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# Improving Financial Responsibility Through Budget Amendment Control

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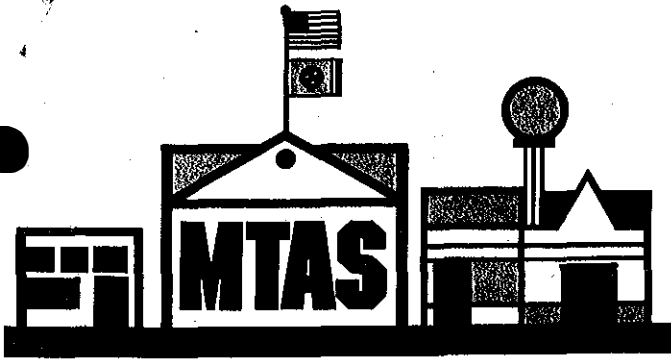
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# TECHNICAL BULLETIN

MUNICIPAL TECHNICAL ADVISORY SERVICE  
THE UNIVERSITY OF TENNESSEE  
IN COOPERATION WITH THE TENNESSEE MUNICIPAL LEAGUE



Bulletin No. 12

January 25, 1988

## IMPROVING FINANCIAL RESPONSIBILITY THROUGH BUDGET AMENDMENT CONTROL<sup>1</sup>

by W. K. Joines and Thomas A. Brant

City Councils frequently must make difficult choices and decisions, especially when adopting the annual budget. There is seldom enough money available to meet all requests, but choices must be made and the city starts a new fiscal year with a balanced budget.

Tough financial decisions do not end with initial budget approval. Typically, occasions arise during the year when the city council is asked to provide additional funds for unanticipated problems or community needs. On these occasions, the tendency is to consider the need or request solely on its merits, and not within the context of the previously adopted budget. Often the result of these encounters is that the city council obligates the city for a new expenditure, without identifying either a corresponding increase in income, or a reduction in other appropriations. This creates the potential for serious financial problems at the close of the fiscal year.

One way a city council can prepare for this situation is to enact an ordinance requiring that the council approve a resolution identifying additional revenue and/or expenditure reduction, prior to authorizing new expenditures. This approach has the advantage of preventing year-end financial problems, and it requires council to make sound financial decisions on an informed basis, rather than an emotional or political basis. It is a way for a city to significantly improve its financial practices and budget management.

Attached is a sample ordinance that a city may adopt that will assist the city council and individual council members to be more fiscally responsible. The ordinance establishes the requirement that any additional appropriations resulting from a budget amendment must be accompanied by a resolution identifying a corresponding increase in income and/or appropriation reduction.

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<sup>1</sup>Revision of March 4, 1987 Technical Bulletin.

Also attached is a sample resolution that a city may use to identify a corresponding income source and/or appropriation reduction, on those occasions throughout the year when it does decide to amend the budget.

Please be aware that the steps required to amend the budget generally are the same as those required to adopt a budget. Since most cities do not want to go through the formal readings of several budget amending ordinances throughout the year, the resolutions can be thought of as a formal way to keep up with budget changes throughout the year. Budget resolutions do not amend the budget; this requires a budget amendment ordinance, and the resolutions can be used to compile changes to be included in the amending ordinance. Taken together, the ordinance and resolution can provide effective working tools for a city to make more effective and responsible financial decisions.

#### Further Information

Further information on this topic may be obtained by contacting W. K. Joines, MTAS Senior Finance Consultant, or Thomas A. Brant, MTAS Management Consultant, in Knoxville at (615) 974-5301 or your MTAS Management Consultant.

SAMPLE ORDINANCE

ORDINANCE NO. \_\_\_\_\_

AN ORDINANCE requiring that any budget amendment to increase the expenditure of funds, be preceded by the enactment of a resolution that identifies a corresponding source of revenue and/or expenditure reduction.

BE IT ORDAINED \_\_\_\_\_ (here insert proper ordaining clause):

Section 1. The following new section is added to the \_\_\_\_\_ Municipal Code:

\_\_\_\_\_. Prior to the approval of any amendment to the annual budget that would increase appropriations for the expenditure of City funds, the City Council shall approve a resolution that identifies a corresponding source of funds to cover the proposed additional expenditure, and/or identifies a corresponding reduction in expenditure to compensate for the proposed additional expenditure.

Section 2. Nothing in this ordinance shall be construed or interpreted as an expansion or limitation of any power or authority granted to the municipality by the State of Tennessee.

Section 3. This ordinance shall take effect from and after its final passage, the public welfare requiring it.

Passed 1st reading \_\_\_\_\_, 1988.

Passed 2nd reading \_\_\_\_\_, 1988.

Passed 3rd reading \_\_\_\_\_, 1988.

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
Recorder

Published in the \_\_\_\_\_  
on the \_\_\_\_\_ day of \_\_\_\_\_, 1988.

SAMPLE RESOLUTION

RESOLUTION NO. \_\_\_\_\_

BE IT RESOLVED by the \_\_\_\_\_ of the \_\_\_\_\_ of \_\_\_\_\_, Tennessee that it intends to amend its annual budget by providing for the additional expenditure of funds for the (project description) \_\_\_\_\_.

BE IT FURTHER RESOLVED that the \_\_\_\_\_ understands that prior to including the above described additional expenditure of funds in a budget amendment ordinance, that it must identify a corresponding source of funds and/or expenditure reduction, as provided in \_\_\_\_\_ of the \_\_\_\_\_ Municipal Code.

BE IT FURTHER RESOLVED that the \_\_\_\_\_ of the \_\_\_\_\_ of \_\_\_\_\_, Tennessee hereby identifies the following income source and/or expenditure reduction to allow for the proposed expenditure increase described above, and that the following budget changes will be included in a forthcoming ordinance amending the annual budget:

Increased Revenue/Expenditure Reduction

Account No.	Description	Amount
_____	_____	_____
_____	_____	_____

Increased Expenditure/Appropriation

Account No.	Description	Amount
_____	_____	_____
_____	_____	_____

PASSED AND APPROVED BY THE \_\_\_\_\_ OF THE \_\_\_\_\_ OF THE \_\_\_\_\_ OF \_\_\_\_\_, TENNESSEE THIS \_\_\_\_\_ DAY OF \_\_\_\_\_, 1988.

\_\_\_\_\_  
Mayor

\_\_\_\_\_  
Recorder

The Municipal Technical Advisory Service (MTAS) is a statewide agency of The University of Tennessee's Institute for Public Service. MTAS operates in cooperation with the Tennessee Municipal League in providing technical assistance services to officials of Tennessee's incorporated municipalities. Assistance is offered in areas such as accounting, administration, finance, public works, ordinance codification, and wastewater management.

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