



Municipal Technical Advisory Service
INSTITUTE *for* PUBLIC SERVICE

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Budget Process/Cycle

Dear Reader:

The following document was created from the MTAS website ([mtas.tennessee.edu](https://www.mtas.tennessee.edu)). This website is maintained daily by MTAS staff and seeks to represent the most current information regarding issues relative to Tennessee municipal government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with municipal government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other MTAS website material.

Sincerely,

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Budget Process/Cycle

Reference Number: MTAS-1795

The constitutional purpose of a budget is to make government responsive to public opinion and responsible for its acts.

William Howard Taft (1857 – 1930),

Message to Congress. December 1909

Overview

The budget process actually begins with the preceding year's audit. Municipalities have their fiscal affairs audited every year, another legal requirement found in T.C.A. § 6-56-105. The audit helps provide a picture of how well the city is doing financially. Information found in the audit can be used to help determine where new revenues are needed and what to set aside for bonded indebtedness, etc. The portion of the audit dealing with revenues and expenditures should be based on the prior fiscal year's budget so that a municipal official can readily compare actual figures with budget estimates. This information, when considered with the staff's day-to-day knowledge, provides a basis for developing a budget, as well as determining needs for improving the city's fiscal picture. The auditor's recommendations for changes in bookkeeping, accounting, etc. complete the review and allow deficiencies to be rectified. Once a review of the financial affairs is completed, this knowledge can be used to plan for the coming year.

Most cities are required to follow guidelines set forth in the Municipal Budget Law of 1982. T.C.A. § 6-56-201 *et seq.* However, there are exceptions. If your charter requires estimates of proposed expenditures for each department, board, office, or other agency of the city; and if your charter requires estimates of anticipated revenues from all sources, including current and delinquent taxes, non-tax revenues, and proceeds from selling bonds or long-term notes, then it is sufficient to follow your city's charter and not the Municipal Budget Law. Mayor-aldermanic (general law) charters require following the budget law; however, modified-city manager-council (general law) charters already require sufficient detail and are not required to follow the budget law. Private act charter cities will have to examine their budgeting provisions to determine if the charter provides enough specificity. Finally, city-manager-commission (general law) charters seem to meet the detailed requirements; however, it is recommended that you contact your auditor for a conclusive determination.

With that being said, according to the Municipal Budget Law of 1982 (T.C.A. § 6-56-203), all budget ordinances require the following six elements:

- Estimates of proposed expenditures for each department, board, office or other agency of the municipality, showing, in addition, expenditures for corresponding items for the last preceding fiscal year, projected expenditures for the current fiscal year and reasons for recommended departures from the current appropriation pattern in such detail as may be prescribed by the governing body. It is the intent of this subdivision that, except for monies expended pursuant to a project ordinance or accounted for in a proprietary type fund or a fiduciary type fund, which are excluded from the budget ordinance, all monies received and expended by a municipality shall be included in a budget ordinance. Therefore, notwithstanding any other provision of law, no municipality may expend any monies regardless of their source (including monies derived from bond and long-term note proceeds, federal, state or private grants or loans, or special assessments), except in accordance with a budget ordinance adopted under this section or through a proprietary type fund or a fiduciary type fund properly excluded from the budget ordinance;
- Statements of bonded and other indebtedness of the municipality, including debt redemption and interest requirements, debt authorized and unissued, and the condition of the sinking fund;
- Estimates of anticipated revenues of the municipality from all sources, including current and delinquent taxes, non-tax revenue, and proceeds from the sale of any bonds or long-term notes with a comparative statement of the amounts received by the municipality from each of such sources for the last preceding fiscal year, the current fiscal year, and the coming fiscal year in such detail as may be prescribed by the governing body;

- A statement of the estimated balance or deficit as of the end of the current fiscal year;
- A statement of pending capital projects and proposed new capital projects relating to respective amounts proposed to be raised therefore by appropriations in the budget and the respective amounts, if any, proposed to be raised therefore by the issuance of bonds during the fiscal year; and
- Such other supporting schedules as the governing body deems necessary or are otherwise required by law.

Budget Calendar

Reference Number: MTAS-1796

The budget cycle consists of four main steps or phases: preparation, approval, execution and audit. The audit, previously mentioned, is typically considered the last phase of the budget cycle; however, it is an integral tool in budget preparation. The following chapters describe in detail how to perform and prepare budget estimates.

The budget calendar is centered around budget adoption. Refer to the appendices for samples of required budget documents, including the public notice, the budget ordinance, and a few sample pages from a General Fund budget narrative (line item descriptions of the individual departments). Keep in mind that charters may vary as to publication and public hearing requirements so be sure to double check your charter before setting your budget calendar.

Below is a sample budget calendar for small- to medium-sized cities. The size, complexity, and any additional charter requirements of your municipality may change the preparation dates; however, the end of the fiscal year for Tennessee municipalities is June 30, and audits should follow closely thereafter.

BUDGET CALENDAR

DATE	PHASE	EVENT
On or before March 15	Preparation	Finance officer prepares previous and current year financial data on estimate forms.
March 15	Preparation	Estimate forms are forwarded to mayor, finance committee, or chief administrative officer and to department heads with instructions.
By April 15	Preparation	Finance officer prepares revenue estimates.
By May 1	Preparation	Department heads prepare estimates and forward to mayor, finance committee or chief administrative officer.
By May 15	Preparation	Mayor, finance committee or chief administrative officer reviews estimates and develops recommendations for legislative body.
By May 15	Preparation	Submit proposed budget or budget requests to legislative body.
By June 30	Approval	Legislative body finalizes budget, holds necessary public hearings, and adopts the budget. State law requires the budget ordinance to be published "in a newspaper of general circulation ... not less than 10 days prior to meeting where the governing body will consider final passage of the budget."
July 1 to June 30	Execution	Close monitoring of revenues and expenditures. Budget amendments, as permitted by state law and local charter, should be prepared as necessary.
"As soon as practicable after the end of the fiscal year."	Audit	Audit firm comes to city hall to conduct fieldwork. This usually is done any time between July and October.
By end of calendar year	Audit	Audit firm should make a presentation to the governing body, which should then accept the report. Per T.C.A. § 6-56-104(b), "A summary of the audit, prepared by the auditor, shall be published in at least one issue of a newspaper of general circulation in the corporation, if there is one."
By end of calendar year	Audit	Send one copy of the audit to "the mayor, chief executive officer, each member of the governing body, and the Comptroller of the Treasury. Copies of each audit shall be made available to the press."

Emergencies

Reference Number: MTAS-1797

What do you do when a tornado rips through the middle of downtown or a blizzard dumps inches upon inches of snow on the ground and paralyzes the town for days? Of course you don't intend for these events to happen when you prepare the budget, but you have to anticipate the realities of an emergency – and sooner rather than later.

According to state law (T.C.A. § 6-56-205), the governing body may spend more than the estimated available funds, but only when there is “an actual emergency threatening the health, property or lives of the inhabitants of the municipality and declared by a two-thirds (2/3) vote of all members of the governing body present, when there is a quorum.”

In such a case, T.C.A. § 6-56-304 (3) requires the following recordkeeping:

A record of any such emergency purchase shall be made by the person or body authorizing such emergency purchases, and shall specify the amount paid, the items purchased, from whom the purchase was made and the nature of the emergency. A report of any emergency purchase shall be made as soon as possible to the municipal governing body and the chief executive officer of the municipality, and shall include all items of information as required in the record.

From a financial perspective, this is why you have an unassigned fund balance, net assets and, possibly, contingency funds. Disaster assistance may be available in some situations; however, cities and towns should be prepared to handle the immediate circumstances. A good rule of thumb is to have the equivalent of at least two months' operating expenses available as an unassigned fund balance.

Deadline

Reference Number: MTAS-1798

In the event the governing body does not pass the budget by June 30, T.C.A. § 6-56-210 takes effect. It states:

If for any reason a budget ordinance is not adopted prior to the beginning of the next fiscal year, the appropriations for the last fiscal year shall become the appropriations for the next fiscal year, until the adoption of the new budget ordinance.

While this provision exists, municipalities are strongly urged to meet the June 30 deadline. Also, the state OSLF requires cities to file a continuation budget resolution.

DISCLAIMER: The letters and publications written by the MTAS consultants were written based upon the law at the time and/or a specific sets of facts. The laws referenced in the letters and publications may have changed and/or the technical advice provided may not be applicable to your city or circumstances. Always consult with your city attorney or an MTAS consultant before taking any action based on information contained in this website.

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