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The annual budget is a community's primary policy statement and establishes the priorities of government. Formulating the annual budget is the most visible activity of local leaders, and its approval by town meeting is a hallmark of participatory government. When systematic, inclusive, and responsive, the budget process can give residents confidence in the management of the town's fiscal affairs and in the expenditure of their tax dollars.

The most effective budget process follows a formal calendar that begins in the fall of each year with revenue projections. Moving forward, major milestones in the process oftentimes include the components below:

- Joint meeting of selectmen, finance committee and school committee to review revenue projections and reach consensus on overall expenditure levels, use of reserves, and allocation of resources generally
- Distribution of budget guidelines to department managers so they can begin to prepare their appropriation requests
- Deadlines for submission of departmental appropriation requests and for preparation of a working, or draft, budget document
- Completion of meetings with department managers to review requests
- A second round of adjustments to revenue projections
- Formulation of the initial budget recommendation by the town manager/administrator, finance director, or finance committee (depending on government structure)
- Budget approval by board of selectmen in its capacity as the town's chief policymaker
- Budget review by finance committee with a deadline to ensure printing and distributing the town meeting warrant in sufficient time for town meeting members and residents
- Presentation of the annual budget recommendation to town meeting

Throughout the process, decision makers should recognize and adhere to formal financial policies, such as those guiding the use of free cash and stabilization reserve funds, and for establishing debt levels. Also, decisions should be made on the extent of budget detail to be included in the warrant's budget article and any supplemental information to town meeting, which is not subject to a vote.

The budget's layout or format should be carefully considered. It tells town meeting the level of detail on which it is voting and reflects a decision on the degree of management flexibility the town chooses to give department heads by allowing or restricting their ability to transfer money between budget line items without town meeting approval.

Finally, the budget adopted by town meeting should be closely monitored throughout the year. This involves reviewing financial data to verify that expenditures are consistent with town meeting votes, line items are not overspent, and receipts are tracking in line with expected results. Monitoring actual performance against the original budget can reveal problems early and give policymakers and managers time to take corrective actions to avoid potential deficits.