the division head for proper budget execution, appropriations are usually made to these units. Those expenditures which, by their nature, must be classified on a functional basis in the budget document must at some point, be reclassified on an organizational basis for appropriation purposes and the two shown separately where the functional classification does not line up very well with the organizational unit classification.

The functional classifications typically used by school districts responding in this survey were: (1) instruction, (2) administration, (3) attendance, (4) health services, (5) transportation, (6) operation, (7) maintenance, (8) fixed charges, (9) capital outlay, (10) community services, (11) student services, and (12) tuition to other districts. These functional classifications are specified on Michigan department of education form DS-4511 (General Fund Budget), which school districts are instructed to file with the department of education by November of each year. The form provides a single-page summary of revenues and expenditures for the budget year. It should be pointed out that, with few exceptions, this ordering of the functions as listed above is followed in the arrangement of material in the budget documents of school districts participating in this survey.

In some cases, these functional groupings might parallel organizational lines within a district. In other cases they are not likely to do so. Most of the school districts subdivided the "instruction" classification, for example, into the sub-classifications of: elementary, secondary, special education, summer school and adult or continuing education. Each of these sub-classifications was commonly broken down into objects of expenditure. This might include such categories as: salaries, contracted services, materials and supplies, fixed charges, etc. Thus, the most detailed breakdown available in the budget document of a school district might be "Elementary Instruction: salaries \$7.0 million; contracted' services -- \$112,656; materials and supplies \$253,962; travel and other expenses -- \$34,751. Total elementary expenses -- \$7.4 million." This summarized "Elementary Instruction" may be useful for comparative cost reporting purposes. It is not an approach designed to set forth amounts that are budgeted by individual school, where most of the work is done, and thereby let the principal know the resources available to him to do the assigned job and for which he will be held responsible.

Only three of the 18 school districts participating in the survey provide a breakdown of budgeted expenses by individual school in the district. Two of these do not show salary expenses, but only report non-salary operating expenses budgeted. While the third shows salary amounts budgeted at each school by type of position, it does not indicate how many positions are to be provided for the amount shown.

Detailed expenditure estimates were classified by organization unit in the budget documents of cities, counties, and townships responding in this survey. Of the 35 responding units, 31 classify expenses by department, while three show expenses by activity only. The remaining unit does not classify or group expenses, but simply lists objects of expense and activity expenses in random order.

Four of the responding units further subdivide departmental expenses. Two classify expenses by: (1) department, (2) division, and (3) program. One classifies expenses by department and cost center. One uses department and division.

The object classification is the most universally used classification for presentation of detailed expense information within organizational units. Only seven participating units did not classify by object. Those seven listed lump sum amounts by department. There is practically no uniformity in the object classification used by the responding governmental units.

The detail that is provided in support of requests for personal services (salaries and wages) varies a good deal among the responding governmental units. The budget documents of only six of the responding units list the individual position and individual salary amount for each position. Three of these units provided the listing as a separate section of the budget document. The remainder of the units summarizes personal services data in varying degree. Thirteen of the units, for example, show the number of positions that are to be financed by a given amount budgeted by class of position. Another 11 do not show the number of positions, but present lump sum amounts by class of position. Two show the number of positions by "cost center." Nineteen present lump sum amounts for the object of expense as: salaries and wages" -- \$650,475. No position detail is provided.

Narrative Explanation and Statistics

Two units using a program budgeting approach included in their budget document selected "program statistics" such as: number of inspections, crosswalks painted, new signs constructed, man-hours spent on plan review, cubic yards of rubbish pickup, and man-hours spent on snow and ice removal. Both of these units provide historical statistical data as well as estimates for the ensuing budget year.

The Appropriation Measure

Only 44 of the 52 responding units returned a copy of a resolution passed by their legislative body giving the budget effect. In only six of these, all city governments, could the term "appropriation" be found. These six contained language clearly setting forth amounts appropriated to finance the city budget. The resolutions provided by the remaining 38 responding units were addressed exclusively to the "adoption of the budget" and the fixing of the tax rate.

In summary, this sampling of the contents of budget documents reveals a highly uneven effort on the part of local units of government to provide adequate information for proper public understanding, legislative consideration, and executive implementation of the fiscal and work programs presumably implicit in the documents.

CHAPTER III

HOW EXISTING STATUTORY PROVISIONS MEASURE UP

Michigan has no general law requiring the establishment of either adequate or uniform budgeting procedures in its 2,523 units of local government. Instead, miscellaneous provisions relating to various aspects of local budgetary procedure are found sprinkled throughout existing statutes. These provisions do not establish an even approximately consistent approach to the budget process. And only for 21 charter townships and 18 fourth class cities does existing legislation provide a relatively complete budgetary procedure.

Counties, Townships, School Districts, Cities

Tax Allocation Budgets Required. There is a requirement in the general property tax act that counties, townships, and school districts file a proposed budget for tax allocation purposes (MSA 7.69). The act provides that such budget shall contain an itemized statement of proposed expenditures and estimated revenues, covering all departments and activities. Because the act deals primarily with property tax procedure, however, it is not surprising that it neglects to define budgetary terms, content, and procedure. The act does not, for example, define revenues and receipts so as to insure that all local units are reporting in the same terms--either anticipated revenue or actual cash receipts. Reliance on this act does not insure that all revenues from all sources are considered, or that the budgets of local units are comprehensive and cover all funds that may be established apart from the general operating fund.

It should be noted also that under Act 278 of 1964 local units are exempt from the tax allocation process and its attendant budget requirements in those counties in which the electorate has voted to adopt a fixed division of millage among the county, its townships, and school districts.

“Operating” Budget. While the property tax act requires the preparation of a tax allocation budget, there is also need to prepare an “operating” budget after the county tax allocation board has fixed a maximum tax rate for any local unit. Hence, the statutes provide that where the allocation board fixes “a maximum tax rate for any local unit, which will necessitate a reduction in the total proposed expenditures as listed in the (tax allocation) budget of such local units, ... the local unit shall have power to revise its budget and amend and alter its tax levy to the extent made necessary by such action” (MSA 7.71) (emphasis added).

There is no specific requirement in the property tax act that the tax allocation or “operating” budgets be balanced or serve in any particular fashion as an expenditure control document.

Schools. A separate statute provides that school boards shall annually prepare “estimates of the amount of taxes deemed necessary for its needs for the ensuing fiscal year.... The board shall thereafter adopt a budget in the same manner and form as required for its estimates and determine the amount of tax levy necessary for such budget....” (MSA 15.3159. 15.3196) A provision added to the state school aid act in 1969 provides that “school districts receiving moneys under this act shall not adopt or operate under a deficit budget.” (MSA 15.1919 (85a))

Counties. In counties it is a responsibility of the board of auditors (or finance committee in certain counties) to prepare annually “a detailed estimate of the necessary expenses of said county for the ensuing calendar year, together with an estimate of the probable receipts of the county from all sources other than taxation.” (MSA 5.559, 5.573). There is no further mention of required budget content or of budget procedure beyond the statement that the budget shall be adopted by the county board of commissioners.

Townships. In the general law township the statutes are silent with respect to an assignment of responsibility for budget preparation, the content of a budget, and its use in expenditure control. A statute regulating the levying of township taxes provides that “The inhabitants of any township shall have the power at any legal meeting, by a vote of the qualified electors thereof, to grant and vote sums of money, not exceeding such amounts as are or may be limited by law, as they shall deem necessary for defraying all proper charges and expenses arising in such township.” (MSA 5.3) The statute also limits contingent expenses which may be voted in any year.

Charter Township. The charter township act (P.A. 359, 1947) provides that the proposed budget “shall present a complete financial plan for the ensuing fiscal year” and provides a brief listing of what the budget must contain including income and expense statements, a statement of the estimated balance or deficit from the current year, and debt redemption and other schedules. It assigns responsibility for the preparation of the budget; lists minimum contents; specifies the method of its adoption; provides that it shall control the incurrence of expenditures; requires periodic financial reports; provides for appropriation adjustments to keep expenditures within income; and provides for annual audits. This act, applicable only to charter townships, represents an example of one of the more inclusive sets of local budgetary procedural provisions in Michigan.

Miscellaneous Provisions. There are numerous other statutory references requiring the review or inclusion of budgets of institutions, commissions, hospitals and so forth in the general budget of the county or township.

Cities. In home rule cities budget preparation and execution is governed by provisions of each local city charter. The municipal home rule act simply provides that each city charter shall provide for the annual levy and collection of taxes and for an annual appropriation of money for municipal purposes. City charters have widely differing provisions relative to the preparation, adoption, and use of the budget.

In some cities the chief administrative officer (mayor or manager) prepares the budget; in others it is a responsibility of the city clerk; and in others it is the responsibility of a budget committee composed of various city officials. In some cities responsibility for supervising the execution of the budget is ill-defined, particularly in those cases where the budget is prepared by an official or officials other than the chief administrative officer. In at least six cities there is no charter provision requiring that the city council adopt the budget at a specified time of year. Some cities provide that no expenditure may be incurred except pursuant to an appropriation, others do not. Some have provisions governing the disposition of end-of-year appropriation balances, others do not.

Fourth class cities are governed by the detailed statutory provisions of the fourth class city act of 1895. The act provides for a somewhat detailed budgetary procedure. For cities subject to its provisions the act provides for: a uniform fiscal year; a division of moneys into specified funds (and to somewhat restrictive perhaps); the preparation of budget estimates, with a requirement

that any deficit of the current year be financed in the proposed budget of the succeeding year; the adoption of an appropriation ordinance; a prohibition against appropriating further sums after adoption of the appropriation ordinance except as may be authorized by vote of the people; a procedure for transferring moneys between funds under certain accounting rules governing surpluses; a prohibition against drawing on exhausted funds; a procedure for disbursement of funds pursuant to an appropriation; a limitation on making loans; a procedure for financial reporting; a penalty for misappropriation; and a requirement for an audit.

Summary

Generally speaking, the statutory budget provisions applicable to the great bulk of local units are confined to setting in motion the initial budgetary procedure. Local units are required to do little more than make a token effort to have a “budget” and to do even less in budget administration. Little is said in provisions applying to most local units respecting substantive content and form of budgets, the significance of the appropriation act, and the administration of appropriations.

CHAPTER IV

STRENGTHENING EXISTING LEGISLATION

It is believed that there is a clearly demonstrated need for improved budgetary practices in Michigan local government. It also seems evident that the necessary improvements can best be achieved by state legislation that establishes the essentials of local government budget practices in all local units to be implemented by local ordinances and resolutions. Therefore, there is set forth below a recommended approach and suggested language outlining local budgetary form, content, procedure and controls for consideration in enacting basic elements of a budget process in statute for use by local units of government in Michigan.

Because the state constitution mandates that the legislature provide by law for the maintenance of uniform accounting systems by units of local government; because budgeting and accounting systems, devices, and activities are interdependent; and because their integration is important for the improvement of local financial management, it is recommended that consideration be given to the amendment of the uniform accounting act (P.A. 2 of 1968) to include the proposed elements of a budget process.

The proposed amendment provides an integrated and consistent procedure designed to apply to all local units, clarifies terminology and gives a greater emphasis to the budget as a mechanism of expenditure control than now exists in statute. There are provisions for the preparation, consideration and adoption of the budget; for an appropriation measure; for an allotment procedure; and prohibitions against the application or diversion of moneys to purposes other than those specified in an appropriation.

The proposed provisions would require that local units of government designate a fiscal officer and would fix responsibility with that position and other appropriate local officials for the conduct of elements of the budget process. The provisions were designed in cognizance of and to reinforce existing statutory requirements for a public hearing on the budget, the maintenance of uniform systems of account and local charter provisions possessing accordant elements. In recognition of the state treasurer's successful experience with an advisory committee required in P.A. 2 of 1968 for the adoption of a uniform chart of accounts, a similar procedure is contemplated in the proposed amendment for the adoption of operating procedures and forms for the guidance of local units in establishing and maintaining a budgeting system consistent with requirements imposed by law.

While the general subject matter of the proposed amendment is similar in many respects to existing provisions having limited applicability in selected types of local units, the adoption of the proposed amendment would establish uniform budgetary practices applying to all local units, provide guidelines to aid local units in their budget-making, increase local responsibility for expenditure control, and otherwise promote an effective use of local budgets. The text of the proposed amendment follows.

An act to amend the title and sections of Act No. 2 of the Public Acts of 1968, entitled "An act to provide for the formulation and establishment of uniform, charts of accounts and reports in local units of government; to define local units of government; to provide for the examination of the books and accounts of local units of government; to provide for annual financial reports from

local units of government; to provide for the administration of this act; to prescribe the powers and duties of the state treasurer and the attorney general; to provide penalties for violation of this act; and to provide for meeting the expenses authorized by this act,” being sections 141.421 to 141.433 of the Compiled Laws of 1968, by adding 12 new sections to read as follows:

The People of the State of Michigan enact:

Title

An act to provide for the formulation and establishment of uniform charts of accounts and reports in local units of government and to provide for a uniform budgeting system in conjunction therewith; to define local units of government; to provide for the examination of the books and accounts of local units of government; to provide for annual financial reports from local units of government; to provide for the administration of this act; to prescribe the powers and duties of the state treasurer and the attorney general; to provide penalties for violation of this act; And to provide for meeting the expenses authorized by this act, being sections 141.421 to 141.433 of the Compiled Laws of 1968, by adding 12 new sections to read as follows:

Sec. 2(a). As used in sections 14 to 22 of this act “local unit” means a county, township, city, village, school district, intermediate school district, or any authority, division or organization of government established by law and which has power to levy taxes against property located within their respective areas and has power to issue any of the obligations authorized or regulated under Act 202 of the Public Acts of 1943.

Sec. 14. Words and phrases used in sections 15 to 22 shall be defined as follows:

- (a) Allotment - a portion of an appropriation which may be expended or encumbered during a given period of time;
- (b) Appropriations - an authorization granted by the legislative body to incur obligations and to expend from public funds a sum of money for specific purposes;
- (c) General Appropriation Act - ordinance or resolution passed by the legislative body by which appropriations are given legal effect;
- (d) Budget - a plan of financial operation embodying an estimate of proposed expenditures from all funds, except trust and agency funds, for a given period of time and the proposed means of financing them;
- (e) Budgetary Centers - this term shall include the general operating departments of the local unit and all other departments, institutions, boards,

commissions, agencies and offices that are the direct or indirect responsibility of the local unit;

- (f) Tentative Budget - represents the initial expenditure requests and revenue estimates assembled by the fiscal officer from information provided by the budgetary centers;
- (g) Preliminary Budget - the tentative budget document, as may have been revised or altered by the fiscal officer, when transmitted to the chief administrative officer by the fiscal officer;
- (h) Proposed Budget - the preliminary budget document, as may have been revised or altered by the chief administrative officer, when transmitted to the legislative body by the chief administrative officer;
- (i) Capital Outlay - expenditure which results in the acquisition of or addition to fixed assets;
- (j) Chief Administrative Officer - the mayor, city manager, superintendent, township supervisor, or director who is responsible for the exercise of general supervision over the several departments of a local unit; provided that in counties that do not have an elected executive or manager, the board of commissioners shall designate the chief administrative officer for purposes of this act;
- (k) Deficit - the excess of liabilities and reserves of a fund over its assets as disclosed by the annual audit; or the excess of expenditures over revenues during an accounting period;
- (l) Encumbrance - obligation in the form of a purchase order, contract, or salary commitment, which is chargeable to an appropriation and for which a part of the appropriation is reserved;
- (m) Administrative Officers - individuals employed or otherwise legally engaged by a local unit to be responsible for the supervision of specific general operating departments or other administrative units, institutions, boards, commissions, and offices that are the direct or indirect responsibility of the local unit;
- (n) Expenditures - the cost of goods delivered or services rendered, whether paid or unpaid, including expenses, provision for debt retirement not reported as a liability of the fund from which retired, and capital outlays;
- (o) Fiscal Officer - the controller, finance director, business manager, or elected or appointed official who by law, charter or ordinance is charged with the responsibility for the preparation and administration of the budget of the local unit;
- (p) Legislative Body - the board of commissioners of a county; the township board of a township; the board of trustees, council or commission of a

city; the board of trustees, council or commission of a village; the board of education of any school district; and in the case of any other governmental authority or agency that official body to whom is designated general governing powers;

- (q) Revenues - additions to assets of a fund which do not increase any liability; do not represent the recovery of an expenditure; do not represent the cancellation of certain liabilities without corresponding increase in other liabilities or a decrease in assets; and do not represent contributions of fund capital in enterprise and in intergovernmental service funds;
- (r) Surplus - the excess of the assets of a fund over its liabilities and reserves. Prior to the end of a fiscal period, it represents the excess of the fund's assets and estimated revenues for the period over its liabilities, reserves, and appropriations for the period.

Sec. 15. Fiscal Officer Designation of.

Each local unit shall designate one individual to function as the fiscal officer. The legislative body, unless otherwise provided by law, charter or ordinance, shall, by resolution, designate the person to serve as fiscal officer. The chief administrative officer may serve as fiscal officer if so designated by the legislative body, unless otherwise provided by law, charter, or ordinance.

Sec. 16. Duties of Fiscal Officer.

Under the direction of the chief administrative officer, the fiscal officer in each local unit shall prepare the annual budget for the ensuing fiscal year in the manner hereinafter provided. The fiscal officer shall have the power, and he is hereby directed to obtain from the budgetary centers of the local unit such information as said fiscal officer shall determine is necessary and essential to the preparation of a complete budget for the ensuing fiscal period for presentation to the local unit's legislative body. It shall be the duty of the administrative officers and employees of the budgetary centers to comply promptly with any and all requests for information which said fiscal officer may make, and to render all possible assistance to the fiscal officer in carrying out the requirements of this Act.

Sec. 17 (a). Tentative Budget - Preparation by Fiscal Officer.

The fiscal officer shall prepare a tentative budget for the budgetary centers of the local unit in a manner consistent with the appropriate time schedules, procedures and forms developed under Section 22 of this Act. The tentative budget shall be assembled by the fiscal officer from information obtained from the budgetary centers under the provisions of Section 16 of this Act or other appropriate sources.

Sec. 17 (b). Preliminary Budget Hearings on Transmittal of.

The fiscal officer shall prepare and transmit to the chief administrative officer, according to the appropriate time schedules developed under Section 22 of this Act, a preliminary budget for the budgetary centers of the local unit. Prior to transmittal of the preliminary budget the fiscal officer may hold hearings on the estimated needs of the budgetary centers. It shall be the duty of the administrative officers and employees of the budgetary centers to attend such hearings at the request of the fiscal officer. The chief administrative officer shall be invited to all such hearings and may make such recommendations as he deems necessary.

Sec. 17 (c). Content of Preliminary Budget.

The preliminary budget shall include appropriate comparative expenditure data for the current and prior fiscal years and shall contain an estimate of the expenditure amounts required to conduct, In the ensuing fiscal year, the government of the local unit, including all of its budgetary centers. The preliminary budget shall include appropriate comparative revenue data for the current and prior fiscal years and shall also contain an estimate of the revenues and sources thereof, to be raised or received by the local unit in the ensuing fiscal year. The preliminary budget shall also contain an estimate of the amount of Any surplus or deficit that may accrue during the current fiscal year. The preliminary budget shall also contain an estimate of the amounts needed for deficiency purposes, emergency purposes, and the amounts needed to pay and to discharge such principal and interest of debt of the local unit as may be due in the ensuing fiscal year. The preliminary budget shall also contain an estimate of proposed capital outlay expenditures of the budgetary centers and the sources of proposed funds for those capital outlays; provided that the preliminary budget shall show the total estimated cost of capital construction projects and the proposed method of financing construction and operating costs beyond the fiscal period covered by the preliminary budget. The fiscal officer shall include in the preliminary budget such other data relating to fiscal conditions as he deems of material value to the legislative body in its consideration of the financial needs of the local unit. The preliminary budget shall not reflect' total estimated expenditures which exceed the total estimated revenues including any available unappropriated surplus.

Sec. 18. Proposed Budget, Content, Required Action by Chief Administrative Officer.

The chief administrative officer shall consider the preliminary budget submitted to him by the fiscal officer. The chief administrative officer may revise or alter the preliminary budget but not so that the total estimated expenditures exceed the total amount of anticipated revenues that the local unit is entitled to receive from taxation and by law. The chief administrative officer shall make no revisions or alterations as to sums required to provide a sinking fund for the payment of bonds at maturity, as to sums required to pay serial bonds at maturity, and as to sums required to pay interest on bonds. The chief administrative officer shall complete his revisions and shall transmit the proposed budget to the legisla-

tive body not later than required by appropriate time schedules developed under Section 22 of this Act. The proposed budget when transmitted by the chief administrative officer shall be accompanied by a suggested general appropriation measure for use by the legislative body to implement provisions of the proposed annual budget.

Sec. 19. Legislative Action.

The proposed budget so transmitted by the chief administrative officer shall be considered by the legislative body, which may revise, alter, increase or decrease it. The legislative body shall not change the budget so that the total estimated expenditures exceed the total anticipated revenues, including any available unappropriated surplus, that the local unit is entitled to receive from taxation and by law.

The legislative body shall determine the amounts of money to be raised by taxation as required to defray the expenditures and meet the liabilities of the local unit for the ensuing fiscal period, and shall order the same to be raised by taxation, within statutory or charter limitations, to be paid into the several funds of the local unit. No money shall be raised by taxation for any purpose without the consent of the legislative body, except for the payment of debts and liabilities theretofore duly and lawfully contracted, or for moneys otherwise required by law to be levied. It shall be the duty of the fiscal officer and administrative officers to furnish to the legislative body such information as it may require for proper consideration of the proposed budget. The legislative body shall, for the purpose of securing information for consideration of the proposed budget, have the right to inspect all official books and papers of the fiscal officer and officers of the budgetary centers. Prior to final consideration of the budget by the legislative body, a public hearing shall be held on the budget as required by Act 43 of Public Acts of 1963. The legislative body shall adopt the proposed budget for the ensuing fiscal year not later than required by the appropriate time schedules developed under Section 22 of this Act.

Sec. 20. The Appropriation Act, Contents and Purpose.

The legislative body of each local unit in accordance with the procedures or guidelines developed under Section 22 of this act shall pass an ordinance or resolution to be termed the General Appropriation Act.

The General Appropriation 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 also the sources from which the appropriations shall be payable including any or all of the following:

- * revenues the unit is entitled to receive by law, including any available unappropriated surpluses of the several funds of the local unit;

- * amounts to be raised, within statutory or charter limitations, by the next general tax levy;
- * by loans where authorized by law provided that the total of loans and taxes does not exceed the aggregate amount authorized to be raised by the tax levy for the ensuing fiscal year.

The legislative body shall set forth in the General Appropriation Act the amount appropriated for objects and purposes classified in a manner consistent with Uniform Charts of Accounts, required by law.

Sec. 21 (a). Allotment of Appropriations,
Limitations on Expenditures.

It is the intent of this Act that the legislative body, chief administrative officer and administrative officers of the local unit are prohibited from creating any debt or incurring any financial obligation in behalf of the local unit unless such debt or obligation is distinctly permitted by law. The chief administrative officer, through the fiscal officer, may cause the appropriations made by the legislative body for the local unit and its budgetary centers to be divided into allotments provided that said allotments are based upon the periodic requirements of the local unit and its budgetary centers. The administrative officers of the local unit shall be prohibited from incurring operating expenses in any fiscal year in excess of those appropriated by the legislative body. The chief administrative officer and administrative officers of the local unit are expressly forbidden to apply or divert any moneys of the local unit for purposes other than those specified in the appropriations of the legislative body. The use or application of appropriations for purposes other than specified by the legislative body is prohibited.

Sec. 21 (b). Adoption and Amendment of Budget
and Appropriations Act by
Legislative Body.

The legislative body of the local unit is prohibited from adopting a budget and an appropriation act for any purposes for which funds are not available. It is the intent of this act that no deviation from the original budget and appropriation acts shall be permitted without first amending the original budget and appropriations act. The legislative body of the local unit shall amend both the budget and the appropriation act as soon as it becomes apparent that a deviation from the original budget and original appropriation act will be necessary. Whenever at the end of any month of any fiscal year it shall appear to the chief Administrative officer or the legislative body that actual and probable receipts from taxes and other sources in any fund will be less than estimated revenues including any available unappropriated surplus upon which appropriations from such fund were based, the chief administrative officer within 15 days shall present to the legislative body his recommendations which if implemented will prevent expenditures from exceeding available receipts for the then current fiscal year. Such recommendations shall include proposals for reducing appropriations from such fund for budgetary centers so that the total of appropriations will not exceed the total of revised esti-

mated receipts of the fund, or, he shall present proposals for measures necessary to provide receipts sufficient to meet expenditures of the general fund. The legislative body may require that the fiscal officer provide it with periodic reports on the financial condition of the local unit.

Sec. 21 (c). Expenditure in Absence of Budget
Prohibited, Procedure for
Disbursement.

Hereafter no executive officer, administrative officer, or member of the legislative body of a local unit shall authorize or participate in the expenditure of funds except as authorized by a duly adopted budget. No money shall be drawn from the treasury, except in pursuance of the authority and appropriation of the legislative body of the, local unit. No warrant shall be drawn upon the treasury, after the appropriation from which it should be paid has been exhausted. Any person who shall violate any of the provisions of this section shall be deemed guilty of a misdemeanor.

Sec. 21 (d). Violations, Disclosure by Audit by
Action of Attorney General.

Any violation of the above sections of this Act by the chief administrative officer, administrative officers, employees, or members of the legislative body of the local unit disclosed in an audit of the financial records and accounts of the local unit shall be filed with the State Treasurer and reported by him to the Attorney General. The Attorney General shall review the report and cause to be instituted such proceeding against the chief administrative officer, administrative officer, employee or members of the legislative body as he deems necessary. For the use and benefit of the local unit, the Attorney General or prosecuting attorney may institute civil action in any court of competent jurisdiction for the of any public moneys, disclosed by any examination to have been illegally expended or collected and not accounted for as provided herein; also for the recovery of any public property disclosed to have been converted or misappropriated.

Sec. 22. Adoption and Publication of Procedures,
Time Schedules and Forms by the
State Treasurer.

The State Treasurer shall publish operating procedures, time schedules and forms for the guidance of local units in establishing, adopting and maintaining a budgeting system consistent with provisions of this Act and as may be otherwise imposed by law. In the design of such procedures, time schedules and forms the State Treasurer shall take into account their use by various types of local units and local units of varying size. The procedures shall be based on the uniform charts of accounts prescribed for use by school districts, counties and other local units. Procedures, time schedules and forms for use by school districts and intermediate school districts shall be developed cooperatively by the State Treasurer and the Superintendent of Public Instruction and shall be promulgated by the Superintendent of Public Instruction. Procedures time schedules and forms, as may be de-

signed for use by other local units, and any revisions thereof, shall be developed in cooperation with an on-going advisory committee which includes representatives from the other local units and their associations. The State Treasurer, before the adoption of such operating procedures, time schedules and forms shall provide for advance publication and for hearings thereon with an advisory committee selected by the State Treasurer from the State Department of Education, other interested state agencies, from local units and their associations and from other interested or concerned groups. The operating procedures, time schedules and forms shall be adopted in accordance with the provisions of Act No. 306 of the Public Acts of 1969, as amended, being sections 24.201 to 24.315 of the Compiled Laws of 1948. When finally adopted, such procedures shall be published and made readily available to All interested persons. In order to implement and maintain the uniform budgeting system in local units, the State Treasurer may develop training materials and may conduct and encourage, either alone or in cooperation with others, on-going training programs for local officials and employees.

Sec. 23. Short Title.

This Act shall be known and may be cited as the “Uniform Budgeting and Accounting Act.”

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APPENDIX

Sample Budget Preparation Calendar

<u>When</u>	<u>Who</u>	<u>What</u>
Prior to Jan. 9	Central Budget Officer	Preliminary work involving the entry of prior and current year financial data on estimate forms and preparation of revenue estimates.
January 9	Chief Administrative Officer	Issue budget instructions and estimate forms.
Jan. 9 - Feb. 27	Department Heads	Prepare and submit budget estimates to central budget officer.
Feb. 1 - Feb. 27	Central Budget Officer	Prepare revenue estimates and estimates of non-departmental requirements.
Feb. 27 - Apr. 5	Central Budget Officer	Check mathematical accuracy of estimates, consolidate and summarize.
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If required:		
Apr. 5 - Apr. 10	Chief Administrative	Review requests for purposes of officer transmitting them to tax allocation board.
Apr. 10 - Apr. 15	Legislative Body	Review and approve budget request for authorization of transmittal to county tax allocation board.
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Apr. 5 - May 20	Central Budget Officer & Chief Administrative Officer	Investigate and review requests, develop recommendations for chief administrative officer.
May 20 - Jun. 15	Chief Administrative Officer & Budget Officer	Prepare executive budget document
June 15	Chief Administrative Officer	Submit executive budget to legislative body
June. 15 - Jul. 1	Legislative Body	Consideration of budget
June. 22 - Jul. 1	Legislative Body	Display of budget for public hearings, fix tax rate.
July 1	Legislative Body	Budget adoption, enactment of appropriation and revenue measure.

Table, 1

General Organizational and Financial Items
Explicitly Referred to in Statutes
Applicable to Local Units

Item	County	Village	Home Rule City	4th Class City	General Law Township	Charter Township	School District
Organizational Items							
Responsibility Fixed Re:							
Guidance to the overall preparation of the budget	X	--	--	--	--	X	--
Review, criticism, and approval of departmental expense proposals	--	--	--	--	--	--	--
Preparation of revenue estimates	X	--	--	--	--	X	--
Recommendations and explanation of budget	X	--	--	--	--	X	--
Administration of Appropriations	--	--	--	--	--	X	--
Performance of appropriation accounting duties	X	X	--	X	X	--	--
Financial reporting	X	X	X	X	X	X	X
Post Audit	X	X	X	X	X	X	--
Other General Financial Items							
Balanced budget require4 (deficit prohibited)	--	--	--	--	--	--	X
Fiscal Year specified	X	--	--	X	--	X	X
Public Hearing on budget	X	X	X	X	X	X	X
Uniform system of accounts	X	X	X	X	X	X	X

Table 2
Elements of Preparatory Phase of Budget Process
Explicitly Referred to in Statutes
Applicable to Local Units

Element	County	Village	Home Rule City	4th Class City	General Law Township	Charter Township	School District
Budget calendar beginning and end dates	--	--	--	--	--	X	--
An official authorized to prescribe forms	a	--	--	--	a	a	a
Statement of executive policy	--	--	--	--	--	--	--
Assembly of:							
Revenue estimates	a	--	--	--	a	X	a
Tax estimates	a	--	--	--	a	x	a
Expense estimates	a	--	--	X	a	X	a
Comparative revenue-expenditure data	--	--	--	--	--	X	--
Statement of financial condition	--	--	--	--	--	--	--
Surplus (deficit) for current year	--	--	--	--	--	X	--
Review of requests by budget agency, board or committee	X	--	--	--	--	--	--
Departmental hearings	--	--	--	--	--	--	--
Preparation of tentative budget for pre- sentation to chief executive-administrator--	--	--	--	--	--	--	--
Executive hearings	--	--	--	--	--	--	--
Formulation of balanced budget	--	--	--	--	--	--	--
Presentation of budget to legislative body	x	--	--	--	--	X	--

^a Required for tax allocation board purposes.

Table 3

Measures to Effect the Budget
Explicitly Referred to in Statutes
Applicable to Local Units

Measures	County	Village	Home Rule City	4th Class City	General Law Township	Charter Township	School District
Adoption of the budget	--	--	--	--	--	X	X
Passage of an appropriation ordinance or resolution	--	X	X	X	--	X	--
Certification of tax levy	--	X	--	X	--	X	X

Table 4

**Elements of Appropriation Administration and
Control Explicitly Referred to in Statutes
Applicable to Local Units**

Elements	County	Village	Home Rule City	4th Class City	General Law Township	Charter Township	School District
Allotment system	--	--	--	--	--	--	--
Appropriations control:							
Supplemental appropriations procedure	--	--	--	X	--	--	--
Appropriations are to be revised if it appears income is less than anticipated	--	--	--	--	--	X	--
Exceeding appropriation prohibited	X	--	--	--	--	--	--
No expense is to be ordered, commenced or contracted for unless in pursuance of appropriation specifically made therefor	--	--	--	X	--	--	a
No money is to be drawn from treasury except in pursuance of appropriation	--	X	--	--	--	X	--
Disbursements are prohibited when fund is exhausted	--	X	--	X	--	--	--
Disbursements are prohibited when appropriation is exhausted	--	--	--	--	--	--	--
Bills and accounts are to be paid after the same have been registered in a book provided for that purpose and the same have been charged to the appropriations from which the same are payable	--	--	--	--	--	--	X
Legislative body shall audit claims	--	X	--	X	X	--	--
Annual financial reports	X	X	X	X	X	X	X
Misappropriation is subject to penalty	--	--	--	X	--	--	--

^a First class school district with regard to contracts for the purchase of any real estate, erection, remodeling or repairing of any building.