



JASON E. MUMPOWER
Comptroller

ANNUAL BUDGET MEMO

To: Budget Contact
From: Sheila Reed, Director *SAR*
Division of Local Government Finance
Date: January 25, 2024
Subject: Fiscal Year 2025 Annual Budget Memo for Tennessee Municipalities

Thank you for partnering with us as we work together to promote fiscal responsibility in Tennessee's local governments. Timely budget adoption is foundational to the budget process and ensures your municipality begins the fiscal year with a sound financial spending plan.

BUDGET CERTIFICATE AWARD PROGRAM

Last year our office recognized 87 of Tennessee's 342 municipalities for, among other criteria, adopting a balanced budget on or before June 30 and submitting the budget to our office within 15 days of adoption. We look forward to more municipalities qualifying for a certificate this budget year and being recognized at TGFOA's annual fall conference. Please visit our website for a complete list of recipients and the requirements to qualify for a certificate: tncot.cc/budgetcertificates.

BUDGET SUBMISSION

Prior to the beginning of each fiscal year, all municipalities in Tennessee must adopt a budget ordinance and email it, with other required documents, to our office within 15 days following adoption. For your convenience we have enclosed a budget submission checklist.

The complete package should be sent to: LGF@cot.tn.gov.

Additional information concerning budgeting requirements, including a budget manual, instructional videos, and excel schedules may be found on our website at: tncot.cc/budget.

WHAT'S NEW FOR 2025

FAQs to Steps to a Well-Balanced Budget

In response to questions and feedback to our publication entitled "Steps to a Well-Managed Budget" we now have a companion publication that answers frequently asked questions. The FAQs build upon our initial publication and may be accessed at: tncot.cc/budget. We hope you will take advantage of this resource.

Better Utility Budgeting and Financial Planning

There are 247 of Tennessee’s 342 municipalities that have a water, sewer, and/or gas utility system and 57 of those municipalities are currently under the oversight of the Tennessee Board of Utility Regulation (TBOUR) because of financial distress. To support local officials, we recently released the publication “Better Utility Budgeting and Financial Planning” that may be accessed at: tncot.cc/budget. This will be a valuable tool in your oversight of municipal utilities.

IMPORTANT REQUIREMENTS TO REMEMBER

Statutory Filing Date

A **complete** budget submission must be filed with our office no later than August 31st to receive approval. Outside of an emergency, municipalities may not issue debt without an approved budget from our office (Tenn. Code Ann. § 9-21-404).

Conditional Approvals

Budget approvals conditioned upon some action by local officials cannot be approved unless the condition for approval is met. Local officials have a specific timeframe after our letter is issued to meet the condition. Outside of an emergency, municipalities may not issue debt or financing obligations without an approved budget letter from our office (Tenn. Code Ann. § 9-21-404).

Timely Audits

Historical audited information is necessary to budget preparation. Your audit should be filed with the Comptroller’s Division of Local Government Audit by December 31st of each year. Without audited financial information, our office cannot adequately analyze and review the budget for approval. Pursuant to state law, apart from an emergency, municipalities may not issue debt without an approved budget from our office (Tenn. Code Ann. § 9-21-404).

Municipal Water, Sewer, or Gas Utility Systems

Pursuant to Tenn. Code Ann. § 7-82-707, municipalities with water, sewer, or gas utility systems are required to fill out an annual information statement before the beginning of your fiscal year. Please visit tncot.cc/utilityinfo to fulfill this requirement.

Tennessee Investment in Student Achievement Act (TISA)

Legislation was passed during 2023 that impacts budget approval for local education agencies. If the budget for the board of education does not include the local contribution that is required under the TISA Act, the budget will not be approved (Tenn. Code Ann. § 49-3-108).

If you need any assistance with your submission, you may contact your analyst. For hands-on assistance in preparing and adopting your budget, please contact the Municipal Technical Advisory Service (MTAS) or the State Department of Education - Section of Local Finance.

Enclosures: Budget Submission Checklist
 Budget Preparation Guidance
 Contact Information



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BUDGET PREPARATION GUIDANCE

Page 1 of 2

This guidance is provided to expedite the budget review process and aid in the preparation of the budget ordinance and supporting documents that are required for submission to the Division of Local Government Finance.

1. Adoption of Budget Ordinance

The annual budget ordinance must be adopted by June 30th unless the government is operating under a legal continuation budget. We recommend a continuation budget only be used in extenuating circumstances.

2. Model Budget Ordinance

Municipalities should use the sample budget ordinance on our website located at: tncot.cc/budget.

3. Appropriation Level

Expenditures must be appropriated by fund at the organizational unit (department) level. Depending upon the requirements of your charter, enterprise funds, such as the Water Fund, may not be required to be appropriated in the budget ordinance.

4. Proper Classification

Revenues should be classified by source and expenditures should be classified by account code and description. The following are common incorrect uses of terminology that are not acceptable in the ordinance or detailed budget submitted or filed with LGF:

- a. "Use of fund balance" is not a revenue source. For example, if your projected expenditures are greater than your projected revenues, show the negative change in fund balance.
- b. The following items should not be budgeted as an expenditure item:
 - i. Negative expenditures
 - ii. Reserves
 - iii. Budgeted Increase in Fund Balance

5. Ordinance and Detailed Budget Agreement

Amounts in the detailed budget should be represented correctly in the appropriations ordinance. Expenditures in the detailed budget cannot exceed what has been appropriated for the respective fund.

6. Debt Service

Principal and interest payments for each debt issue need to be budgeted as separate line items, with the name of the debt clearly identified, such as 2020 Capital Outlay Notes. Budgeted debt service payments should agree with repayment schedules.

7. Fiscal Year Comparative Data

The budget ordinance and the detail (line item) budgets should be presented with three years of information:

- a. Column 1 – Fiscal Year 2023 (Actual Amounts from the Audit)
- b. Column 2 – Fiscal Year 2024 (Estimated Amounts based on Actual to Date)
- c. Column 3 – Fiscal Year 2025 (Estimated Beginning Balances, Projected Revenues, Budgeted Appropriations, Estimated Ending Balances)
- d. Beginning and ending fund balance for each fund.

Our sample budget ordinance is designed to meet the above requirements. Municipalities can access the sample budget ordinance online at: tncot.cc/budget

8. Revenue Forecasts

All major revenue sources should be forecasted for the budget year. Forecast amounts should be consistent with budget amounts.

9. Cash Flow Forecasts

Cash flow forecasts provide for the timing of cash inflows and outflows within a fund. To prepare a 12-month cash flow schedule:

- a. Collect prior year cash receipts and cash payments data by month for each fund.
- b. Remove non-recurring items, such as grant receipts and major capital expenditures.
- c. Divide receipts for each month by total receipts for the prior fiscal year to determine the estimated percentage of receipts by individual month. It is important to do this by individual month because for example, some months will have a significantly higher percentage of receipts due to the tax collection cycle.
- d. Apply the percentage for each month to the annual budgeted receipts to determine the estimated cash flows for each month of the budget year, then determine non-recurring revenues (report on a separate line) and add the non-recurring items to the monthly totals.
- e. Follow the same procedures outlined in items c. and d. for cash payments.

Budget Submission Checklist - Municipalities

Before You Submit Your Budget – Remember:

1. Review last year's budget letter for items relevant to this year's budget: tncot.cc/lgf-letters.
2. Send your budget directly to: LGF@cot.tn.gov. – Do **not** send a separate **paper** copy to our office.
3. Wait to submit your budget until **all** needed documentation is compiled. See our example budget submission at: tncot.cc/budget.
4. Send budget amendments to LGF@cot.tn.gov in a **separate email**.
5. Do **not** send **debt approval requests** in the same email as your budget submission.

Be Sure to Include:

1. **Separate cover letter** on the municipality's letterhead (**not** in the body of the email)
 - a. Complete contact information should be included and **at a minimum**, email addresses for the:
 - Mayor;
 - City/Town Manager, as applicable; and
 - Finance Director or equivalent position
2. **Signed/certified** and **dated** copy of the appropriation ordinance (and tax levy ordinance, if separate)
3. Detailed budgets for **all funds** including enterprise funds and school funds, as applicable
 - a. Include estimated beginning fund balances for each fund at July 1, 2024, and ending balances at June 30, 2025.
4. For local governments with a school system, include documentation regarding TISA Act local contribution (see separate requirements).
5. Copy of the annual adopted budget for any entity that results in a financial benefit or financial burden to your local government (For help in applying this requirement, refer to Section 6, page 19, of the budget manual available at: tncot.cc/budget.)
6. Budget Summary Schedule
7. Cash Flow Forecast Schedules for:
 - a. Operating funds with a budgeted ending cash balance less than 15% of annual expenditures;
 - b. Operating funds with an ending cash balance in the prior year audit less than 15% of annual expenditures;
 - c. Any fund that received proceeds from TRANs for the past two consecutive years; and
 - d. All operating funds if the prior year audit has not been issued/is late
8. Schedule of Outstanding Debt and Budgeted Debt Service, as applicable
9. Fiscal year 2025 revenue forecasts (property tax, sales tax, etc.), as applicable

Tennessee Investment in Student Achievement (TISA) Act Requirements

2025 Budget Submission Requirements for TISA Act

The Tennessee Investment in Student Achievement Act (the Act) became effective for the 2023-2024 budget year and contains a provision that prohibits our office from approving the local government's budget unless the **local contribution** required by the Act is included in the budget (T.C.A. § 49-3-108(h)).

To ensure compliance with the Act, we have partnered with the Department of Education and need you to enter **budgeted revenues** for your school system into **ePlan prior to submission** of your budget packet to the Division of Local Government Finance.

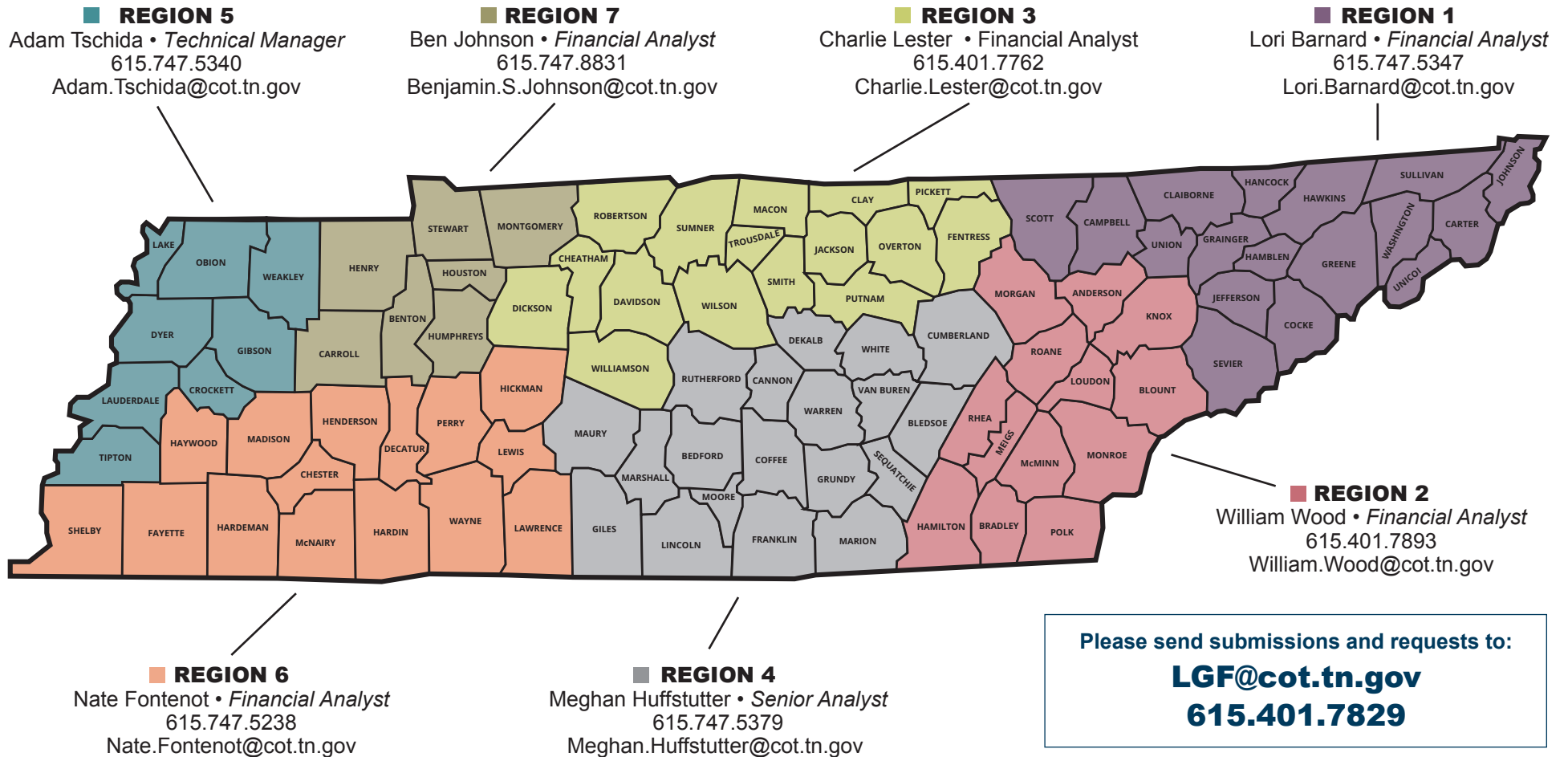
THE FOLLOWING STEPS SHOULD BE FOLLOWED:

- FIRST** Adopt the budget for your local education agency (school system).
- SECOND** Enter budgeted revenues for your **local contribution** into the Tennessee Department of Education's online ePlan application. Please note that your financial expenditure report information can be entered into ePlan at a later date once it is available; however, the budgeted revenues **must be entered prior to your budget submission**.
- THIRD** Take a snip-it, screen shot, or picture of your computer screen on the ePlan site showing this has been done.
- FOURTH** Include the snip-it, screen shot, or picture **as part of your initial annual budget submission**. Do not send separately.
- FIFTH** The Department of Education will review budgeted revenues and let our office know if the local contribution is consistent with the Act and we will proceed with our review of your annual budget.



Division of Local Government Finance

CONTACT INFORMATION BY REGION



Effective July 2023