

## CHARTER TOWNSHIP BUDGET: ELIMINATE 60-DAY DEADLINE

House Bill 4685 as passed by the House  
Second Analysis (9-30-03)

Sponsor: Rep. John Stewart  
Committee: Local Government and  
Urban Policy

### ***THE APPARENT PROBLEM:***

According to a spokesman from the Michigan Townships Association, there are 1200 townships in Michigan: about 120 are charter townships while the others—90 percent of all townships—are general law townships. All townships, whether designated as charter or general law townships, must prepare their annual budgets using accounting guidelines that specify standards adopted for local government budgeting and accountability. The standards are developed for use nationwide by the Governmental Accounting Standards Board known as GASB and here in Michigan, the standards are reissued by the Committee on Governmental Accountability and Auditing within the Department of Treasury.

The most recent set of standards known as GASB Statement No. 34, or GASB 34, was adopted in 1999 and has been phased in by state and local governments over three years, depending on the government's total annual revenue. Those with total revenues of \$100 million or more had to comply by June 15, 2001; those with revenues of \$10 million or more by June 15, 2002; and those with revenues of less than \$10 million by June 15, 2003. Among the many provisions in GASB 34 is a standard that requires the financial managers in local governments to explain the ways in which their accounts depart from the revenues and expenditures that are reflected in the *original* annual budget (arrayed by fund), and also the ways in which the accounts are different from the *revised* annual budget (also arrayed by fund). Then, according to GASB 34, an explanation is necessary for any significant difference between the two documents. See *BACKGROUND INFORMATION* below.

Customarily, the trustees of general law townships adopt their annual budgets at a public meeting just before the township's new fiscal year begins. In contrast, the elected officials in charter townships are required under the law to adopt their budgets by

resolution at least 60 days before the fiscal year gets underway.

According to committee testimony, the 60-day deadline makes accountability to township taxpayers both difficult and confusing, especially in light of the new GASB 34 standards. For example, charter township treasurers report that the two-month period between the final approval of the budget resolution and the onset of the fiscal year is generally a time when expenditures and revenue in the current fiscal year accounts are reconciled, and simultaneously, revenue estimates for the next year's budget become more clear. So, during the 60 days the two budgets overlap, and both budgets generally need modification. What is more, because under GASB 34 the township treasurers must explain any significant difference between their statements of accounts based upon both the original and the revised annual budgets, they must write reports during the 60-day overlap period that explain changes for all funds located within four different budgets, developed for the current and the coming fiscal years.

Legislation has been proposed to eliminate the 60-day period in which the budgets for two fiscal years overlap, and to enable charter townships to follow the same budget preparation protocols now followed by general law townships, and also afford taxpayers less confusion and more accountability.

### ***THE CONTENT OF THE BILL:***

House Bill 4685 would amend the Charter Township Act to eliminate the requirement that a township board adopt its budget 60 days before a new fiscal year begins. Under the bill, the 60-day deadline would be eliminated, and instead a township board would be required to adopt its budget for the next fiscal year by passing a resolution before the new fiscal year began. However, the bill specifies that if a township operated on a calendar-year budget cycle,

House Bill 4685 (9-30-03)

a public hearing on the proposed budget would have to be held before December 15, and the new fiscal year's budget adopted before December 31.

MCL 42.27

### **BACKGROUND INFORMATION:**

With regard to greater accountability, GASB 34 states: Showing budgetary compliance is an important component of government's accountability. Many citizens—regardless of their profession—participate in the process of establishing the original annual operating budgets of state and local governments. Governments will be required to continue to provide budgetary comparison information in their annual reports. An important change, however, is the requirement to add the government's original budget to that comparison. Many governments revise their original budgets over the course of the year for a variety of reasons. Requiring governments to report their original budgets in addition to their revised budgets adds a new analytical dimension and increases the usefulness of the budgetary comparison. Budgetary changes are not, by their nature, undesirable. However, we believe that the information will be important—in the interest of accountability—to those who are aware of, and perhaps made decisions based on, the original budget. It will also allow users to assess the government's ability to estimate and manage its general resources.

The full text for GASB 34 is available at <http://www.org/st/summary/gstsm34.html>

### **FISCAL IMPLICATIONS:**

Fiscal information is not available.

### **ARGUMENTS:**

#### **For:**

The bill would allow charter township officials to prepare the coming fiscal year budget with more accurate revenue forecasts at hand, including the amount of available state-shared revenue—which often constitutes between 40 and 60 percent of a township's total budget. Further, the 60-day period in which the budgets for two fiscal years overlap should be eliminated, especially in light of new accountability standards issued in GASB 34. Under the new rules, township treasurers must report on changes for all funds based upon both the original and revised budget, for both the current and the

coming fiscal year. The reporting requirement ensures greater accountability when the standard is applied for one fiscal year, but the reports become confusing and excessive when they are presented for two fiscal years simultaneously. Finally, charter townships should follow the same budget and accounting protocols as general law townships, and be able to adopt their coming year's budget closer to the start of the fiscal year.

#### **Against:**

Forty of the state's 120 charter townships have a fiscal year that runs concurrent with the calendar year—beginning on January 1 and ending December 31. Concern was expressed in committee that if the 60-day deadline is eliminated, the officials in those 40 townships will likely schedule their public hearings on the budget during the Christian holidays in late December, in which case the hearings will be poorly attended. Currently, the public hearings about the budget are scheduled in mid-October, a time when more citizens can participate.

#### **Response:**

The bill was amended on the House floor to require that in the instances where a charter township operates on a calendar-year budget cycle, the public hearing on the new budget must be held before December 15.

### **POSITIONS:**

The Michigan Townships Association supports the bill. (7-21-03)

Plymouth Charter Township (in Wayne County) testified in support of the bill. (6-17-03)

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■ This analysis was prepared by nonpartisan House staff for use by House members in their deliberations, and does not constitute an official statement of legislative intent.