Hot Topic: Laws Governing City Budgets Changed

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Laws Governing City Budgets Changed

by Jim Leuty, MTAS Finance Consultant

A city’s ability to choose which budget law it follows was removed when the General Assembly passed Chapter 448, Public Acts of 1993, applying the general budget law to several additional cities. The general budget law, formally known as the Municipal Budget Law of 1982, is detailed in Tennessee Code Annotated §6-56-201 et seq.

Determining which budget law to heed hinges on the amount of detail about expenditures and revenues required by your city’s charter. If your charter’s budget provisions require specific details, a city must now operate under its charter. If those details aren’t demanded by the charter’s budget stipulations, the city has to operate under the general budget law. These changes, now in effect, are explained below.

DETERMINING THE CORRECT BUDGET LAW FOR YOUR CITY

If your charter doesn’t require revenue and expenditure information as detailed as that demanded by T.C.A. §6-56-203(1) and (3), you’ll now operate under the general budget law. It isn’t enough that you use procedures similar to the code in preparing your budget, the procedures must be spelled out in your city’s charter.

Cities must operate under the general budget law if their charters don’t require the following:
- estimates of proposed expenditures for each department, board, office, or other agency of the city; and
- estimates of anticipated revenues from all sources, including current and delinquent taxes, non-tax revenues, and proceeds from selling any bonds or long-term notes.

Mayor-Aldermanic (General Law) Charters (T.C.A. §6-1-101 et seq.)

Cities operating under the mayor-aldermanic (general law) charters must now operate under the general budget law.

City Manager-Commission (General Law) Charters (T.C.A. §6-18-101 et seq.)

Dennis Dycus, municipal audit director, says that cities operating under the city manager-commission (general law) charters must operate under the general budget law. MTAS doesn’t necessarily agree. T.C.A. §6-22-123 and §6-22-130 seem to require sufficient detail when
compared to provisions of T.C.A. §6-56-203(1) and (3), allowing these cities to use charter provisions exclusively for budgeting purposes. Since there’s a question, then cities using their charter provisions as a guide for budgeting should be aware there’s the possibility of an audit finding. The potential problem would be resolved by an attorney general opinion based on a clearly defined question from a city on this issue.

**Modified City Manager-Council (General Law) Charters (T.C.A. §6-30-101 et seq.)**

If your city has the modified city manager-council (general law) charter, you’ll continue to operate under your charter provisions for budgeting purposes.

**Private Act Charters**

You have to decide if you’re bound by the budgeting provisions of your charter or the general budget law if your city is chartered by private acts. If the charter doesn’t have detailed budget provisions on expenditures and revenues as explained above, then your city must operate under the general budget law. If the charter provisions for budgeting are sufficiently detailed, then you’re bound by charter provisions. Your city auditor can be helpful with this decision.

**BUDGET ORDINANCE IS BACKED BY FINANCIAL PLAN**

Your city must adopt and operate under an annual budget ordinance, which has to be supported by a financial plan.

The financial plan includes information concerning expenditures, debt service, revenues, fund balances or deficits, capital projects, and any other supporting schedules required by the governing body or other law. Each category is explained below.

**Expenditures**

When providing information about expenditures for each fund, make sure you:
- List expenditures by department, board, office, or other agency.
- Give a three-year comparison — actual for last fiscal year, projected for current fiscal year, and proposed for next fiscal year.
- State the reasons for recommended changes in annual expenditures according to your governing body’s rules.
- Include enterprise or fiduciary funds in the budget only if directed by the governing body or other law.

**Debt service**

For bonded and other indebtedness, the financial plan requires statements of:
- debt service requirements;
- debt authorized and unissued; and
- condition of sinking fund.
Revenues

- Data about revenues for each fund must be reflected by:
  - current and delinquent taxes, non-tax revenues, and proceeds from the sale of bonds or long-term notes;
  - a three-year comparison — actual for last fiscal year, projected for current fiscal year, and proposed for next fiscal year.

Fund Balance or Deficit

- Provide a statement of the estimated fund balance or deficit as of the end of the current fiscal year.

Capital projects

- Prepare a statement that shows both pending and proposed capital projects. Include the amount of funds to be used from available appropriations and bond issues during the current fiscal year.

FOLLOW THE PROPER CHANNELS WHEN SUBMITTING THE SCHOOL BUDGET

- The board of education will submit the school budget to the governing body for consideration. The budget has to include estimates of revenues and expenditures necessary to operate the schools for the next fiscal year. The governing body can’t delete budget estimates, but it can reduce the total budget only to the extent requested by the board of education from current year municipal sources. Don’t include capital outlay items, such as expenses for land, buildings, or their improvements. Submit these separately to the governing body for review and inclusion in the capital improvement program.

IN THE EVENT OF AN EMERGENCY...

- Emergencies are events that threaten the health, property, or lives of the residents of your city and are declared by a two-thirds vote of all members of the governing body when there’s a quorum. The governing body can’t make appropriations in excess of available funds, except to handle these situations.

INFORM THE PUBLIC ABOUT THE BUDGET

Public notice

- You’re required to publish a public notice of the proposed budget in a newspaper of general circulation at least 10 days before the meeting of the governing body where the budget will come up for final passage. (Refer to the MTAS Director’s Bulletin, New Budget Publication Rules, March 1, 1993, for a suggested format of the publication.) The notice should include at least:
  - a three-year comparison — actual for last fiscal year, projected for current fiscal year, and proposed for next fiscal year;
  - information about the general, streets/public works, general purpose school, and debt service funds;
• revenues for each fund, listed separately by local taxes, state of Tennessee, federal government, and other sources;
• expenditures for each fund, listed separately by salaries and other costs;
• beginning and ending fund balances for each fund; and
• the number of full-time equivalent employee positions for each fund.

Public hearing

Before final passage, you have to hold a public hearing on the proposed budget at a time and place selected by the governing body. You can notify the public of the hearing in the public notice or in any other appropriate manner. The hearing should be a forum for the citizens to speak out about the proposed budget. Responses from members of the governing body aren’t required and should even be discouraged. The chief financial officer should have copies of the budget ordinance and budget message available for interested persons at least 10 days before the hearing.

Public Record

The budget and supporting data is public record and needs to be available for anyone to read.

APPROVE A BALANCED FINANCIAL PLAN FOR EACH INTRAGOVERNMENTAL FUND

Intragovernmental service funds operated by cities don't need to be included in the budget ordinance, but a balanced financial plan for each fund should be approved by the governing body. Your financial plan is balanced when estimated expenditures don’t exceed available funds. Remember these three important things:
1. The budget officer or governing body will determine the financial plan’s format.
2. Changes to the financial plan must be approved by the governing body.
3. The plan, as amended, will be entered in the minutes of the governing body’s meetings.

OTHER PROVISIONS TO KEEP IN MIND

Limitations on Tax Levies and Appropriations

Except for emergencies, you can’t pass property tax levies until the budget ordinance has been adopted, and you can’t make appropriations contrary to estimates in the budget ordinance.

Budget Amendments

Amend the budget the same way other ordinances are amended.

Transfers of Money

The governing body determines how the budget officer transfers funds among appropriations within the same fund. The budget officer reports the transfer to the governing body at its next regular meeting, and the report is included in the minutes.
Carry-over of Appropriations

Until the budget has been adopted at the beginning of the fiscal year, the appropriations for the last fiscal year become the appropriations for the new year.

Unexpended appropriations

Any portion of an appropriation that's unspent and unencumbered at the close of the fiscal year lapses and reverts to the fund balance of that fund and can be used for further appropriation.
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