



Budget Execution

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 Execution

Reference Number: MTAS-1832

Beware of little expenses. A small leak will sink a great ship.

Benjamin Franklin

Overview

Okay, you've learned about the different funds, you set your calendar, you researched your revenues and expenditures, you compiled them into a meaningful document, you met your deadlines, and the governing body adopted the budget. Whew! Now you can sit back and relax until next spring, right? Sorry, try again. The last phase of budgeting is execution.

Budget execution requires overseeing revenue collections, purchases, cash management, and proper accounting and auditing. What are some of the rules you need to follow here? Again we look to the Tennessee Code Annotated for guidance. Chapter 56 of Title 6 offers us the most guidance. There we find the Municipal Budget Law of 1982 and the Municipal Purchasing Law of 1983.

The general provisions of this chapter include items such as the requirement of audits, where the municipality can legally invest idle money (bonds, notes, and treasury bills; non-convertible debt securities; U.S. guaranteed obligations; certificates of deposit; money market funds; and the local government investment pool to name a few); how soon you must deposit the money you've collected (within three working days); and the short and sweet statement that "All expenditures of money made by a municipality must be made for a lawful municipal purpose." T.C.A. § 6-56-112.

The Municipal Budget Law of 1982

Reference Number: MTAS-1833

Some items in the Municipal Budget Law of 1982 that we haven't covered include the fact that municipal governing bodies can't appropriate more than the estimated available funds, except in the case of an emergency as defined by statute (T.C.A. § 6-56-205); municipalities can't levy property taxes until a budget ordinance has been adopted (T.C.A. § 6-56-207); the budget officer may be given the right to transfer money from one appropriation to another within the same fund and must report the transfer to the governing body and have the transfer recorded in the minutes (T.C.A. § 6-56-209); and any money left over at the end of the fiscal year is credited to its appropriate fund for further appropriation. T.C.A. § 6-56-211.

The Municipal Purchasing Law of 1983

Reference Number: MTAS-1834

The Municipal Purchasing Law of 1983 is where you'll find the statement "All purchases made from funds subject to the authority of this part shall be made within the limits of the approved budget, when required, and the appropriations, when required, for the department, office or agency for which the purchase is made." T.C.A. § 6-56-303. As if you didn't already know, you can't spend it if it wasn't approved.

This law also covers advertising and bidding requirements, the exceptions to those requirements, and the authority of municipalities to increase and/or lower advertisement and bidding amounts. One of the exceptions to the advertising and bidding requirements is emergencies.

T.C.A. § 6-56-304(3) states:

... 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.

The purchasing law also refers to Part 10 of the Public Purchases Chapter of T.C.A. Title 12 regarding purchases for local governments: public auctions, buying from other local governments, competitive bidding, and cooperative purchasing agreements. Compliance with these regulations is very much a part of budget management and control.

Monitoring the Budget Process

Reference Number: MTAS-1835

The most important step of the budget process follows adoption: monitoring revenues and expenditures for the budget

year. A few basic practices will help you adequately monitor the income and expenditures of your city.

First, devise a monthly report in order to give elected officials and department heads a current picture of the city's finances.

Second, during the course of the fiscal year, prepare a quarterly or mid-year budget review. This will help with the third most important aspect of the monitoring process: budget amendments. Even the best budget will miss a line item. The law allows for amendments to the budget in order to bring actual expenditures in line with the budget. The budget ordinance may be amended "in the same manner as any other ordinance may be amended." T.C.A. § 6-56-208. A public hearing is not required for a budget amendment.

It is impossible to overemphasize the need for budget monitoring. Without it, the budget process is incomplete and may place the city in a tenuous financial position.

Charitable Contributions

Reference Number: MTAS-1836

One budget management issue that comes up frequently is the subject of charitable contributions. How many times have you been asked to contribute to the high school marching band, the Dixie Youth League, the Boy Scouts, the Girl Scouts, or a family who lost everything in a house fire? While your heart may go out to each one of those groups, oftentimes city money can't. The attorney general has issued several opinions [1] on the subject. Before the governing body agrees to donate money, be very sure that the charity meets all legal requirements. T.C.A. § 6-54-111:

(2) (A) For the purposes of this section, "nonprofit charitable organization" is one in which no part of the net earnings inures or may lawfully inure to the benefit of any private shareholder or individual and that provides year-round services benefiting the general welfare of the residents of the municipalities.

(2) (B) For the purposes of this section, "nonprofit civic organization" means a civic organization exempt from taxation pursuant to § 501(c)(4) or (c)(6) of the Internal Revenue Code of 1954, codified in 26 U.S.C. § 501(c)(4) or (c)(6), which operates primarily for the purpose of bringing about civic betterments and social improvements through efforts to maintain and increase employment opportunities in the municipality by promoting industry, trade, commerce, tourism and recreation by inducing manufacturing, industrial, governmental, educational, financial, service, commercial, recreational, and agricultural enterprises to locate in or remain in the municipality...

In addition to meeting these strict requirements, any nonprofit organization that seeks a contribution from your municipality must give the city clerk a copy of its annual report, including its audit, a description of its program that serves the residents of the community and the proposed use of the municipal funds.

Municipalities may also make appropriations to nonprofit organizations other than charitable organizations, but only after publishing in a newspaper of general circulation the municipality's intent to make the contribution and specifying the intended amount and the purpose for which the money will be spent.

Links:

[1] <https://www.mtas.tennessee.edu/reference/ag-opinion-appropriation-municipal-funds-nonprofit-charitable-organizations-providing-year>

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