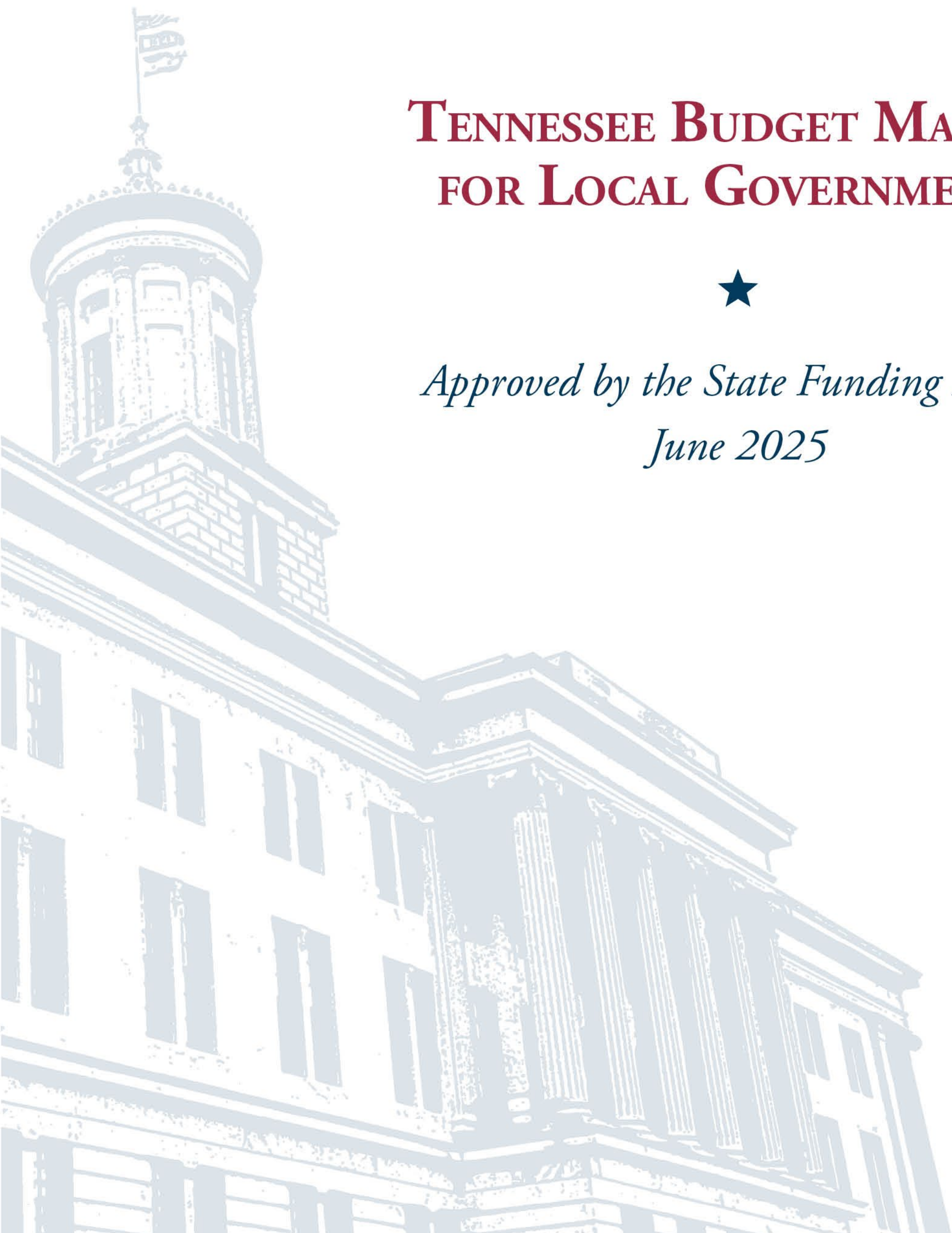
Tennessee Comptroller of the Treasury



Tennessee Budget Manual for Local Governments

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Approved by the State Funding Board
June 2025

Jason E. Mumpower
Comptroller of the Treasury

Division of Local Government Finance

Contents

Section 1 – Introduction

Purpose

The purpose of the Tennessee Budget Manual for Local Governments (the "Manual") is to provide uniform guidance for the annual budget process in Tennessee's local governments. The Manual is not designed to be all-inclusive but to provide guidance and requirements related to specific budget issues with an emphasis on areas of oversight by the Comptroller of the Treasury.

The Manual is divided into the following areas:

- State Oversight and Support – Sections 2 and 3
- Budget Basics – Sections 4 and 5
- The Budget Process – Section 6
- Best Practices – Section 7

The Manual, as approved by the State Funding Board on June 23, 2025, is the fourth edition issued pursuant to Tenn. Code Ann. §§ 4-3-305 and 9-21-403.

Applicability

Any reference to the term "local government" applies to the following entities:

- Counties
- Municipalities
- Metropolitan Governments
- Utility Districts
- Municipal Energy Authorities
- Water and Wastewater Treatment Authorities
- Other entities that have a financial relationship to a county, municipality, metropolitan government, utility district, municipal energy authority, or water and wastewater authority, such as joint ventures created by an interlocal agreement.

Section 2 – Comptroller Oversight and Support

State legislators recognize the importance of financial stability and resilience for Tennessee's local governments and have passed laws that strengthen financial accountability for public dollars. Some of those laws specifically address budgetary oversight and support from the Comptroller of the Treasury.

Forms, Procedures, and Manuals

The Comptroller's Office has authority to prescribe forms and procedures and provide guidance manuals for the preparation of annual budgets by local governments (Tenn. Code Ann. § 4-3-305).

The Comptroller's Office is also responsible for providing guidance on the form of the budget, including supplemental schedules, as necessary, to demonstrate local governments have adequate cash to meet their current obligations, including principal and interest, as applicable. See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-403, 68-221-611, and 68-221-1306.

Balanced Budget Oversight for Local Governments

Adopting a balanced budget is the responsibility of the governing body; however, if the governing body fails to fulfill this responsibility, our Office has the authority to take measures to ensure a local government pays its obligations, including principal and interest requirements. Pursuant to Tenn. Code Ann. § 9-21-403, the Comptroller has the authority to direct a local government to balance its budget by adjusting estimates to reduce spending or by raising property taxes to increase available cash to meet its obligations.

A local government may be subject to other requirements of the Comptroller as part of this oversight, including, but not limited to, the following:

- implementation of a corrective action plan;
- requesting approval from the Comptroller prior to disbursement of funds;
- building and maintaining cash balances sufficient for operations and contingencies;
- additional reviews, audits, and inquiries; and
- additional periodic reporting requirements.

Annual Budget Oversight

Pursuant to state law, local officials are required to adopt a balanced annual budget and submit the budget to our Office for approval. The annual budget review and approval process can be divided into three basic steps:

✓ STEP ONE – Submission Requirements for Approval

Due Date

Prior to the beginning of each fiscal year, a local government should adopt a budget that meets all legal and program requirements. The budget, along with the other required documents described below, should be electronically submitted to the Division of Local Government Finance within 15 days after adoption. A budget calendar should be followed during the planning and adoption process.

If a budget is not submitted to our Office within 2 months of the beginning of the fiscal year, the budget cannot be approved and your local government may not issue debt or financing obligations. In the case of an emergency, our Office may waive the requirement of budget approval to allow your local government to enter into emergency financial transactions. See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-404, 68-221-611, 68-221-1306.

Required Submission Information – Municipalities, Counties, and Metropolitan Governments

1. Comptroller's budget submission worksheet.

2. Signed/certified copy of the appropriation act and tax levy (ordinance or resolution).

3. Separate resolution(s) for non-appropriated proprietary/enterprise funds, when applicable.

4. Detailed budgets for all funds, including proprietary/enterprise funds and school funds, as applicable.

5. Copy of the annual adopted budget for any entity that results in a financial benefit or financial burden to your local government. Refer to Section 6 for guidance in making this determination.

6. Documentation to support the Tennessee Investment in Student Achievement (TISA) Act local contribution, when applicable.

7. Cash Flow Forecast Schedules for:
    a. *Operating funds* with a budgeted ending cash balance of less than 15% of annual expenditures.
    b. *Operating funds* that reflected an ending cash balance of less than 15% of annual expenditures in the prior year's audit.

    c. Any fund that received proceeds from a tax and revenue anticipation note (TRAN) for the past two consecutive years.

    d. Any fund as requested by our Office during our review of the annual budget.

e. All operating funds if the prior year's audit has not been issued and is late.

Operating Funds are defined as funds that account for expenditures/expenses that are recurring or day-to-day, such as salaries, benefits, utilities, etc. The General Fund and General Purpose School Fund will always meet the definition of an operating fund. Special Revenue Funds that meet the definition of an operating fund but nonetheless maintain a low cash balance due to the nature of the fund are excluded. For example, a special revenue sanitation fund that receives General Fund transfers to subsidize the fund. In that situation, the cash flow will be addressed in the analysis for the General Fund.

Example templates for the required submission items referred to above are available on the Comptroller of the Treasury's website at: tncot.cc/budget.

Required Submission Information – Utility Districts, Municipal Energy Authorities, Water and Wastewater Treatment Authorities, and Other Water and Wastewater Treatment Entities Created by Interlocal Agreement.

Each year your local government is required to submit the following information electronically to the Division of Local Government Finance:

1. Comptroller's budget submission worksheet.

2. Resolution adopting the budget.
    a. The governing board must take official action by resolution to adopt its annual budget. An example resolution may be found on our website.

3. Budget document that identifies all anticipated revenues by source and all anticipated expenses by type of expense. If the local government has multiple funds (or systems), a budget for each fund (or system) must be submitted.

Further information concerning budgeting requirements, a budget submission checklist, and a model budget resolution may be found on the Comptroller of the Treasury's website at tncot.cc/budget.

✓ STEP TWO – Approval by the Comptroller's Office

1. The budget will be reviewed within 30 days of receipt by the Division of Local Government Finance. If the budget submission is incomplete, the 30-day review period will not begin until the needed information is received.

2. With regard to programs included in the budget, such as education, roads, and corrections, we do not make any attempt to determine that the local government has complied with specific program statutes or guidelines or with any financing requirements prescribed by any state or federal agency. Additionally, local officials are required to ensure the budget remains balanced throughout the fiscal year and that all maintenance of effort requirements are met—our Office does not review or approve any maintenance of effort programs.

3. Once the review process is complete, your local government will receive a letter via e-mail from the Division of Local Government Finance indicating the results of our review as either: approved, conditionally approved, or not approved.

   Approved: An approved budget means that based upon our review, it was determined that projected revenues and other available funds are sufficient to meet anticipated expenditures (or expenses). An approved budget may still result in recommendations to your local government. An example recommendation includes developing a process to monitor the budget throughout the fiscal year.

   Conditionally Approved: A conditional approval results when there is some required action by your governing body that must be fulfilled before the budget can be approved. Example conditional approvals include when our Office requires a budget amendment to legally appropriate principal and interest payments that were inadvertently omitted from the budget ordinance or resolution, to correct an unbalanced budget, to eliminate a financial distress concern, and to reflect reasonable estimates. Your local government will have 45 days after our letter is issued to meet the condition(s). If any condition for approval is not met within that timeframe, the budget will not be approved.

   For Cities: Pursuant to Tenn. Code Ann. § 9-21-108, amendments required by the Comptroller's Office as a condition for budget approval may be passed by resolution instead of ordinance (See sample resolution in Appendix 9).

   Not Approved: A budget that is not approved may be the result of a delinquent budget, a delinquent audit, continued noncompliance issues while under the oversight of the Tennessee Board of Utility Regulation, noncompliance with the Certified Municipal Finance Officer Act, noncompliance with statutorily-required utility training, or failure to meet conditions for approval. State legislators have recognized the importance of having an approved budget by passing legislation specifying that if your budget is not approved, your local government may not issue debt or financing obligations. In the case of an emergency, our Office may waive the requirement of budget approval to allow your local government to enter into emergency financial transactions. See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-404, 68-221-611, and 68-221-1306.

✓ STEP THREE – Requirements after Approval

1. The budget is based upon estimates, and it may become apparent during the monitoring of the budget that an amendment is necessary. Budget amendments must be sent to our Office for acknowledgement after they are approved by the local governing body. Our Office only requires your local government to send budget amendments that impact total appropriations for an organizational unit (or department). Refer to Section 6 for a description of the legal level of budgetary control and a discussion on budget amendments.

2. If there are conditions for approval, those will have to be met. If we make recommendations, those should be followed. If you have any questions related to the items addressed in the review letter, please contact your Analyst in the Comptroller's Division of Local Government Finance responsible for your region. A contact list is available at tncot.cc/lgf-contacts.

3. If our review of the budget results in concerns about the local government's financial health, we may continue to work closely with local officials to help them restore stability to their finances and develop policies and procedures to support a strong financial future.

Annual Budget Certificate

Local officials that adopt budgets meeting the following specific criteria are awarded an annual certificate from the Comptroller of the Treasury:

- The budget was adopted on or before the fiscal year end;
- The budget was filed with the Division of Local Government Finance within 15 days of adoption;
- No issues of concern were raised during our review of the budget*; and
- The local government is not currently under the oversight of the Tennessee Board of Utility Regulation.

* To be effective, a budget should be adopted prior to the beginning of the fiscal year. The budget should also be based on reliable estimates, be structurally balanced, provide for cash liquidity, allow for adequate reserves, be monitored throughout the year, and be amended, as necessary. If concerns are identified in these areas, it will impact your local government's eligibility to receive a certificate. Monitoring is fundamental to the budget process. Accordingly, as part of our review, we look to see if your local government amends its budget at the legal level of spending throughout the year, as evidenced by your most recent audit. Likewise, concerns related to the other areas listed above will impact your local government's eligibility to receive a certificate.

We congratulate local officials who have been awarded a budget certificate for a job well done. The names of the most recent recipients of the Annual Budget Certificate are posted on our website at: tncot.cc/budgetcertificates.

Online Resources

To help support your local government in the budget preparation and monitoring process, as well as the financial health of your local government, the Comptroller's Office has developed multiple tools and resources, including but not limited to: sample budget ordinance and resolution templates, revenue and expenditure/expense forecasting tools, best practices, and instructional videos. These resources are available at: tncot.cc/budget and will continue to be expanded. .

If you have any questions related to our online resources, please contact your Analyst in the Comptroller's Division of Local Government Finance responsible for your region. A contact list is available at tncot.cc/lgf-contacts.

Section 3 – Oversight and Support from Other State Agencies and Boards

Tennessee Board of Utility Regulation

The Comptroller's Division of Local Government Finance serves as staff to the Tennessee Board of Utility Regulation (TBOUR). Information about TBOUR is available on the Comptroller's website: www.comptroller.tn.gov.

TBOUR supports municipalities, counties, districts, and authorities that operate water, sewer, and natural gas enterprises by ensuring that they are financially self-supporting. The Board also establishes the parameters for water accountability.

The Board addresses certain complaints by utility customers, approves or disapproves the creation of new utility districts, approves or disapproves the purchase, development, acquisition, or construction of a new water or wastewater system by a city or county, requires mergers and consolidations subject to statutory limitations, and conducts ouster proceedings for utility district commissioners related to misconduct, neglect, or training. The Board also establishes the parameters for water accountability.

Tennessee Department of Education

The Tennessee Department of Education's Office of Local Finance works directly with local school systems. The Office of Local Finance provides budgetary oversight and guidance, and local governments with school systems are responsible for complying with those requirements. More information is available at: www.tn.gov/education.

Tennessee Department of Treasury

The Tennessee Department of Treasury provides oversight to local governments that participate in the Tennessee Consolidated Retirement System (TCRS) as well as those that have defined benefit pension plans outside of TCRS. The State Treasurer also operates the Local Government Investment Pool (LGIP) and has certain administrative responsibility for the Collateral Pool for Public Deposits. More information is available at https://treasury.tn.gov.

County Technical Assistance Service (CTAS)

CTAS is an agency of the University of Tennessee Institute of Public Service and provides technical, training, consulting, and field services to elected and appointed county and metropolitan officials and finance directors. CTAS assists county governments with the budget process in the areas of budget preparation, policy, training, and guidance. CTAS partners with the Comptroller's Office to provide the training and testing program for the Certified County Finance Officer (CCFO) designation. Resource information is available at: www.ctas.tennessee.edu.

Municipal Technical Advisory Service (MTAS)

MTAS is an agency of the University of Tennessee Institute of Public Service and provides technical, training, consulting, and field services to elected and appointed municipal and metropolitan government officials and finance directors. MTAS assists with the budget process in the areas of budget preparation, policy, training, and guidance. MTAS provides the training and testing program for the Certified Municipal Finance Officer (CMFO) designation. Resource information is available at: www.mtas.tennessee.edu.

Tennessee Association of Utility Districts (TAUD)

TAUD provides Tennessee utility systems with training, industry information and publications, and legislative updates. TAUD's commissioner manual has budget guidance, and they also teach classes on the budget process. Information and resources regarding TAUD is available at: www.taud.org.

Tennessee Emergency Communications Board (TECB)

The TECB is a statutorily created board that assists emergency communication districts, also known as E-911 districts, in the areas of management, operations, and accountability. The TECB ensures emergency communication districts are financially self-supporting pursuant to specific criteria defined by state law. Information about the TECB is available on the Tennessee Department of Commerce and Insurance's website: https://www.tn.gov/commerce/emergency-communications.html

Section 4 – Budget Terminology, Definitions, and Concepts

Budget

The budget is an annually adopted document that outlines the expected revenues and expenditures (expenses) for each fund. Budgets should be structurally balanced, realistic, and contain all debt service payments for governmental funds and interest expense and depreciation expense for proprietary funds. All revenue estimates should be meaningfully forecasted. The budget is used and reviewed throughout the fiscal year and amended when necessary.

A budget does the following:

- establishes policies;
- identifies revenues and other resources to support planned spending;
- appropriates monies, thus authorizing spending (expenditures);
- provides accountability to citizens or customers; and
- provides a means of control.

Appropriated Budget vs. Non-appropriated Budget

Appropriated budgets are governed by state and local laws and create spending authority limits that are legally binding. An appropriation bill, ordinance, or resolution is signed into law.

Non-appropriated budgets are approved in a manner authorized by state or local laws and not subject to appropriation. For example, utility funds budgeted pursuant to the 1982 Budget Law. In this situation, we recommend the use of the budget resolution template available on our website: tncot.cc/budget.

<u>Municipalities, Counties, and Metropolitan Governments</u>
State laws require appropriated budgets for the general fund, special revenue fund(s), and debt service fund(s).

State laws differ for proprietary funds. Municipalities that have adopted the General Law Modified City Manager – Council Charter pursuant to Tenn. Code Ann. § 6-35-304(a) are legally required to include proprietary funds as part of the appropriation ordinance. Other municipal forms of government, county governments, and metro governments have no general law requirement to legally appropriate the operations of a proprietary fund. Budget policies and procedures should address how budgets for proprietary funds will be approved and monitored for municipalities, counties, and metro governments that have no legal requirement to adopt a proprietary fund budget as part of its appropriation ordinance or resolution. In this situation, we recommend the use of the budget resolution template available on our website: tncot.cc/budget.

Utility Districts, Municipal Energy Authorities, and Water and Wastewater Authorities
Utility districts, municipal energy authorities, and water and wastewater treatment authorities follow proprietary fund accounting and are required by state law to adopt an annual budget.

Balanced Budget Requirements

The following statutes require local governments to adopt balanced budgets:

Tenn. Code Ann. § 5-12-110(b)&(c) – 1957 Act Counties
§ 5-12-210(d) – 1993 Act Counties
§ 5-21-110(d)(5) and 112 – 1981 Act Counties
§ 6-22-124 – City Manager-Commission Charter
§ 6-56-205 – Municipal Budget Law of 1982
§ 7-2-108(a)(15) – Metropolitan Governments – Urban Services District
§ 7-2-108(c)(2) – Metropolitan Governments – Each Special Service District
§ 7-36-113 (i)(1) – Municipal Energy Authorities
§ 7-82-501 – Utility Districts
§ 9-21-403 – Local Governments
§ 68-221-611 – Water and Wastewater Treatment Authority
§ 68-221-1306 – Regional Water and Wastewater Treatment Authority

Chart of Accounts

A standardized chart of accounts should be used for the budget, accounting records, and financial statements. The Division of Local Government Audit within the Comptroller's Office maintains a uniform chart of accounts for counties and municipalities: www.tncot.cc/chart. All counties must use this uniform chart of accounts except for the Metropolitan Government of Nashville and Davidson County, Knox County, Hamilton Conty, and Shelby County. Municipalities are encouraged, but not required to use the uniform chart of accounts.

Fund Types and Budget Requirements

Certain fund types are legally required to be appropriated, such as the general fund, debt service funds, and special revenue funds. However, other fund types, such as proprietary funds, fiduciary funds, or trust funds, may not be subject to appropriation, depending upon the laws that apply to your local government.

Legal Authority

When determining what legal authority governs your local government's budget document, the general principle of law that will apply is: if your unique general, private act, or home rule charter is less restrictive than a general law governing budgetary practices, the more restrictive law applies.

Section 5 – Budget Laws

This section addresses laws that govern the general budget process for your local government. For a discussion of laws regarding budgetary oversight by the Comptroller of the Treasury, refer to Section 2.

Municipalities

When determining what laws govern the budget process for your municipality, you should begin with referencing the Municipal Budget Law of 1982 (Tenn. Code Ann. § 6-56-201 et seq.).

Next, you will need to understand the requirements of your municipality's form of government and how it relates to the Municipal Budget Law of 1982.

There are five different forms of government for municipalities in the state of Tennessee. Three of these are general law as authorized by the following state statutes:

- General Law Mayor Aldermanic Charter (Tenn. Code Ann. § 6-1-101 et seq.)
- General Law City Manager Commission Charter (Tenn. Code Ann. § 6-18-101 et seq.)
- General Law Modified City Manager Council Charter (Tenn. Code Ann. § 6-30-101 et seq.)
- Home Rule Charter
- Private Act Charter

If your charter does not mandate expenditure and revenue information in the annual budget ordinance that is at least as detailed as that required by the Municipal Budget Law of 1982, the 1982 budget law will apply.

Last, municipalities should also be aware of separate ordinances that have been adopted that will govern the annual budget process.

As a general principle of law, if your municipality's general, private act, or home rule charter is less restrictive than a general law governing budgetary practices, the more restrictive law applies. Advice from legal counsel may be necessary to determine which specific budget laws apply for your municipality.

Counties

When determining what laws govern the budget process for your county, first you will need to identify the law(s) adopted by your county's governing body that are specific to the budget process. There are basically six laws, and four of these laws are found in state general law statutes. A county is authorized to perform its budgeting function under the following:

- General Law (Tenn. Code Ann. § 5-9-401, et seq.)
- Local Option Law 1957 Fiscal Control Act (Tenn. Code Ann. § 5-12-101 et seq.)
- Local Option Law 1981 Financial Management Act (Tenn. Code Ann. § 5-21-101 et seq.)
- Local Option Law 1993 Budget Law (Tenn. Code Ann. § 5-12-201 et seq.)
- Home Rule (Charter Government)
- Private Act

Next, you will need to determine if your county has enacted private acts that are more stringent than the basic requirements of the general or local option budget laws adopted by your county. In this situation, the more stringent law will apply. Likewise, there may be requirements under the general law that exceed specific home rule and private act requirements for a respective county. In this case, the general law requirement should be followed. Advice from legal counsel may be necessary to determine which specific budget laws apply for your county.

Metropolitan Governments

Budgetary requirements for metropolitan governments are governed by general state law, private act, and/or local ordinance or resolution. Because the general laws for metropolitan governments do not address some of the basic budget requirements, such as adoption date, continuation authority, amendments, etc., local officials should ensure key budget policies are clarified in the charter or ordinance. Advice from legal counsel may be necessary to determine the specific budget laws that apply for your government.

Utility Districts, Municipal Energy Authorities, & Water and Wastewater Treatment Authorities

When determining what laws govern the budget process for utility districts and authorities, local officials should begin with how your local government was originally created. General state law provides authority for the incorporation of utility districts, municipal energy authorities, and water and wastewater authorities. The incorporation of utility districts is subject to approval by the Tennessee Board of Utility Regulation. The different charter forms in the state of Tennessee are:

- General Utility District Law of 1937 (Tenn. Code Ann. § 7-82-101 et seq.)
- Municipal Energy Authority Act (Tenn. Code Ann. § 7-36-101 et seq.)
- Water and Wastewater Treatment Authority Act (Tenn. Code Ann. § 68-221-601 et seq.)
- Regional Water and Wastewater Treatment Authority Act (Tenn. Code Ann. § 68-221-1301 et seq.)
- Private Act Charter

The budget process will be governed by the state general laws referred to above as well as any private act. As a general principle of law, utility districts and authorities created by private act will need to follow any general law budget requirements that exceed the private act requirements. Advice from legal counsel may be necessary to determine which specific budget laws apply for your government.

Other Entities

Other entities that have a financial relationship to a county, municipality, metropolitan government, utility district, municipal energy authority, or water and wastewater authority, such as joint ventures created by an interlocal agreement, should follow budget requirements pursuant to their creation authority. If creation documents do not address budget policy, the entity should follow the budget requirements of the creating entity or entities.

Section 6 – The Budget Process

Budgeting is a broadly defined process that has political, planning, financial, communication, and managerial dimensions.

There are four basic phases to the budget cycle:

- Preparation
- Adoption
- Execution
- Oversight

This Section highlights some of the aspects related to the different elements in the budget process, from initial planning to adoption, execution, and managing the budget throughout the fiscal year. It is not intended to be comprehensive. If a local government has not developed policies and procedures to support the budget cycle for your local government, we recommend municipalities, counties, and metropolitan governments work with their MTAS or CTAS representative for assistance. Additionally, we recommend utility districts and authorities work with TAUD for assistance.

Preparation

Budget preparation begins months before the budget is adopted and approved. Preparation involves a review of policy and benchmarks established by your local government, collaboration with other departments, budget committee meetings, publication requirements, and other actions. Preparation is essential to the budget process because it lays the groundwork. Appendix 1 includes an outline of key budget issues that may assist your local government in developing or updating budget policies and procedures. This outline is included as a resource and not a mandate.

Policies and Procedures

The governing body serves in a fiduciary capacity as they manage the finances and assets of the local government they serve. When preparing the budget, local officials are governed by internal and external laws and regulations that help ensure the responsible management of public dollars. Before the budget process begins, local officials should already have in place foundational policies to ensure the budget supports both the short-term and long-term financial health of their local government.

As you begin to prepare your budget, one of the first steps will be to review established policies that define the budget process. Such policies should include the following:

- Budget calendar;
- Cash flow management;
- Revenue forecasting and expenditure/expense estimation;
- Minimum fund balance levels;
- Contingency spending plan;
- Long-term capital planning;
- Program and service goals (public safety, sanitation, utilities, streets, schools);
- Legal spending requirements, such as maintenance of effort;
- Department head responsibilities in the budget process;
- Rainy day fund levels; and
- Structurally balanced budgeting.

Refer to Section 7 for recommended best practices.

Component Units, Joint Ventures, and Similar Entities

As part of the budget preparation process, you should identify entities that have been created by your local government that function to support the local government and its citizens. For example, two neighboring municipalities may create a joint venture to provide water service to its citizens. The key issue is whether there is a financial benefit or burden that exists between your local government and the other entity that could have an impact on your budget.

STEP ONE Identify the entities. One source for this information is the notes to the financial statements in your annual financial audit report.

STEP TWO For each identified entity, determine the nature of the financial relationship to your local government, if any. Is your local government:

- Responsible for providing ongoing financial assistance;
- Contingently responsible for paying debt in the case of default or has guaranteed the entity's debt in some other manner;
- Required to fund any deficits;
- Responsible for the review and approval of the entity's budget;
- Reliant on revenue from the entity; or
- Responsible for the financial oversight or governance of the entity such that local officials should have a process of intentional review of certain financial information of the entity?

STEP THREE If an entity meets any of the above criteria, develop a process to receive and review their budget as part of your annual budget process.

STEP FOUR Send a copy of the respective budget with your annual budget submission to the Division of Local Government Finance.

Revenue Forecasting and Expenditure Estimating

Forecasting revenues and estimating expenditures (or expenses) is integral to budget preparation. Estimates should be both reliable and realistic. Our Office has developed an instructional video related to estimating that is available on our website: tncot.cc/budget. Municipalities, counties, and metropolitan governments can also receive assistance from their respective MTAS or CTAS consultant.

Local governments should not delay the budget process during a reappraisal year (see Appendix 8 for tips on adopting the budget during a reappraisal year). The budget is based on estimates and the expectation of our Office is for the certified property tax rate and annual budget to be adopted simultaneously and timely during a reappraisal year. If the certified property tax rate is not available at the time of budget adoption, local officials should follow the guidance in Appendix 8. If there are special circumstances, local officials should reach out to our Office and we will work with the local government and State Board of Equalization to address the situation.

Adoption

The budget adoption and approval process may result in changes to the proposed budget. Several key areas related to the adoption process are discussed below.

Timely Adoption – Budget Calendar

Timely budget adoption is foundational to the budget process and ensures your local government begins the fiscal year with a sound financial spending plan. Accordingly, your local government should have a formal timeline for the budget process. We have developed budget calendar that includes key dates in Appendix 2. We recommend that you add to the budget calendar any specific needs related to the size and structure of your local government. Both state and local laws govern the budget calendar.

Continuation/Extension

For your budget document to be relevant, timely adoption is essential; however, state law recognizes there will be circumstances when the governing body is not able to adopt the budget prior to the beginning of the fiscal year. Nevertheless, if the annual adopted budget is not submitted to our Office within two months of the beginning of the fiscal year, the budget cannot be approved and your local government may not issue debt or financing obligations. In the case of an emergency, our Office may waive the requirement of budget approval to allow your local government to enter into emergency financial transactions. See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-404, 68-221-611, 68-221-1306.

Counties

Tennessee law gives authority for certain counties to operate on a continuation budget until August 31, or a continuation budget extension until September 30. Refer to Appendix 3 to determine if this applies to your county.

A September 30 continuation budget extension is allowed under extraordinary circumstances and must be approved by the Comptroller of the Treasury. For more information regarding a request for approval, refer to Appendix 3.

Municipalities
Pursuant to the Municipal Budget Law of 1982, if a budget ordinance is not adopted prior to the beginning of the fiscal year, the appropriations for the last fiscal year become the appropriations for the next fiscal year, until the adoption of a new budget ordinance (Tenn. Code Ann. § 6-56-210). If your municipality's general law, home rule, or private act charter is more restrictive, you must follow the requirements of your charter.

Metropolitan Governments
General laws for metropolitan governments do not specifically address budget continuations and/or extensions. You should ensure that you have adopted a private act to address the legal budget process, including, but not limited to, budget continuations and extensions.

Utility Districts, Municipal Energy Authorities, and Water and Wastewater Authorities
State law does not provide for an extension or continuation for utility districts, municipal energy authorities, or water and wastewater authorities.

Legal Form of the Annual Budget Document

A budget resolution or ordinance is the budget document used by local governments. A legally-adopted budget provides spending authority for the general operations of counties, municipalities, and metropolitan governments. When a local government expends more than legally appropriated, they are in noncompliance with state law. For utility districts and authorities, the budget is legally required to be adopted, but it is not a legal document in the sense of an appropriated budget. Refer to Section 4 for an explanation of the difference between appropriated and non-appropriated budgets. Our website has example budget documents for use by your local government: tncot.cc/budget.

Balanced Budget

Budgets must be balanced when adopted, remain balanced throughout the fiscal year, and be sustainable going forward. Estimated expenditures and other financing uses (or expenses) should not exceed estimated revenue, other financing sources, and beginning unrestricted fund balance (or net position). A process should be in place to actively monitor the budget throughout the budget year and to make any necessary budget amendments to maintain a balanced budget, including paying all debt service. Section 4 includes a listing of state laws that require a balanced budget.

A budget is structurally balanced when recurring revenues are budgeted to pay for recurring expenditures (or expenses). A structurally unbalanced budget is often a sign of financial distress. If your local government plans to adopt a structurally unbalanced budget, you should contact the Analyst in the Comptroller's Division of Local Government Finance who is responsible for your region. A contact list is available at tncot.cc/lgf-contacts.

Legal Level of Budgetary Control/Spending Authority

The legal level of budgetary control refers to the level of detail at which the governing body appropriates resources. Management can reassign expenditures or expenses without approval of the governing body for items below the legal level of budgetary control. For example, when the budgetary control is at the organizational or department level, any increase in appropriations for the police department will require a budget amendment by the governing body; however, changes between object level expenditures, such as salaries, supplies, or utilities that are within the organizational or department level, do not require legal action by the governing body. Requirements of state law vary depending upon your form of government. Utility districts, municipal energy authorities, and water and wastewater authorities are required to identify anticipated revenues by source and anticipated expenses by type of expense.

Budgetary Basis (Legal Basis of Accounting)

The budgetary basis is the method used to determine when revenues and expenditures (expenses) are recognized for budgetary purposes. The annual budget is required to be on the same basis of accounting as required by generally accepted accounting principles (Tenn. Code Ann.§§ 9-21-403, 7-36-113, 7-82-501, 68-221-611, 68-221-1306). For smaller governments that maintain their accounting records on the cash basis, a budgetary cash basis is acceptable, for governmental funds, when the cash basis does not materially differ from the budget on the modified-accrual basis. Local governments may also utilize the method of reconciling between two different bases of accounting in the budget document. Having the same budgetary basis used for accounting and reporting purposes helps the governing body, investors, the public, and other stakeholders better understand and analyze budget to actual results.

Capital Budgets

The capital budget provides the basis for control of capital expenditures. This budget should correspond with the capital improvement plan. The capital budget is related to long term nonrecurring spending.

The capital improvement program presents estimates of revenue and capital outlay expenditures for a period of several years—five years is recommended. The proposed means to finance capital projects should be clearly identified in the capital improvement program.

Both MTAS and CTAS have online resources and can assist municipalities, counties, and metropolitan governments in the preparation of a capital budget and capital improvement program.

School Budgets

County, municipal, and metropolitan governments with school systems are required to follow the requirements of the Tennessee Department of Education when preparing their budget. Both MTAS and CTAS also have information available on their websites regarding requirements for school budgets. Some of the key issues for school budgets involve the following:

- The budget must be balanced.

- The budget must agree with the budget ordinance or resolution adopted by the governing body.
- The budget must include beginning and ending unassigned fund balance information.
- Both summary and detailed budget information should be prepared.
- Annual principal and interest information should be clearly identified in the budget, as applicable.
- Pursuant to state law, the governing body's authority is limited to modifying the total amount of the school budget. The governing body has no other authority to modify or delete any item of the school budget. The governing body must still approve the school budget in total (Tenn. Code Ann. Title 49, Chapter 2).

Utility Systems

Self-Supporting Requirement

Pursuant to Tenn. Code Ann. § 7-34-115, municipal utilities are required to be self-supporting and utility revenue cannot be used to subsidize other operations of the local government. Any unlawful use of utility revenue is subject either to immediate repayment or the submission of a corrective action plan not to exceed five years as approved by, and overseen by, the State Comptroller. Elected and appointed local officials are subject to ouster for failure to repay. County, municipal, and metropolitan governments that have issued revenue debt pursuant to Tenn. Code Ann. Title 9, Chapter 21, Part 3 are subject to the same statutory requirements.

Oversight by Tennessee Board of Utility Regulation

Water, wastewater, and natural gas systems of municipalities, counties, metropolitan governments, authorities, and utility districts are subject to the jurisdiction of the Tennessee Board of Utility Regulation (TBOUR).

Statutes require the State Comptroller to refer governmental water, sewer, and natural gas systems that are in financial distress to the TBOUR, for oversight and corrective action (Tenn. Code Ann. § 7-82-703). The State Comptroller is also required to refer a utility system to TBOUR for excessive water loss, failure to file audited financial statements for two consecutive years, and the unlawful use of utility funds.

TBOUR exercises oversight by ensuring the financial sustainability of Tennessee's utility systems. The board has specific statutory criteria to identify financially distressed systems. The budget should be designed to (1) result in a statutory increase in net position, which is defined as:

Change in Net Position (GAAP Basis)	$__________
Less:	
Grants – Capital	$__________
Grants – Operating	__________
Capital Contributions	__________
Interfund Transfers from Other Funds	__________
Statutory Change in Net Position	$__________

(2) pay all debt service as it becomes due, and (3) generate sufficient revenue to sustain a positive unrestricted net position and a positive total net position.

Pensions – Defined Benefit Plans

Local governments are eligible to participate in the Tennessee Consolidated Retirement System (TCRS). TCRS is a statewide pension system that is administered by the Tennessee Department of Treasury. The annual actuarially determined contribution for TCRS defined benefit pension plans must be 100% funded in TCRS's annual budget [Tenn. Code Ann. § 8-37-310]. Local governments that have defined benefit pension plans that are not part of TCRS are subject the Public Employee Defined Benefit Financial Security Act of 2014 (the "Act") which requires local governments to annually fund at least 100% of the actuarially determined contribution. Pursuant to the Act, local governments are also required to adopt a funding policy and file it with the state Comptroller who serves as the depository for polices that are reviewed and maintained by the state Treasurer. [Tenn. Code Ann. § 9-3-501 et seq.]

State Street Aid Fund

Pursuant to Tenn. Code Ann. § 54-4-204, upon written request from a municipality, the Comptroller of the Treasury may authorize that state street aid funds be kept and accounted for in the general fund instead of a special revenue fund. Approval is conditioned upon the requirement that the state street aid revenues and expenditures be accounted for separately in the general fund in a manner that allows identification of the source of revenue and the expenditures related to the revenue. If you are not sure if your municipality has received approval, you may contact the Division of Local Government Audit within the Comptroller's Office.

School Federal Projects Fund

Budget Resolution/Ordinance and the Detailed Budget

The State Department of Education provides both guidance and oversight related to federal grants administered by the local board of education. Accordingly, there are two acceptable practices for appropriating expenditures accounted for in the School Federal Projects Fund (SFPF):

1. Expenditures may be appropriated in the annual budget resolution or ordinance in the same manner as other special revenue funds.

2. Language may be included within the appropriation section of the annual budget resolution or ordinance stating, "the budget for the School Federal Projects Fund shall be the budget and all amendments approved by the Tennessee Department of Education and the local Board of Education."

The format of the detailed budget for the SFPF should follow the budget policies of the local government. The detailed budget for the SFPF is not required to be included in the annual budget submission to the Comptroller's Office; however, a cash flow analysis will be requested from the local government when its most recent audit identifies a cash overdraft or interfund balance in the SFPF. Refer to the next section on the importance of funding the grant reimbursement cycle.

School Federal Projects Fund – Funding the Grant Reimbursement Cycle

Cash flow shortages can occur in the School Federal Projects Fund because of the grant reimbursement cycle. This can result in an audit finding if there is a cash overdraft at June 30. In order to provide operating funds until federal reimbursement of grant expenditures is received by a school system, it may become necessary for local officials to authorize the transfer of available unassigned fund balance from the General Purpose School Fund to the School Federal Projects Fund. This transfer should be a sufficient amount for the stated purpose. The resolution should specify the amount of the transfer and indicate that the transfer is restricted for the purpose of providing operating funds for federal reimbursement of grant expenditures. An example resolution may be found in Appendix 4. These transferred funds would remain in the School Federal Projects Fund indefinitely or until the School Board and/or Funding Body (county commission or city governing body) act to transfer the funds back to the General Purpose School Fund.

The transfer from the General Purpose School Fund would be accounted for as an Operating Transfer Out and a reduction of Cash, which reduces the unassigned fund balance of the General Purpose School Fund. The transfer into the School Federal Projects Fund would be accounted for as an Operating Transfer In and an increase to Cash which would become part of fund equity as Restricted Fund Balance in the School Federal Projects Fund. The local Board of Education should not transfer excessive funds from the General Purpose School Fund to the School Federal Projects Fund to intentionally reduce the fund balance of the General Purpose School Fund to manipulate the budgetary process. The amount needed will depend upon the timing of cash inflows and outflows of the School Federal Projects Fund. If you need assistance in determining an appropriate amount, please contact your Analyst in the Comptroller's Division of Local Government Finance.

Execution

Execution involves assigning responsibility to administration and department heads, including the school system, for executing the budget adopted by the governing body. Monitoring the budget is important to the execution process to ensure actual spending agrees with what the governing body approved in the budget and that projected revenues are realized. There should be a process in place to monitor budget spending levels and the need for a budget amendment to increase the spending authority. Because a government has a specific amount of resources available to spend, systematic review of budget variations is an important part of the budget process. Monitoring establishes an expectation of accountability related to spending. It also enables the finance department and the governing body to respond quickly to financial distress identified as part of the monitoring process.

Budget Amendments

Counties

The amendment process varies based on the budget law that applies to your county; please refer to Appendix 5 for applicable guidance.

Municipalities

Pursuant to the Municipal Budget Law of 1982, the governing body may amend the budget ordinance in the same manner as any other ordinance may be amended. We have included a list of frequently asked questions for municipal budget amendments in Appendix 6. Additionally, pursuant to Tenn.

Code Ann. § 9-21-108, amendments required by the Comptroller's Office as a condition for budget approval may be passed by resolution instead of ordinance (See sample resolution in Appendix 9).

Metropolitan Governments
General laws for metropolitan governments do not specifically address budget amendments. You should ensure that your government has legal authority to amend its budget through a charter provision, private act, or public ordinance.

Utility Districts, Municipal Energy Authorities, and Water and Wastewater Authorities
General laws for utility districts, municipal energy authorities, and water and wastewater authorities do not specifically address budget amendments. We recommend that the governing body take the same action to amend the budget as taken to adopt the budget. Amendments should be approved by the governing body for increases and decreases to revenues and/or expenses that impact the change in net position.

Allotments and Impoundments

Counties and metropolitan governments may have impoundment authority. The governing body of a county that operates under the Acts of 1957, 1981, and some private acts can place departments on quarter allotments or impound funds in case of a financial crisis. There is no provision for such allotments or impoundments under the general law for counties or municipalities. Metropolitan governments should ensure they have legal authority to enforce allotments and impoundments.

Oversight

State legislators have passed laws that directly impact budgetary oversight for Tennessee's local governments. The Comptroller's Office plays an integral role in that oversight through:

- Approvals;
- Audits; and
- Tennessee Board of Utility Regulation.

Approvals

As fully discussed in Section 2, our Office, the Division of Local Government Finance, has a comprehensive review and approval process for the annual budget. The Office of Local Finance with the Tennessee Department of Education provides specific budgetary oversight for school systems.

Audits

The Comptroller's Division of Local Government Audit is responsible for the annual audit of Tennessee's local governments. Each financial and compliance audit is conducted in accordance with the requirements of *Government Auditing Standards*. Compliance with budgetary laws, including appropriated spending levels, is audited, and any resulting findings requires action by the local governing body to correct those findings.

Tennessee Board of Utility Regulation

Water, wastewater, and gas systems of municipalities, counties, metropolitan governments, authorities, and utility districts ("utility systems") are subject to the jurisdiction of the Tennessee Board of Utility Regulation (TBOUR)

Statutes require that the Comptroller's Office refer utility systems that are in financial distress to the TBOUR for oversight and corrective action (Tenn. Code Ann. § 7-82-703).

A system is in financial distress pursuant to state law if any of the following conditions are demonstrated in their annual financial audit report:

- Statutory negative change in net position for two consecutive years
- Deficit unrestricted net position balance
- Deficit total net position balance
- Default on debt

Local officials are statutorily required to comply with the directives of the TBOUR to restore the fiscal health of the utility system. Utility systems may also be referred to TBOUR for other reasons, including, but not limited to, excessive water loss, failure to receive required board member training, failure to file audited financial statements for two consecutive years, and the unlawful use of utility funds.

Section 7 – Best Practices

Various resources are available to local government entities to assist with the budget process. The resources referenced in this Section will be helpful to local officials as they manage and exercise oversight over the finances of their local government.

Seven Keys to a Fiscally Well-Managed Government

The Seven Keys to a Fiscally Well-Managed Government is a document produced by the Comptroller's Office that outlines various characteristics present in financially well-managed governments. Follow this link for a printable copy for your board and for related videos: tncot.cc/7keys

Keys 1-3 – Building a Strong Budget for a Resilient Government

1. *Structurally Balanced Budget*

A budget is structurally balanced when recurring revenues are sufficient to pay recurring expenditures. Recurring revenues can be relied on every year (property taxes, sales taxes, wheel taxes). Recurring expenditures are those required for normal governmental operations (debt payments, salaries, pension payments). Using overly optimistic revenue projections or underestimating expenditures, as well as relying on one-time revenue from selling assets, restructuring debt, spending savings, or deferring maintenance, indicate the budget is not structurally balanced. [Tenn. Code Ann. § 9-21-403]

2. *Cash Flow Management*

A local government's ability to track how much revenue is coming into the government and how much is going out is vital to its fiscal health. Local governments that rely heavily on property taxes will need larger cash reserves to fund governmental services until tax revenue is received. Prior to its adoption, the budget must contain adequate revenues, along with cash on hand, to fund the government throughout the year. In addition, local governments need to have plans in place if additional sources of liquidity, either internally (interfund tax anticipation note "TAN") or externally (bank issued TAN), prove to be necessary. [Tenn. Code Ann. § 9-21-801]

3. *Forecasting Budgetary Amounts*

Mechanisms for forecasting revenues and expenditures that consider economic trends and growth rates provide reliable revenue estimates. Local governments that do not routinely forecast budgetary amounts may find revenues overstated and expenditures understated. [Tenn. Code Ann. § 9-21-403]

Keys 4-5 – Planning for Unknowns

4. *Rainy Day Reserve*

Beyond liquidity management, local governments need to have reserves for unforeseen events like natural disasters or economic downturns. A government that creates a rainy day fund should, at times, expect to use the reserves but also have a policy for replacing the funds.

5. *Contingency Spending Plans*

Knowledge of what part of a budget is discretionary and can be legally and practically cut is necessary for dealing with unforeseen circumstances. If an event decreases a significant revenue source or increases spending during a year, and revenues cannot be adjusted quickly, then cuts to expenditures are necessary. Prior planning as to what cuts will be made will expedite the recovery.

Keys 6-7 – Planning for Tomorrow

6. *Long-Term Liability Planning*

Debt, pension, and OPEB payments are set amounts in the annual budget. The larger these payments are, the less ability the governing body has to make changes to the budget. Ongoing decisions of whether to issue additional debt or to make changes to benefits have a direct budgetary impact that must be considered. When the repayment of long-term liabilities comprises a large percentage of the budget, consistent management of the government's obligations is essential.

7. *Multi-Year Financial Planning*

Having a plan that considers the long-term affordability of programs or projects before they become an item in the annual budget is crucial. Assets will need to be replaced, maintenance performed, and programs expanded; advanced planning of these items will help ensure the funding is available in the future.

Steps To a Well-Managed Budget

The Steps to a Well-Managed Budget is a document produced by the Comptroller's Office that outlines various steps a local government can take to manage its budget throughout the fiscal year. Follow this link for a printable copy for your board: tncot.cc/budget

The most important action a governing body takes each year is the adoption of the annual budget. Through the budget, elected officials establish spending authority and set the priorities of the local government. One community's priority could be the reduction of crime, while another's maybe investing in better parks and sidewalks. Whatever the plan, if the budget is not monitored to ensure that public dollars are spent as intended, problems can occur.

Budget To Actual Monitoring

After the governing body approves the budget, the members will need updates on how the plan is going. Reviewing budget to actual reports frequently throughout the year is the most effective way for the governing body to maintain a well-managed budget. Budget to actual comparisons show how close the budget estimates are, if changes to the budget are needed, or if everything is on course as planned. Accuracy in accounting data is essential to make useful budget to actual reports, and timeliness in reviewing the information is vital.

Revenues

Revenues are meticulously forecast during the budget preparation phase, but as the budget year progresses, revenue collection should be closely monitored for variations from original estimates. Most tax collections are cyclical. Comparing the current year's monthly collections to last year for each tax category will help a local government understand if its assumptions, such as whether its planned growth rate is holding true. Timeliness is important because if revenue collections are lower for the year, then cutting expenditures or increasing the use of fund balance may be needed to ensure the budget remains balanced.

Operating Budget

Operating expenditures tend to be less cyclical than revenues – think salaries and benefits. However, even with less variability, the level of spending should be monitored throughout the year. A local government should closely review items like overtime; fuel and commodity purchases; repair and maintenance; and any item that can quickly increase due to outside forces. If changes to the operating budget are planned for mid-year, then those changes should be forecast throughout the remainder of the fiscal year.

Capital Expenditures

Most capital expenditures tend to be planned well in advance, but cost overruns on large capital items, as well as small replacement items, can add up to an unbalanced budget. Local governments should frequently review any ongoing capital projects and ask department heads for updates on their plans to replace items so adjustments can be made if needed. It is important to know in advance what the funding source is for capital project cost overruns.

Amending The Budget

Every item in this document has led to this: It is very important to amend the budget throughout the year. When amending the budget, local governments should keep these principles in mind: the budget must be amended prior to increased spending; recurring revenues should be used to pay for recurring expenditures; cash liquidity must be considered; debt must be paid; and adequate reserves should be maintained. Amending the budget takes time, so local governments should know the process and how much lead time it takes to finalize an amendment. The budget undergirds the vision and strategy for a local government, and care must be taken to constantly monitor it.

Financial Health Metrics

Financially healthy local governments tend to have a few traits in common—they operate with balanced budgets, do not spend nonrecurring funds on recuring expenses, maintain adequate cash reserves, have a manageable debt burden, and keep liabilities in check. Local governments that do not manage these items tend to experience financial issues that show up in the following metrics that the Comptroller's Office calculates annually:

For Governmental Operating Funds				
(General Fund, General Purpose School Fund, and Other Funds with Recurring Payroll Expenditures)				
Financial Health Metric	Description	No Concern	Slight Concern	Distress Concern
Cash as a Percent of Expenditures	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Greater than 15%	15% to 8%	Less than 8%
Current Liabilities as a Percent of Cash	Do we have the ability to pay short-term obligations?	Less than 25%	25% to 75%	Greater than 75%
Change in Fund Balance as a Percent of Expenditures	How much did we overspend last year? (A concern exists when cash reserves are low.)	Positive	Decrease of 0% to 2%	Decrease greater than 2%
For Counties, Metros, and Municipalities with a Property Tax - General Governmental Debt as a Percent of Assessed Value*	How burdensome is our debt load?	Less than 8%	8% to 10%	Greater than 10%
For Municipalities without a Property Tax - General Governmental Debt as a Percent of Median Household Income	How burdensome is our debt load?	Less than 8%	8% to 10%	Greater than 10%

For Utility Systems				
(Operated by a City/Town, County, Metro Govt, Utility District, Authority, or Joint Venture)				
Financial Health Metric	Description	No Concern	Slight Concern	Distress Concern
Cash as a Percent of Cash Expenses	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Greater than 15%	15% to 8%	Less than 8%
Current Assets as a Percent of Current Liabilities	Do we have the ability to pay short-term obligations?	Greater than 1.25x	1.0x to 1.25x	Less than 1.25x
Statutory Change in Net Position as a Percent of Operating Revenue for Systems under TBOUR Jurisdiction	Are my rates sufficient to cause a positive statutory change in net position?	Positive	N/A	Negative
Business Type Activity Debt Coverage Ratio**	Do we have revenues sufficient to cover debt service?	Greater than 1.20x	N/A	Less than 1.20X

* Debt as a Percent of Assessed Value is calculated as: total general governmental debt divided by total assessed value of property in the local government as reported by the Comptroller on the Tax Aggregate Report.
** Debt Coverage Ratio is calculated as annual operating revenues minus annual operating expenses excluding depreciation divided by annual debt service (principal and interest) payments.

Fund Balance Policy

Our Office recommends local governments adopt a fund balance policy for all fund types and include in its policy a requirement to maintain an unrestricted fund balance of not less than two months of the regular operating revenue or expenditures for operating funds. Local officials may determine more than two months is appropriate (for example, because of the timing of the receipt of major annual revenue sources and/or the timing of larger expenditures, such as insurance). The nature of each fund will determine the appropriate minimum amount of fund balance that should be maintained. When adopting a policy, please refer to GFOA's best practice on fund balance guidelines: www.gfoa.org.

Cash Management Policy

Our Office recommends local governments adopt a cash management policy that addresses areas specific to cash, including, but not limited to cash flow forecasting, minimum cash balances, short-term borrowing for operations, pooled cash accounts, investment of idle cash, banking, internal controls, collateralization requirements, and internal transfers, loans, and reimbursements, as applicable.

Budget to Actual Reports

As part of the monitoring process, we recommend local governments provide the following information at every regular meeting for each budgeted fund:

- A budget-to-actual report including both revenue and expenditures (expenses);
- An updated cash flow analysis showing actual data from the prior month and any changes to forecasted data; and
- Current cash and fund balance levels.

Best Practices from the Government Finance Officers Association (GFOA)

The following best practices published by GFOA support areas addressed in the Seven Keys to a Fiscally Well-Managed Government, which is included in this Section:

- Achieving a Structurally Balanced Budget
- Financial Forecasting in the Budget Preparation Process
- Long-Term Financial Planning
- Using Cash Forecasts for Treasury and Operations Liquidity

GFOA also has other budgetary best practices including, but not limited to:

- Establishment of Strategic Plans
- Multi-Year Capital Planning
- Capital Budget Presentation
- Working Capital Targets for Enterprise Funds
- Public Engagement in the Budget Process

We recommend local governments review and implement best practices from GFOA as part of your budget policies and procedures, making any necessary changes to address state and local laws and regulations. Online access to GFOA's best practices is available at: www.gfoa.org.

Appendix

1. Budget Preparation Outline
2. Budget Calendar Examples
3. County Continuation Budget Guidance
4. Resolution to Transfer Funds to the School Federal Projects Fund
5. County Budget Amendments
6. Municipality Budget Amendments – Frequently Asked Questions
7. Budget Cycle (Illustration)
8. Adopting the Budget During a Reappraisal Year
9. Budget Resolution for Cities Adopting Comptroller Required Changes

Appendix 1

Budget Preparation Outline

Preparation – The Initial Step

Preparation is the process of preparing the financial plan that is the basis of an appropriated budget, for municipalities, counties, and metro governments, and an adopted budget, for utility districts and authorities that do not have appropriated budgets. The end products of the budget preparation process are a financial plan, a legal document, and budgetary controls.

As part of the executive preparation of the annual operating and capital budget, the chief executive officer and budget officer should review the budget policy and procedures in developing the budget documents guidelines that will be provided to department heads to prepare budget information for each department, as applicable.

Budget Policy and Procedures

The following are items and areas that a local government should consider in developing a budget policy. Budget procedures should be developed and based upon the local government's budget policy. Additionally, the policy should incorporate the requirements of State statutes and the Office of the Comptroller.

A. Key Budget Items
   1. Scope – the funds budgeted

   2. Budget Period

   3. Basis of Budgetary Accounting

   4. Cost Allocation – how the direct and indirect costs of a program will be allocated

   5. Basis of Control
      The basis of control is the organizational unit or department level of expenditures/expenses. This classification corresponds with the governmental unit's organizational structure. A particular organizational unit may be charged with carrying out one or several activities or programs. The appropriation level is the same as the basis of control, the organizational unit. An organizational unit may be budgeted across more than one fund. Utility districts and authorities normally have one department but may have more than one, such as a water system and a gas system.

      Organizational Unit Examples:
      a. Examples of an organizational unit are a: Police Department, Fire Department, Office of Building Safety, Street Department, Finance Department, Local Attorney, Council/Commission, and utility departments such as the Water & Sewer Department.

   b. Example of an organizational unit with multiple activities or programs: a Public Works Department that builds and maintains streets, roads, and bridges; collects and disposes solid waste; and maintains and oversees construction of public buildings and grounds.
   c. Example of an organizational unit budgeted across more than one fund: Public Works Department – General Fund, State Street Aid Fund, and Solid Waste Fund.

6. Balanced Budget Definition
   A budget is balanced when expenditures for the year do not exceed expenditures and beginning fund balances. Sufficient cash balances should be maintained throughout the year to meet cash flow needs and contingencies. To meet this requirement, a balanced budget should also have:
   a. Sufficient recurring revenue to meet recurring expenditures (expenses) (structurally balanced).
   b. Nonrecurring expenditures met by planned, one-time uses of cash, such as
      i. Grants or other one-time cash receipts.
      ii. Cash-on-hand (reserves).
      iii. Debt proceeds.
   c. Sufficient cash available to fuel the grant reimbursement cycle.
   d. All annual debt service payments are met.

7. Budget Form and Information
   a. Terminology and classification should be the same as used for reporting and accounting. (GASB Codification 1700.118)
   b. The format is typically in a Statement of Revenues, Expenditures/Expenses and Changes in Fund Balance/Net Position Format.
   c. The budget should be designed to clearly indicate recurring and non-recurring revenues and expenditures or expenses.
   d. Budget supporting schedules may be in a form, required by the Governing Body, to communicate specific information not reported in financial statements formats. At a minimum, three years of financial data must be presented: prior year audit amounts, current year estimated amounts, and budget year amounts.

8. Financial Forecasts
   a. Short-term – coming year's budget
      i. Cash/revenue
         1. Recurring – annual revenues, such as property and sales taxes
         2. Non-recurring – one-time sources of revenue, such as insurance recoveries, debt proceeds, and grant monies
      ii. Spending
         1. Operating
            a. Recurring – annual expenditures or expenses, such as salaries and utilities
            b. Non-recurring – one-time expenditures
         2. Capital – expenditures for plant, property, and equipment
   b. Long-term – future years' budget

i. Multi-year Budget – Five-year budget forecasting the impact of future changes in revenue and spending, including the impact of new and current programs and payments on long-term liabilities.
ii. Capital Improvement Plan – Five-year program of planned spending for the construction/purchase of plant, property, and equipment, including sources of financing and impact on the operating budget from new or improved facilities and equipment—not a wish list.

9. Performance Measurement

10. Transparency and Accountability
    a. Budget meetings
    b. Budget publication
        i. Legally-required budget notice publication
        ii. Website and other media
    c. Budget availability
        i. Website
        ii. On-site copies

B. Budget Principles

In Tennessee, budget principles are rooted in the requirement that budgets must be balanced and the local government should have sufficient cash to pay its obligations as they become due, including all annual debt service. This includes the idea of sustainability for activities accounted for in general funds, special revenue funds, and enterprise funds. Recurring spending should not exceed recurring receipts.

Key thought: Spend less than the amount of revenue your local government can generate.

1. Spending
    a. Spending cannot exceed what the local government's economy, or customer base, can realistically support.
    b. Recurring spending should not exceed recurring cash receipts.
    c. Non-recurring spending should be met by debt funding, savings, or one-time cash receipts.
    d. Critically examine past spending patterns.
        i. Could we afford what we did in the past?
        ii. Can we afford it in the future?
        iii. Did past spending accomplish goals?
    e. Prioritize services,
        i. What is important?
        ii. What meets our needs?
        iii. What can we afford?
    f. Maintain existing spending over providing new services.
    g. Critically examine sustainability of current services and any planned new recurring spending, including those related to capital assets.
        i. Does it meet our needs?
        ii. Can we afford it now and in the future?

        iii. Can we afford new recurring costs related to current and planned capital assets? For example, an expansion to the fire hall will require new equipment, more utilities, and additional personnel.
    h. Liabilities
        i. Pay what you owe:
            1. Debt
            2. Pensions
            3. OPEB
        ii. These liabilities are recurring spending (or cash) items.

2. Revenues
    a. Tax rates and fees – cash receipts
        i. Understand and manage tax rates and their impact.
        ii. Assign costs to users for services to develop fees sufficient to support the provision of services.
    b. Use of one-time cash receipts:
        i. Should not be used for recurring spending.
        ii. Should be matched to appropriate non-recurring cash receipts or use saved monies for one-time spending and capital projects.
    c. Use of unpredictable cash receipts:
        i. Should not be used for recurring spending.
    d. Forecasting cash receipts for the coming year and future
        i. Methods and assumptions used in forecasting should be reasonable and the assumption supportable.
        ii. Forecasts should be realistic and conservative, not leaning toward the high-end to support new or increased spending.
        iii. Forecasts should be made beyond the fiscal year to determine if future cash receipts are trending up or down.
        iv. Forecasts are a tool that is not an absolute but the best guess about future performance.

3. Preferences for Budget Balancing
    a. Productivity – do more with less or the same amount of resources.
    b. Austerity – cut or eliminate services.
    c. Revenue – find new revenues or increase current tax rates and fees.

C. Special Situations
1. Vacancy savings – the difference between the full-appropriated amount and the actual cost of authorized employee positions during a budget period.

2. Equipment replacement

3. Year-end budget savings – money remaining from cost efficiencies in spending being less than the appropriated amounts or otherwise achieving the planned activities for less cost than the amount appropriated. Normally, this becomes available for the next year's spending or is placed into reserves for contingencies.

D. Budget Process
    1. Roles and responsibilities

    2. Budget calendar

    3. Budget document

    4. Budget participation

E. Post-Adoption
    1. Budget controls

    2. Budget amendments

Related Policies

A. Revenue Policies
B. Expenditure (Expense) Polices
C. Cash Management Policies
D. Cash Balance and Rainy Day/Reserve Balance Policies
E. Fund Balance Policies
F. Purchasing Policies
G. Capital Asset Management Policies
H. Debt Management Policies
I. Long-Term Financial Planning Polices

Budget Process

A. Roles and Responsibilities
    1. Preparation
        a. City and County Management including but not limited to the following: Chief Executive Officer (CEO), County or City Mayor, City Manager, Chief Financial Officer (CFO), and Budget Officer/Director
            i. Prepare and distribute budget guidelines and forms for budget preparation.
            ii. Prepare revenue forecasts and revenue estimates.
            iii. Prepare executive budget and property tax levy from departmental budgets and revenue estimates.
        b. Department Heads
            i. Prepare departmental budgets in accordance with budget guidelines.
            ii. Submit departmental budget to the CFO or Budget Officer.

    2. Adoption
        a. Budget (Finance) Committee
            i. CEO, CFO, or Budget Officer presents Executive Budget and proposed tax levy to the Budget (Finance)Committee.

ii. Holds meetings to review budget and proposed tax levy and develop Annual Operating and Capital Budget Ordinance or Resolution with property tax levy.
iii. May require the Department Heads and CFO or Budget Officer to make presentations or provide explanations as part of this process.
iv. Presents original Annual Operating and Capital Budget Ordinance or Resolution with property tax levy and supporting documents to Governing Body.

(It is recommended that all members of the Governing Body attend these meeting to understand the budget.)

b. School Board
   i. Adopts its budget in accordance with State statute requirements and budget guidelines.
   ii. Submits school budget to CEO/CFO or Budget (Finance) Committee.
c. Governing Body
   i. Holds meetings to adopt Annual Operating and Capital Budget Ordinance or Resolution, with property tax levy, as applicable.
   ii. After making any amendments to the original budget, adopts the final Annual Operating and Capital Budget Ordinance or Resolution with property tax levy, as applicable.
d. Execution
   i. The CEO and Department Heads (including the School System) implement the budget adopted by the Governing Body.
   ii. Department Heads ensure that spending stays within appropriated amounts for their organizational units by monthly monitoring of departmental budgets and not executing the purchase of good or services without following proper purchasing procedures, including letting the CFO first determine if monies are available for the expenditure.
   iii. The CFO monitors the overall budget, taking appropriate action to ensure departments' budgets stay within the appropriated spending authority.
e. Evaluation
   i. CFO
      1. Prepares monthly budget-to-actual reports for the Budget (Finance) Committee and Governing Body.
      2. Updates the cash flow forecast with actual data from each completed month for the Governing Body.
      3. Prepares proposed budget amendments based on actual financial performance and needs.
   ii. Governing Body, Budget (Finance) Committee, and School Board
      1. Monitor the local government's financial health and needs based on reports on budgetary performance and cash flows from the CFO.
      2. Appropriately amend budget to keep in balance.
      3. New or increased spending should be supported by new revenues or decreases in other appropriations.

4. Evaluate overall budget performance in achieving the Governing Body's goals throughout year on a perioding basis, such as quarterly, and specifically at year end.

B. Budget Calendar
   1. As part of the preparation process, a budget calendar should be developed to ensure the budget is adopted prior to the beginning of the fiscal year.

   2. The budget calendar and budget guidance should be presented to the Department Heads, Budget (Finance) Committee, and Governing Body. The calendar gives deadlines and expectations for the budget process.

C. Budget Document
   The budget document is prepared by the CEO, CFO or Budget Officer, and Budget Finance Committee and contains the following parts:

   1. Budget Message from the Mayor/CEO/City Manager/CFO

   2. Budget Summary

   3. Annual Operating and Capital Budget Ordinance or Resolution with Ad Valorem (Property) Tax Levy, as applicable

   4. Separate Property Tax Levy Ordinance or Resolution (if property tax is not part of, or is adopted after, the Operating and Capital Budget Ordinance or Resolution)

   5. Detailed Budget (modified accrual and/or accrual basis)
      a. Explanation of any increases in appropriations from the current year

   6. Schedules
      a. Revenue Forecasts (including a description of methodology and assumptions)
         i. Property tax
         ii. Sales tax
         iii. User fees
         iv. Other revenues
      b. Utility Rate Schedules
      c. Utility Revenue Forecast
      d. Schedule of Outstanding Debt
      e. Wage and Salary Schedule
      f. Capital Budget and Capital Improvement Plan
      g. Budgets Schedules
         i. Governmental Funds
         ii. Enterprise Funds
      h. Cash Flow Forecasts by Fund
      i. Schedule of Recurring/Non-Recurring Revenue, Expenditures (Expenses), and Costs [cash-outflows that are balance sheet items or included in per unit cost of

production (i.e., per unit equipment replacement/capital maintenance cost allocated per unit of production)]

j. Other schedules required by the Governing Body or state statutes
    i. Consider schedules that demonstrate compliance with specific statutory or other requirements.
    ii. Consider a schedule of grants and projects that demonstrates the availability of sufficient monies to meet grant matching requirements and to cash flow the grant reimbursement cycle.
    iii. Consider schedules for activities that are part of the General Fund but that the Governing Body would want to see as sperate funds.
    iv. Consider a multi-year operation budget as an additional schedule.

7. Annual Operating and Capital Budget Resolution or Ordinance
   Depending on a local government's charter and policies, the Budget (Finance) Committee may make changes to the Executive Budget presented to them by the CEO, CFO, or Budget Officer prior to it being placed in the Operating and Capital Budget Ordinance or Resolution. The Budget (Finance) Committee may also make changes to the proposed tax levy prior to adoption.

   Because the process is often specific to the laws that apply to your local government, procedures should be developed and followed to comply with budget laws that govern your local government's budget process. If your local government does not have laws that address these, contact MTAS, CTAS, TAUD, or our Office for assistance with developing procedures to ensure your government has controls in place for adoption and subsequent amendment.

   The Comptroller of the Treasury or a designee may require the Governing Body to amend the original budget or the subsequent amendment budget to reduce spending for maintenance of a balanced budget.

   Unexpended and unencumbered appropriations authority authorized by the Annual Operating and Capital Budget lapses at the end of the fiscal year.

8. Property Tax Levy Ordinance or Resolution, as applicable
   Property tax is the only revenue the Governing Body has direct control over. All other revenues are authorized by State statute and cannot be changed solely by the action of the Governing Body. A property tax levy must be adopted for each fiscal year to collect property tax in that fiscal year.

   In a reappraisal year, local governments should not delay the budget process. The budget is based on estimates and the expectation of our Office is for the certified property tax rate and annual budget to be adopted simultaneously and timely during a reappraisal year. If the certified property tax rate is not available at the time of budget adoption, local officials should follow the guidance in Appendix 8. If there are special circumstances, local officials should reach out to our Office and we will work with the local government and the Comptroller's State Board of Equalization to address the situation.

If the certified tax rate is adopted as the property tax rate, then the amount of property tax revenue generated will be approximately the same as the current year for the upcoming budget year. For information about the reappraisal process, visit the Comptroller's State Board of Equalization website at: tncot.cc/certified-tax-rate. The certified tax rate can be adopted by resolution or ordinance, depending upon state and local laws that apply to your specific local government.

In accordance with TCA § 67-5-1702, a Governing Body electing to adopt a property tax rate exceeding the certified tax rate must:

a. Advertise its intent to exceed the certified tax rate in a newspaper of general circulation in the county and the information regarding the public hearing at which it intends to adopt an ordinance or resolution authorizing a property tax levy exceeding the certified tax rate.
b. Within thirty (30) days after the publication, furnish to the State Board of Equalization an affidavit of publication.
c. After the public hearing, the Governing Body may adopt an ordinance or resolution levying a tax rate more than the certified tax rate.

If the property tax levied is not sufficient to meet the balanced budget requirements for TCA § 9-21-403, the Comptroller of the Treasury or a designee may direct the Governing Body to amend its budget to ensure obligations are met for the budget year, including debt service payments.

D. Transparency

Local governments are responsible for the public finances they manage. Part of that responsibility includes transparency to the public served. Local officials are responsible for complying with public transparency requirements. State law and local policy will govern the requirements specific to your government. Requirements will often include:

1. Publication of a notice of the public hearing in the format required by statute.

2. Notification that the budget and all supporting data is available in the Office of the Chief Financial Officer and is open to public inspection.

3. A public hearing is held on the proposed budget before its final adoption by the Governing Body.

These three requirements provide transparency in the process by giving citizens notice of the public hearing on the budget, an opportunity to examine the proposed budget, and an opportunity to participate in the public hearing. A local government may elect to do more than the minimum statutory requirements. Our Office recommends that a local government publish the annual budget and any amendments on its website.

The following are some of the methods of engaging in public participation in the budget process:

1. Websites and dashboards
    a. Online budget
    b. Surveys

    c. Interactive tools
2. Citizen involvement
    a. Citizen advisory committees
    b. Public outreach meeting
    c. Scheduling Budget (Finance) Committee and Governing Body meetings at times the public can easily attend.
3. Budget Education

Appendix 2

Budget Calendar Examples

Counties

Date	Budget Cycle Phase	Responsible Party	Procedure
January	Preparation	Budget Director	Deliver forms for all budget requests to all departments.
By March 1	Preparation	Departments	All departments except the local board of education shall deliver the appropriate estimates and budget request to the Budget Director.
By April 1	Preparation	Budget Committee and Budget Director	The county Budget Committee shall vote upon the proposed budget and the Budget Director shall notify the departments if the committee approves or rejects the proposed budget.
Immediately After Prior	Preparation	Budget Director	If approved, the Budget Director shall immediately forward the proposed budget to the county legislative body for consideration; or
Immediately After Prior	Preparation	Departments	If rejected, the department, commission, institution, board, office, or agency shall submit a revised budget proposal to the Director of Accounts and Budgets within ten (10) business days after receipt of notice that the budget proposal was rejected.
By May 1	Preparation	School Department	The Local Education Agency (LEA) shall submit a proposed budget to the Budget Director, provided that the LEA may amend the proposed budget after May 1.
By June 1	Adoption	Budget Committee and Budget Director	The county Budget Committee shall vote upon the proposed budget and the Budget Director shall notify the LEA if the Budget Committee approves or rejects the LEA budget.
Immediately After Prior	Adoption	Budget Director	If approved, the Budget Director shall immediately forward the proposed budget to the county legislative body for consideration
Immediately After Prior	Adoption	School Department	If rejected, the LEA shall submit a revised budget proposal to the Budget Director within ten (10) business days after receipt of notice that the budget proposal was rejected.
Immediately After Prior	Adoption	County Commission	If the Budget Committee rejects the first or second budget proposals of a department, then the third and subsequent proposals shall be sent directly to the County Commission which shall approve or reject it within ten (10) business days.
On or Before June 30	Adoption	County Commission	Adopt the fiscal year budget.
Within 15 days of Adoption	Oversight	Budget Director	Submit the budget to the Comptroller's Division of Local Government Finance for approval.
After Adoption	Execution	Finance Staff	Implement the budget.
July 1 through June 30	Execution	Finance Staff	The Finance Staff shall monitor the budget and make any recommended amendments to the County Commission prior to overspending an appropriation.
After the Budget Year	Oversight	County Commission	Implement policies and procedures to address audit findings related to the budget process.
After the Budget Year	Oversight	County Commission and/or Utility Board	Implement directives from the Tennessee Board of Utility Regulation.

Municipalities

Date	Budget Cycle Phase	Responsible Party	Procedure
January-February	Preparation	Finance Director	Review prior year audit and current year estimates and prepare estimate forms.
March-April	Preparation	Finance Director	Meet with departments and estimate revenue to compile budget.
By May 15	Preparation	Finance Director	Submit estimated budget to Finance Committee for review/consideration.
Immediately after Prior	Preparation	Mayor	Submit proposed budget to legislative body.
By June 1	Adoption	Legislative Body	Finalizes budget, hold public meeting to adopt the budget on first reading.
Immediately after Prior	Adoption	Finance Director	Publishes budget notice and call a public hearing for at least 10 days after publication.
On or Before June 30	Adoption	Legislative Body	Adopt the fiscal year budget (If a three reading City plan to hold third reading prior to June 30).
Within 15 days of Adoption	Oversight	Finance Director	Submit the budget to the Comptroller's Division of Local Government Finance for approval.
After Adoption	Execution	Finance Staff	Implement the budget and enter into the accounting system.
July 1 through June 30	Execution	Finance Staff	The Finance Staff shall monitor the budget and make any recommended amendments to the County Commission prior to over spending an appropriation.
As Applicable	Oversight	Legislative Body	Implement policies and procedures to address audit findings related to the budget process.
As Applicable	Oversight	Legislative Body	Implement directives from the Tennessee Board of Utility Regulation.

Utility Districts

Amount of Time Before the Start of the Fiscal Year	Budget Cycle Phase	Responsible Party	Procedure
Four Months	Preparation	Finance or General Manager	Review the prior year's audit and current year's estimates and prepare the estimated budget.
Two Months	Preparation	Finance or General Manager	Submit the proposed budget to the legislative body.
One to Two Months	Adoption	Commission	Hold a meeting of the governing body for the Utility District or Authority for consideration of the budget for adoption.
Immediately after Prior Step	Oversight	Finance Staff	Submit the budget to the Comptroller's Division of Local Government Finance for approval.
After Adoption	Execution	Finance Staff	Implement the budget.
Entire Fiscal Year	Execution	Finance Staff	Monitor the budget and make any recommended amendments to the governing body.
As Applicable	Oversight	Commission	Implement policies and procedures to address audit findings related to the budget process.
As Applicable	Oversight	Commission	Implement directives from the Tennessee Board of Utility Regulation.

Appendix 3

County Continuation Budget Guidance

Counties in Tennessee are required to adopt their operating budget before the beginning of the fiscal year. If circumstances arise and the county cannot adopt its budget by June 30, then Tennessee law gives authority for counties operating under the General Law, County Budgeting Law of 1957, Financial Management Act of 1981, and Financial Management Act of 1993 to operate on a continuation budget. All other counties should consult their charters.

Counties budgeting pursuant to the General Law, County Budgeting Law of 1957, and Financial Management Act of 1981 may continue operations with the appropriations of the prior fiscal year if the county legislative body (the "CLB") has not adopted an appropriation resolution for its current fiscal year by June 30.[1] No action is required by the CLB to adopt a continuation budget if the budget is adopted prior to August 31. An agency of a county, or other entity that receives county monies, can spend no more than the amount spent in the same month of the prior fiscal year while operating under a continuation budget. While operating under a continuation budget, a county can amend its prior year's budget, especially to provide for the payment of debt service. A final operating budget for each fiscal year must be adopted no later than August 31. Under extraordinary circumstances, a county may request approval from the Comptroller's Division of Local Government Finance (LGF) to adopt a continuation budget approval resolution that extends its prior fiscal year appropriation authority through September 30.

Continuation Budget Extension

There are extraordinary circumstances that may justify an approval from LGF to extend the county's continuation budget authority until September 30. The following circumstances would **not** meet requirements for approval of a continuation budget extension:

- Inability to reach an agreement on the budget
- School Board has not provided the final budget
- Property reassessment year
- Election year
- Financial statements not audited

If a county wants to request an approval for an extension of the continuation authority, it should submit a request letter from the County Executive/Mayor, on or before August 15, which includes:

- A statement that the county's current year budget is balanced and can remain balanced during the continuation period,
- An explanation of the extraordinary circumstances that necessitated the request for continuance,
- Whether these circumstances have occurred before, and, if so, how often.

Additional information may be requested. LGF will respond within 7 business days of the request.

[1] T.C.A. § 5-9-404 General Law Budgeting, T.C.A. § 5-12-109(A) County Budgeting Law of 1957, and T.C.A. § 5-21-111 Financial Management Act of 1981.

The county should set and properly advertise a meeting at which either a continuation budget extension resolution can be adopted or the appropriation resolution for its current fiscal year can be adopted. If the extension of a continuation budget is approved, the CLB must adopt the county's appropriation resolution and tax levy resolution by September 30. A county will not have authority to spend money after September 30 without an adopted budget. Adopting a budget and tax levy in September may delay the collection of taxes until after the property tax due and payable date of the first Monday in October.

Final Operating Budget Requirements

The county should consider the following when adopting its budget:

- The appropriation and tax levy resolutions the CLB adopts and supporting documentation for the budget must be submitted to LGF for approval. State law requires a complete and proper budget be submitted immediately upon adoption.
- State law requires a county school system to submit a complete and certified copy of its entire budget to the Tennessee Department of Education (TDE) within 30 days after the beginning of the fiscal year.
- The CLB needs to adopt a budget in a timely manner so that its school system may be able to report a complete and certified school budget to TDE by the final reporting deadline of October 1 in order to maintain its eligibility to receive state school funds.
- Property taxes are due and payable on the first Monday in October.
- If the CLB adopts an unbalanced budget or one with insufficient monies appropriated for the payment of debt service, the Comptroller may direct that the appropriation resolution be amended to reduce expenditures or that the tax levy resolution be amended to increase the property tax levy.
- If the CLB does not adopt a budget in a timely manner, a county will not have any spending authority after the continuation budget deadline of August 31 or after the continuation budget extension deadline of September 30.

Please contact our Office at 615.401.7829 if you need further guidance. We ask that you contact your CTAS financial consultant if you need assistance with any of these processes related to the Commission's adoption of an appropriation resolution and tax levy resolution.

Appendix 4

Resolution to Transfer Funds to the School Federal Projects Fund

Resolution No. _______________

RESOLUTION OF THE GOVERNING BODY OF

____________________________ TENNESSEE,

AUTHORIZING THE TRANSFER OF $___________________________

FROM

THE GENERAL PURPOSE SCHOOL FUND

TO

THE SCHOOL FEDERAL PROJECTS FUND

WHEREAS grants in the Federal Projects Fund are on a reimbursement basis and funds are requested from the State of Tennessee by [*Name of School System*] for expenditures on a monthly basis; and,

WHEREAS the School Federal Projects Fund operates with a cash deficit at various times throughout the fiscal year due to a slow turn-around time for reimbursements from the State of Tennessee; and,

WHEREAS a cash deficit in any fund is considered to be a significant deficiency in internal control; and,

WHEREAS [*Name of School System*] does not desire to operate any fund with a cash deficit.

NOW, THEREFORE, BE IT RESOLVED by the Board of Education of [*Name of School System*], a local education agency in Tennessee, meeting in called session on this ____________ day of ________ 202 ___ and by the [*Name of Governing Body of the Name of City or County*], a [*Municipality/County*] in Tennessee, meeting in called session on this __________ day of ________ 202___, that:

Section 1. The General Purpose School Fund shall transfer $__________________ to the School Federal Projects Fund on ______________ 30, 202___.

Section 2. The $ _____________ transfer shall remain in the School Federal Projects Fund as a committed fund balance from the General Purpose School Fund and may be repaid at any time as noted in a resolution passed by the Board of Education and [*Name of Governing Body of the Name of City or County*].

Section 3. This resolution will take effect upon passage. The Secretary of the Board of Education shall include this Resolution in the minutes of the [*Name of School System*]. The [*Name of City or County*] shall include this Resolution in the minutes of the [*Name of City or County*].

Adopted this _________ day of _______ 202___.

APPROVED:

____

Chairman, Board of Education

APPROVED:

____

Mayor/County Executive [Identify Type of Governing Body]

ATTEST:

____

Secretary, Board of Education

ATTEST:

____

[Identify Title of Local Official]

Appendix 5

County Budget Amendments

	General Law T.C.A. § 5-9-407	1981 Financial Management System T.C.A. § 5-21-111 thru 113	1993 Local Option Budgeting Law T.C.A. § 5-12-212-213	1957 Fiscal Act	Private Act or Home Rule	Metropolitan Charter
Statutory-Required Expenditures	May not be amended to reduce any expenditure required by law. T.C.A. § 5-9-407(a)	The county legislative body may alter or revise the proposed budget; however, it may not reduce budgeted amounts for the repayment of debt principal and interest requirements or for other expenditures required by law. T.C.A. § 5-21-111(e)(1)		Follow provisions of General Law.	Refer to enabling legislation to determine requirements specific to your government. If your county's Private Act or Home Rule charter does not provide budget amendment authority, you will need to determine if the county is authorized to make amendments under the General Budgeting Law.	General laws for metro governments do not specifically address budget amendments. You should ensure that you have legal authority to amend the legal budget document.
Highway Departments		T.C.A. § 5-21-110(c)(2) includes Highway Funds in the budget.	Must first be approved by the chief administrative officer of the county highway department.			
Schools	Must be approved by the school board. T.C.A. § 5-9-407(a)	The classification of expenditures and receipts of all county school funds for any purpose, administered by the county board of education and county director of schools, shall conform to the classification of accounts as prescribed by the Commissioner of Education. T.C.A. § 5-21-110(d)(4).	Must first be approved by the school board.	Follow provisions of General Law.		
Definition of Major Budget Category	Defined as major categories or summary accounts in latest COT chart of accounts.	TCA 5-21-110(d)(3) as set by the state uniform accounting system.	Not defined in this local option law, follow provisions of General Law.	Follow provisions of General Law		
Major Budget Category Legal Action	Passage of an amendment by majority of county legislative body.	Submitted to the budget committee for its recommendation to the county legislative body.	Specific requirements apply. The county should develop policies to ensure statute is followed.	Follow provisions of General Law.		

	"General Law T.C.A. § 5-9-407"	1981 Financial Management System T.C.A. § 5-21-111 thru 113	"1993 Local Option Budgeting Law T.C.A. § 5-12-212-213"	1957 Fiscal Act	Private Act or Home Rule	Metropolitan Charter
Major Budget Category: Request by an Official or Department Head	Must be in writing to county and each member of legislative body.	A department head is entitled to a hearing before the legislative body in order to justify any proposed additional requests or budget estimates. T.C.A. § 5-21-111(f)	Must be in writing to county and each member of legislative body.	Follow provisions of General Law.	Refer to enabling legislation to determine requirements specific to your government. If your county's Private Act or Home Rule charter does not provide budget amendment authority, you will need to determine if the county is authorized to make amendments under the General Budgeting Law.	General laws for metro governments do not specifically address budget amendments. You should ensure that you have legal authority to amend the legal budget document.
Major Budget Category: Form/Content of Amendment	T.C.A. § 5-9-407(b)	T.C.A. § 5-21-113(e) - above the line item category must be sent to the commission for approval.	T.C.A. § 5-12-213(a)(3)	Follow provisions of General Law		
Line Item Within a Major Category	Cannot be previously disapproved by legislative body. Specific requirements apply. The county should develop policies to ensure statute is followed.	The budget committee, with the consent of any official, head of any department or division that may be affected, may make transfers and adjustments within the smallest budgetary itemization of any subdivision.	Specific requirements apply. The county should develop policies to ensure statute is followed.	Follow provisions of General Law T.C.A. § 5-12-110		
Amendments as a Result of Local, State, or Federal Revenues Received in Excess of Estimates Used to Adopt the Budget		Submitted to the budget committee for its recommendation to the county legislative body.	Approved by majority vote of legislative body. The requesting department must give written notice to the county mayor at least 7 days prior to consideration by legislative body. T.C.A. §5-12-212			
Impoundment to Prevent a Deficit		T.C.A. § 5-21-112(c)(1)	T.C.A. § 5-12-215			
Court Orders		The county legislative body shall adopt any budget amendment necessary to implement such court order. T.C.A. § 5-21-110(d)(5)	Amendments shall be made to comply with court orders. T.C.A. § 2-12-213(c)			

Appendix 6

Municipality Budget Amendments Frequently Asked Questions

1. When and how do municipalities amend their budgets?

Municipalities must amend their budgets prior to increasing spending for any appropriation.

Tennessee Constitution Article 2 § 24, Tenn. Code Ann. § 9-1-116, Municipal Budget Law of 1982 (Tenn. Code Ann. §§ 6-56-203 & 6-56-208), General Law City Manager-Commission Charter (Tenn. Code Ann. § 6-22-124), and General Law Modified City Manager-Council Charter (Tenn. Code Ann. § 6-35-308)

2. Can a municipality amend its budget after the end of the fiscal year?

Monies must be appropriated prior to being spent. Budget amendments must be adopted to authorize increases in spending. No provision is made to permit the authority to spend after the fact.

Tennessee Opinion of the Attorney General No. 99-075

3. At what classification level are budget amendments made?

Municipal appropriations are made at the department, office, board, and agency level or organizational unit level unless the requirements of your municipal form of government exceed the requirements of the Municipal Budget Law of 1982.

Municipal Budget Law of 1982 (Tenn. Code Ann. §§ 6-56-202 & 6-56-203(1))

4. Do amendments need to show the source of funds (revenues, fund balance, reductions in other appropriations, or transfers) supporting any new spending?

Yes.

Tennessee Constitution Article 2 § 24, Tenn. Code Ann. § 9-1-116, Municipal Budget Law of 1982 (Tenn. Code Ann. §§ 6-56-203 & 6-56-208), General Law City Manager-Commission Charter (Tenn. Code Ann. § 6-22-124), and General Law Modified City Manager-Council Charter (Tenn. Code Ann. § 6-35-308)

5. Can the expenditure amounts in the detailed budget or budgetary control accounts be less than the amount appropriated?

Yes, the appropriated amount is the maximum amount that may be spent for that appropriation. The amount appropriated cannot exceed available cash as estimated in the original budget ordinance and spending for appropriations cannot exceed monies available at the time of expenditure. A municipality may use control accounts which are less than the amount appropriated. A municipality cannot plan to spend more than appropriated.

Tennessee Constitution Article 2 § 24, Tenn. Code Ann. § 9-1-116, Municipal Budget Law of 1982 (Tenn. Code Ann. §§ 6-56-203 & 6-56-208), General Law City Manager-Commission Charter (Tenn. Code Ann. § 6-22-124), and General Law Modified City Manager-Council Charter (Tenn. Code Ann. § 6-35-308)

6. How are transfers made between funds?

Transfers between funds are made by appropriating through the original budget ordinance or by a budget amendment from the sending fund to the receiving fund. Transfers are reported as other financing uses for the fund transfers are made from and as other financing sources for the receiving fund. **A transfer is not a loan between funds.** A transfer must be appropriated and included in the original budget ordinance or in a budget amendment before it can be executed.

Tenn. Code Ann. §§ 6-22-122, 6-35-308 and 6-56-203(1)

7. How are budgetary transfers made between appropriations in the same fund?

a. Municipalities Generally

Budgetary transfers between departments, offices, boards, and agencies are made by a budget amendment adopted by the governing body unless the governing body has delegated authority in the original budget ordinance for the budget officer to make transfers. When the authority is delegated by the governing body, it must set a maximum amount the budget officer may transfer. If authority has been delegated to the budget officer, the budget officer must report to the governing body the amount of any transfers between appropriations in the same fund at the next regular meeting. The report on the transfer must be entered in the minutes of that meeting. Any transfer above the amount delegated to the budget officer must be by a budget amendment adopted by the governing body.

Municipal Budget Law of 1982 (Tenn. Code Ann. § 6-56-209)

b. Municipalities with a General Law City Manager – Commission Charter

Budgetary transfers between departments, offices, boards, and agencies within the same fund are by budget amendment.

Tenn. Code Ann. § 6-22-124(c)

c. Municipalities with a General Law Modified City Manager – Council Charter

The city manager can make budgetary transfers between departments, agencies, or activities within each fund.

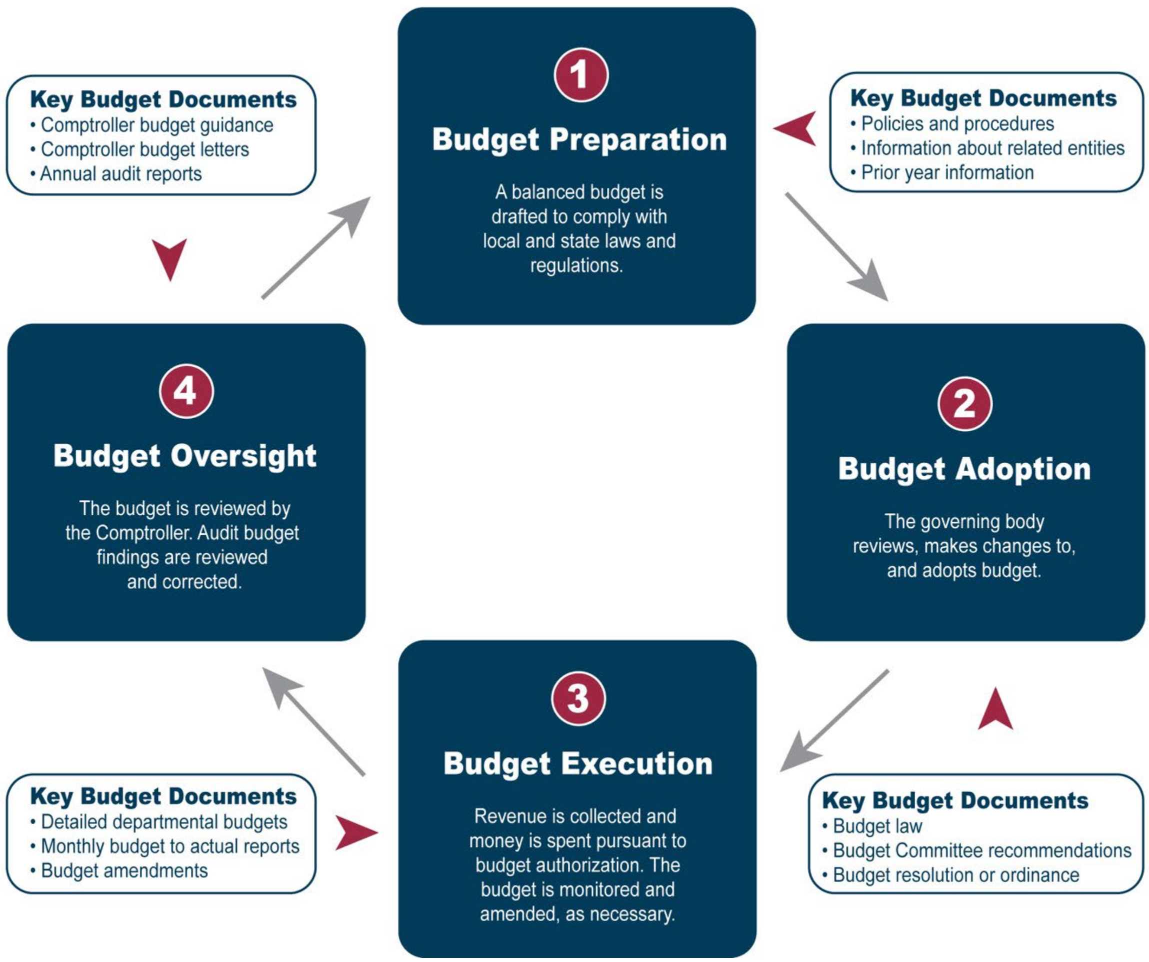
Tenn. Code Ann. § 6-35-310

8. Do budget amendments have to be balanced?

Budgets must remain balanced. Therefore, increases in appropriations must be accompanied by an increase in revenues, a transfer of money from another fund, a decrease in cash, a use of fund balance (or net position), or a decrease in the appropriations of another organizational unit(s) of the same fund.

Appendix 7

The Budget Cycle



Appendix 8

Adopting the Budget During a Reappraisal Year

At specified intervals, counties in Tennessee must revalue land and buildings for property tax purposes. This is referred to as a reappraisal year. In a reappraisal year, the Tennessee State Board of Equalization (SBOE) gives each taxing jurisdiction a Certified Tax Rate (CTR) as prescribed by Tenn. Code Ann. Title 67, Chapter 5, Part 17. The CTR is designed to ensure to the taxpayers that there is no tax increase hidden in the reappraisal, accordingly, the CTR will generate property tax revenue consistent with the prior year. Newly taxable real and personal property are backed out of CTR calculation but will generate additional property tax revenue. This document examines the impact of the CTR on the annual budget adoption process.

Budgets for counties and municipalities should be adopted on or before June 30 of each year. When the CTR will not be available at the time of budget adoption, local officials should proceed to adopt the budget in a timely manner and then follow the steps provided by the State Board of Equalization for adoption of the tax rate when the CTR is available.

Defined Terms

County Assessor—an elected official whose role is to accurately identify, list, appraise, and classify all taxable properties in preparation of the annual assessment roll. The county assessor plays an important role in calculating the certified tax rate.

Certified Tax Rate (CTR)—the rate, as calculated by the county assessor and chief executive of the tax jurisdiction and reviewed by the Tennessee State Board of Equalization, that represents the tax rate needed to collect property tax revenues consistent with the prior year after a reappraisal of property values. The certified tax rate can only be exceeded after the notification of and the holding of a public hearing.

Certified Tax Rate (CTR) Law—requires local governments to conduct public hearings before adopting a property tax rate that generates more taxes overall in a reappraisal year than were billed the year before at the previous year's lower values. The CTR law is codified in Tenn. Code Ann. § 67-5-1701 and sometimes referred to as the truth-in-taxation law. The law requires counties and cities to determine a tax neutral rate using the new reappraisal values after adjusting for either new properties or properties removed from the tax base since the prior year. Truth-in-taxation is intended to make sure higher reappraisal values do not automatically result in a tax increase.

Once a certified rate is calculated by the assessor and chief executive of the tax jurisdiction, and reviewed by the State Board of Equalization, it is submitted to the jurisdiction's governing body for formal determination, usually for consideration with the budget. If the budget requires an increase above the certified rate, the governing body must publish notice of a public hearing on whether to exceed the certified rate and then may proceed to adopt an actual tax rate after the hearing. If the certified tax rate is exceeded, the jurisdiction must send the State Board of Equalization an affidavit of publication for the hearing notice, and a certified copy of the final tax rate ordinance or resolution. State Board of Equalization's website: https://comptroller.tn.gov/boards/state-board-of-equalization.html.

How to adopt a timely budget when the CTR is not yet available

Adopting the Certified Tax Rate (CTR)

Local officials adopt the CTR when they need a property tax rate that will generate revenue consistent with the prior year. Once a CTR is calculated and reviewed by the assessor and chief executive of the tax jurisdiction, and reviewed by the State Board of Equalization, it is submitted to the jurisdiction's governing body for formal determination, usually for consideration with the budget. Newly taxable real and personal property are backed out of CTR calculation but generate additional property tax revenue.

Budget Impact:

- The property tax revenue estimate will be the sum of: (1) last year's property tax revenue estimate *and* (2) estimated property tax revenue generated from new growth in the area (the county assessor will have the growth value). Contact MTAS or CTAS for assistance.
- Include the dollar amount of the estimated property tax revenue in the budget and proceed with the remainder of the budget preparation process.
- It is important not to include an estimated rate in the legal budget document or to separately adopt an estimated property tax rate. Instead, local officials should adopt the property tax rate after obtaining the CTR from the State Board of Equalization (SBOE).
- We recommend that the legal budget document include language stating that the governing body plans to adopt the CTR when it is available and a brief description of how the property tax revenue estimate was determined.
- Once the CTR is available, officials should follow the steps outlined by the SBOE and submit the tax levy adoption resolution or ordinance to the Division of Local Government Finance.

Exceeding the Certified Tax Rate (CTR)

Local officials adopt a rate that is higher than the CTR when they need a property tax rate that will generate more revenue than the prior year. Once a CTR is calculated and reviewed by the assessor and chief executive of the tax jurisdiction, and reviewed by the State Board of Equalization, it is submitted to the jurisdiction's governing body for formal determination, usually for consideration with the budget. Newly taxable real and personal property are backed out of CTR calculation but generate additional property tax revenue. State law requires a public hearing with specific public notice of intent to exceed the CTR before a rate higher than the CTR is adopted by the governing body.

Budget Impact:

- The property tax revenue estimate will be the sum of: (1) last year's revenue *and* (2) the planned increase (penny rate times the number of pennies increased) *and* (3) estimated property tax revenue generated from new growth in the area (the county assessor will have the growth value). Contact MTAS or CTAS for assistance.
- Include the dollar amount of the estimated property tax revenue in the budget and proceed with the remainder of the budget preparation process.
- It is important **not** to include an estimated **rate** in the legal budget document or to separately adopt an estimated property tax rate. Instead, local officials should adopt the property tax rate **after** obtaining the CTR from the State Board of Equalization (SBOE).
- We recommend language in the legal budget document stating that the governing body plans to adopt a rate that exceeds the CTR when it is available and a brief description of how the property tax revenue estimate was determined.

- Once the CTR is available, a public hearing must be held to notify the public of the governing body's intention to exceed the CTR.
- After the public hearing, follow the steps outlined by the SBOE and submit the tax levy adoption resolution or ordinance to both the SBOE *and* the Division of Local Government Finance.

What if the governing body fails to adopt a rate that exceeds the CTR?

After the public hearing, the governing body may ultimately decide to vote against a property tax rate that exceeds the CTR.

Budget Impact:

- The initial property tax revenue estimate will need to be decreased by budget amendment to the sum of: (1) last year's property tax revenue estimate *and* (2) estimated property tax revenue generated from new growth in the area (the county assessor will have the growth value). Contact MTAS or CTAS for assistance.
- If the tax increase that failed would have funded new spending, then expenditures must also be reduced by budget amendment, or fund balance used to balance the budget. Use of fund balance is appropriate when there are adequate reserves, and the proposed use complies with the local government's fund balance policy. See the Comptroller's publication "Seven Keys to a Fiscally Well-Managed Budget" (7-Keys).
- Once the CTR is available, follow the steps outlined by the State Board of Equalization (SBOE) and submit the tax levy resolution or ordinance to both the SBOE *and* the Division of Local Government Finance..

Municipalities Located in More Than One County

A municipality located in more than one county may have counties with different reappraisal cycles. When this happens, local officials will need to apply the steps above for the impacted tax rate.

Conclusion

Timely budget adoption is key to good financial management and this publication is meant to facilitate timely budget adoption in reappraisal years when the CTR is delayed beyond June 30. The budget should be adopted before the start of the fiscal year and submitted to the Comptroller's Division of Local Government Finance within 15 days of adoption. In a reappraisal year, the property tax **rate** should be adopted as soon as possible **after** receiving the CTR from the State Board of Equalization. This may result in local governments submitting the tax rate adoption separately from and later than the initial budget submission. Please note that this will not adversely impact local governments that pursue the Comptroller's Annual Budget Certificate.

Appendix 9

Resolution No. ___________

A Resolution of

____________________________________, Tennessee

(Name of Municipality)

Amending the Fiscal Year 20__ Budget

WHEREAS the governing body adopted the fiscal year 20___ budget by ordinance number ____________ on __________, ____, 20___ and submitted the budget to the Tennessee Comptroller of the Treasury, Division of Local Government Finance, for review.

WHEREAS the Tennessee Comptroller's Division of Local Government Finance has required an amendment to the budget pursuant to Tenn. Code Ann. § 9-21-403.

WHEREAS pursuant to Tenn. Code Ann. § 9-21-108, at the direction of the Tennessee Comptroller of the Treasury, or the Comptroller's designee, any budget amendment required pursuant to Tenn. Code Ann. § 9-21-403 may be made by resolution of the governing body.

WHEREAS pursuant to the Tennessee Budget Manual for Local Governments, to be eligible for approval, the budget must be amended by resolution and returned to the Tennessee Comptroller's Division of Local Government Finance within 45 days of the date of the letter requiring the amendment. Should the budget not be approved, the municipality will not be able to issue debt beyond an emergency financing preapproved by the Comptroller's Division of Local Government Finance.

WHEREAS adoption of a budget amendment by resolution is permitted by state law to meet a condition for approval of the annual budget by the Tennessee Comptroller of the Treasury, or the Comptroller's designee, and all other budget amendments shall be made consistent with the public and/or private act(s) that govern the budget adoption and amendment process of the municipality.

NOW, THEREFORE, be it resolved by the governing body that it hereby adopts the following changes to the fiscal year ___________ budget:

(insert amendatory language)

Duly passed and adopted by the governing body this ________ day of ____________________________, 20____.

Signed ___________________________

Printed Name _____________________________

Mayor

Attested

Signed _______________________________

Printed Name ____________________________

City Recorder