



## FAQ – COMPLIANCE CONSIDERATIONS IN MUNICIPAL BUDGETING

### GENERAL

#### 1. Must a municipality adopt a budget to appropriate monies before spending them?

All municipalities must appropriate monies before they may be spent. All municipalities must adopt an annual budget ordinance to appropriate monies. Any increases or new spending after the adoption of the original operating and capital budget ordinance require adoption of a budget amendment ordinance prior to the new or additional spending.

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

#### 2. Are budgets on the accrual, modified accrual, or cash basis of accounting?

By State statutes municipal budgets are on a cash-basis.

Tennessee Constitution Article 2 § 24, T.C.A. § 9-1-116, T.C.A. § 9-21-403, Municipal Budget Law of 1982 (T.C.A. §§ 6-56-203 and 6-56-208), General Law City Manager-Commission Charter (T.C.A. § 6-22-124), and General Law Modified City Manager-Council Charter (T.C.A. § 6-35-308)

#### 3. What is the classification level for municipal appropriations?

Appropriations within a fund are made at the organizational unit level (department, office, agency, etc.) by all municipalities except for the Modified City Manager-Council General Law Charter. Some examples are police department, fire department, public works department, debt management, department of administration, and office of the mayor.

Municipal Budget Law of 1982 (T.C.A. § 6-56-203(1)) and the General Law City Manager-Commission Charter (T.C.A. § 6-22-122)

**4. Do transfers between funds need to be appropriated?**

All monies transferred between funds must be appropriated either in the original budget ordinance or by a budget amendment ordinance.

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

**5. Do transfers between appropriations in a fund need to be by ordinance?**

Yes, all municipalities budgeting pursuant to the Municipal Budget Law of 1982 may authorize the budget officer to transfer moneys from one appropriation to another within the same fund, subject to such limitations and procedures as it may prescribe. Transfers between appropriations in a fund must be reported to the governing body at its next regular meeting and be entered in the minutes.

T.C.A § 6-56-209

**6. Can expenditures that have been appropriated be made if there are no monies to support them?**

No, expenditures cannot be made unless monies are available to support them.

Tennessee Constitution Article 2 § 24, T.C.A. § 9-1-116, and § 9-21-403(c)

**7. Is the requirement for a balanced budget only for the original legal budget?**

No, budgets must be monitored and amended throughout the fiscal year to ensure they remain balanced on a cash basis.

Tennessee Constitution Article 2 § 24, T.C.A. § 9-1-116

**8. Must the municipality file its budget with the Comptroller's Office of State and Local Finance?**

Yes, all municipalities must file their annual budgets with the Office of State and Local Finance.

T.C.A. § 4-3-305

## **BUDGETARY REVENUES**

### **Property Tax Levy**

#### **1. When are property taxes due and payable?**

Property taxes are due and collectible on the first Monday in October.

T.C.A. § 67-1-701

#### **2. When must a municipality adopt its tax ordinance?**

- Municipal Budget Law of 1982

Municipalities must adopt their tax levy by ordinance at the same time or after the adoption of the annual operating and capital budget ordinance.

T.C.A. § 6-56-207

- City Manager-Commissioner General Law Charter

A tax levy ordinance is adopted at time the finance director submits a certified statement of the total amount of the assessment of the taxable property for the year within the city limits, and a certified statement of the revenue derived by the city from other sources.

T.C.A. § 6-22-107

#### **3. Can a municipality amend its tax levy ordinance?**

Yes, the property tax levy ordinance can be amended if the amendment ordinance can be adopted before the taxes become due on the first Monday in October.

T.C.A. § 67-1-702(a), Office of the Attorney General Opinion 04-149

### **Restricted Revenues**

#### **4. What are restricted revenues?**

Restricted revenues can only be spent on the specific purposes authorized by law or third party agreement. Some examples are utility revenues, grant revenues, gasoline and motor fuel taxes, solid waste collections fees, and drug fines and forfeitures.

**5. Can restricted revenues be transferred from one fund to another for purposes not specifically authorized by law or third party agreement?**

No, monies cannot be transferred from one fund to another if they are from restricted revenues. Restricted revenues that are improperly transferred must be repaid.

**Transfers**

**What is a transfer?**

A transfer is not a loan. It represents an expenditure or expense for budgetary purposes.

A transfer is a budgetary action where money is appropriated as a transfer of money from one fund to another fund. The money becomes revenue to the recipient fund.

**SPECIFIC GENERAL LAW REQUIREMENTS**

**What budget requirements are specific to City Manager-Commissioner General Law Charter municipalities?**

The appropriation ordinance must be adopted before July 1 of the fiscal year.

T.C.A. § 6-22-124(b)

There is no statutory authority for a municipality operating pursuant to a City Manager-Commissioner General Law Charter to adopt or operate under a continuation budget.

Budget amendments for increased appropriation may only be made after the city manager certifies in writing to the commissioners that sufficient unappropriated revenue is available.

T.C.A. § 6-22-124(c)

**MUNICIPAL UTILITIES**

**Revenues**

**1. What are the requirements concerning municipal utility revenues and operations?**

All municipal utility systems must be operated on sound business principles as self-sufficient entities.

- User charges, rates, and fees must be sufficient to meet the actual cost of providing the services rendered by a utility system.
- Actual costs of providing services include:
  - Payment of all operating expenses which include depreciation

- Principal and interest on debt
- Acquisition and improvement of the utility system
- Other obligations incurred in the operation and maintenance of the system and furnishing of services
- Contingencies
- Extinguishment of debt
- Creation and maintenance of a cash working fund
- Payment-in-Lieu of Taxes
- Pension costs
- Any surplus after the establishment of proper reserves must be used to reduce rates.
- The various departments of a municipality must be charged the same rate as other customers for the use of a system's services.
- Please note that no public works can operate for gain or profit or as a source of revenue to a governmental entity, but shall operate for the use and benefit of the consumers served by such public works and for the improvement of the health and safety of the inhabitants of the area served.

Reference: TCA §§ 7-34-108, 114, and 115

**2. Can the general fund or another fund's monies be used to subsidize the operations of a municipal utility?**

No, the Municipal Utility Revenue Law (T.C.A. § 7-34-115) requires that all municipal utilities operate as self-sufficient entities. Recent changes to this statute require municipalities to account and report the operations of its water system and/or wastewater facility as enterprise fund(s). Language permitting a subsidy from governmental funds has been removed from the Municipal Utility Revenue Law. The Municipal Utility Revenue Law prohibits the transfer of utility system revenue to another municipal fund, including another utility.

**3. Must a municipality's utilities charge the municipality (including other utilities) for services at the same rate as other customers?**

Yes, State statutes require that a municipality's utility charge the municipality the same rate for service as any other customer.

T.C.A. §§ 7-34-108 and 7-52-116

**4. Can a municipality charge for operating expenses incurred by it on behalf of a utility?**

Yes, a municipality may charge a utility the direct and properly allocated and disclosed indirect operating expenses of the utility incurred on its behalf.

**5. Can a municipality charge itself property tax on its utilities?**

No, but it can charge a payment-in-lieu of taxes not to exceed taxes payable on similar private property or in accordance with the Municipal Electric System Tax Equivalent Law.

T.C.A. § 7-34-115(a)(9) and Title 7 Chapter 52 Part 3 of the Tennessee Code Annotated

**6. What happens if a municipality illegally transfers money from a utility to any other fund or utility?**

A municipality will be in violation of the Municipal Utility Revenue Law and must immediately repay any monies illegally transferred or if it does not have sufficient monies to repay the transfer it must submit a corrective action plan to the Office of the Comptroller to repay and correct the conditions leading to the illegal transfer. Any official in violation of this section is subject to ouster under Title 8 Chapter 47 of the Tennessee Code Annotated.

T.C.A. § 7-34-115(f)