The New Budget Manual for Local Governments

Division of Local Government Finance

Betsy Knotts, Director
Sheila Reed, Assistant Director
March 4, 2022
April 2021
Public Chapter 256, Acts of 2021

May 2021
Request for Public Comment

June 2021
Manual is Published
Overview/Agenda

A Walk-Through of the New Budget Manual

1. Introduction
2. Comptroller Oversight and Support
3. Oversight and Support from Other State Agencies
4. Budgeting Terminology, Definitions, and Concepts
5. Budget Laws
6. The Budget Process
7. Best Practices
Section 1 – Introduction

What’s the purpose of the budget manual?
• Uniform Guidance
• Oversight by the Comptroller’s Office
Section 1 – Introduction

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 15, 2021, is the first edition issued pursuant to Tenn. Code Ann. §§ 4-3-305 and 9-21-403.
Section 1 – Introduction

Any reference to the term “local government” in the Budget Manual applies to the following entities:

- Counties
- Municipalities
- Metropolitan Governments
- Utility Districts
- Water and Wastewater Treatment Authorities
- Other entities that have a financial relationship to a county, municipality, metropolitan government, utility district, or water and wastewater authority, such as joint ventures created by an interlocal agreement.
Section 2 – Comptroller Oversight and Support

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. §§ 7-82-501, 9-21-403, 68-221-611, and 68-221-1306
Section 2 – Comptroller Oversight and Support

Balanced Budget Oversight for Local Governments

- Adopting a balanced budget is the responsibility of the governing body
  - Balanced Budget vs. Structurally Balanced Budget
- Why does the health of the local government matter?
- Tenn. Code Ann. § 9-21-403
- Oversight Requirements
  - Corrective action plans
  - Requesting approval prior to spending
  - Cash reserves and cash flow management
  - Audits or additional reviews
  - Additional reporting requirements
Section 2 – Comptroller Oversight and Support

Budget Oversight

✓ **STEP ONE** – Submission Requirements for Approval
  - Due Date
    - Submit to COT within 15 days of adoption
    - Adopt within 2 months of FY
Section 2 – Comptroller Oversight and Support

Budget Oversight

✓ STEP ONE – Submission Requirements for Approval

- Required Information
  1. Cover letter
  2. Signed/certified copy of the appropriation act and tax levy
  3. Detailed Budget
  4. Budget Summary Schedule
  5. Cash Flow Forecasts
  6. Debt Schedule
  7. Revenue Forecasts
Section 2 – Comptroller Oversight and Support

Budget Oversight

✓ STEP ONE – Submission Requirements for Approval
  ▪ Budget Submission Items to Note
  ▪ Common Issues with Budget Submissions
Section 2 – Comptroller Oversight and Support

Budget Oversight

✓ STEP TWO – Approval by the Comptroller’s Office
  ▪ Approved
  ▪ Conditionally Approved
  ▪ Not Approved
If a budget is either not approved by the comptroller of the treasury or the comptroller's designee or not submitted to the comptroller of the treasury or the comptroller's designee when required under this part within two (2) months of the beginning of the fiscal year, then debt or financing obligations shall not be issued by the public entity until the comptroller of the treasury or the comptroller's designee has approved the budget, or as otherwise provided for in a manner approved by the comptroller of the treasury or the comptroller's designee. In the case of an emergency, the comptroller of the treasury or the comptroller's designee, may waive the requirement of budget approval in order to allow the public entity to enter into emergency financial transactions. Tenn. Code Ann. § 9-21-404
Section 2 – Comptroller Oversight and Support

Budget Oversight

✓ STEP THREE – Requirements after Approval
  o Budget Amendments
  o Conditions for approval (if applicable)
  o Develop necessary policies and procedures
Section 2 – Comptroller Oversight and Support

Annual Budget Certificate

✓ 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 Water & Wastewater Financing Board or Utility Management Review Board.
Section 2 – Comptroller Oversight and Support

Online Resources

• Basic Revenue Estimating
• Annual Budget Memo
• Cover Letter
• Budget Summary Schedule
• Municipal Budget Ordinance
• Cash Flow Forecast Schedule
• Basic Cash Flow Estimating
Section 3 – Oversight and Support from Other State Agencies

Tennessee Utility Boards

- The Comptroller's Division of Local Government Finance serves as staff to the Water & Wastewater Financing Board (WWFB) and the Utility Management Review Board (UMRB).
- The WWFB supports municipalities, counties, and treatment authorities that operate water and sewer enterprises by ensuring that they are financially self-supporting. The Board also establishes the parameters for water accountability.
- The UMRB supports natural gas, water, and wastewater public utility districts by ensuring that they are financially self-supporting. The Board addresses certain complaints by utility district customers, approves or disapproves the creation of new utility districts, and conducts ouster proceedings for utility district commissioners related to misconduct, neglect, or training. The Board also establishes the parameters for water accountability.
Water & Wastewater Financing Board

The Water & Wastewater Financing Board (WWFB) supports municipalities, counties, and treatment authorities that operate water and sewer enterprises by ensuring that they are financially self-supporting. The Board also establishes the parameters for water accountability.
Utility Management Review Board

The Utility Management Review Board (UMRB) supports natural gas, water, and wastewater public utility districts by ensuring that they are financially self-supporting. The Board addresses certain complaints by utility district customers, approves or disapproves the creation of new utility districts, and conducts couter proceedings for utility district commissioners related to misconduct, neglect, or training. The Board also establishes the parameters for water accountability.
Section 3 – Oversight and Support from Other State Agencies

Tennessee Department of Education

• 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.
Gov. Lee Calls for Public Engagement on State Education Funding Formula

Tennesseans invited to

Education Vision and Priorities

We will set all students on a path to success.

https://www.tn.gov/education
Section 3 – Oversight and Support from Other State Agencies

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 of the Collateral Pool for Public Deposits
EXPLORE THE MANY RESOURCES AVAILABLE

https://treasury.tn.gov/

“We help build a brighter future by investing in the well-being of Tennesseans through exceptional financial leadership, management, service, and education.” - Treasurer David H. Lillard, Jr.
Section 3 – Oversight and Support from Other State Agencies

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.
CTAS TRAINING
Learn more about our training opportunities

County Technical Assistance Service

CTAS Mission: Promoting better county government through direct assistance to county officials and their associations.

CTAS provides technical assistance to elected and appointed county officials in many areas related to county government. If you are an elected or appointed county official and have any questions about material on our website or need further assistance, please give your County Government Consultant a call.

http://www.ctas.tennessee.edu/
Section 3 – Oversight and Support from Other State Agencies

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.
Section 3 – Oversight and Support from Other State Agencies

Tennessee Association of Utility Districts

• TAUD provides TN 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
SERVING OVER 500 UTILITIES AND BUSINESSES IN THE STATE OF TENNESSEE

TAUD's mission is to provide the highest quality technical, legal and operational support to assist its members in delivering safe and efficient services in the public interest.

Our staff of water, wastewater, and cross connection experts is available to assist you and answer your questions. On-site technical assistance is available at your utility by TAUD staff, specializing in water and wastewater operations.
Section 3 – Oversight and Support from Other State Agencies

Tennessee Emergency Communications Board

• 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.
Tennessee Emergency Communications Board

Ensuring that every citizen can effectively access the life-saving power of 911.

500 James Robertson Parkway, Davy Crockett Tower, Nashville, Tennessee 37243-0582 | Telephone: (615) 253-2164 | Fax: (615) 401-7642 | Email: TECB@tn.gov

About TECB
- Core Values
- Board Members
- Committees
- Staff
- Strategic Plan
- Current Projects
- E911 Brochure

Training Resources
- In Person Training Schedule
- TECB's Virtual Academy Sign Up
- TECB's Virtual Academy
- Board Member 101
- 2020 TENA Presentation

Meetings & Events
- Upcoming Events
- Watch Live and Past Meetings
- Quarterly Webinars

Financial Information
- Annual Report
- Financial Report

District Resources

Industry Resources

Laws, Rules & Policies

Contact Information
Division of Local Government Finance
Contact Information by Region

REGION 5
Adam Tschida • Financial Analyst
615.747.5340
Adam.Tschida@cot.tn.gov

REGION 3
Steve Osborne • Financial Analyst
615.747.5343
Steve.Osborne@cot.tn.gov

REGION 1
Lori Barnard • Financial Analyst
615.747.5347
Lori.Barnard@cot.tn.gov

REGION 2
William Wood • Financial Analyst
615.401.7893
William.Wood@cot.tn.gov

REGION 4
Meghan Huffstutter • Financial Analyst
615.747.5379
Meghan.Huffstutter@cot.tn.gov

REGION 6
Betsy Knotts • Director
615.401.7862
Betsy.Knotts@cot.tn.gov
Ron Queen • Financial Analyst
615.401.7862
Ron.Queen@cot.tn.gov

Please send submissions and requests to:
LGF@cot.tn.gov
615.401.7829

TENNESSEE COMPTROLLER OF THE TREASURY
Section 4 – Budgeting Terminology, Definitions, and Concepts

The Budget

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 for proprietary funds. All revenue estimates should be meaningfully forecasted. The budget is used throughout the fiscal year and amended when necessary.
Section 4 – Budgeting Terminology, Definitions, and Concepts

The Budget

• 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

An appropriation bill, ordinance, or resolution is signed into law.

**Example:** General, special revenue, and debt service funds for municipal and county governments are subject to legal appropriation.

### Non- Appropriated

Approved in a manner authorized by state or local laws and not subject to appropriation.

**Example:** Municipalities that adopt budgets pursuant to the 1982 Budget Law are not required to legally appropriate budgets for proprietary funds, such as water and sewer funds.

---

**Tennessee Comptroller of the Treasury**
Depending upon your type of government, the laws that apply will be governed by how your local government was created or a specific budget statute has been adopted by your governing body.
Section 6 – The Budget Process

• 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.

• If your local government has not developed policies and procedures to support the annual budget process, 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.
Section 6 – The Budget Process

1. Preparation
2. Adoption
3. Execution
4. Oversight
Section 6 – The Budget Process

1. Preparation
2. Adoption
3. Execution
4. Oversight

- Policies & Procedures
- Component Units, Joint Ventures, and Similar Entities
- Revenue Estimating and Expenditure Estimating
Section 6 – The Budget Process (Preparation)

Policies and Procedures

• Budget calendar
• Cash flow management
• Minimum fund balance levels
• Contingency spending plan
• Long-term capital planning
• Program and service goals

• Legal spending requirements (maintenance of effort)
• Clearly defined departmental responsibilities in the budget process
• Rainy day fund levels
• Structurally balanced budgeting
Section 6 – The Budget Process (Preparation)

Policies and Procedures

- Budget calendar
- Minimum fund balance levels
- Structurally balanced budgeting
- Contingency spending plan
- Long-term capital planning
- Program and service goals
- Legal spending requirements (maintenance of effort)
- Clearly defined departmental responsibilities in the budget process
- Rainy day fund levels
- Cash flow management
Section 6 – The Budget Process (Preparation)

Policies and Procedures

- Fund Balance Policy
- Structurally Balanced Budget
- Cash Flow Management
Section 6 – The Budget Process (Preparation)

Component Units, Joint Ventures, and Similar Entities

√ STEP 1 – Identify

√ STEP 2 – Determine financial relationship

√ STEP 3 – Develop an internal process

√ STEP 4 – Include with annual budget submission
Section 6 – The Budget Process (Preparation)

Component Units, Joint Ventures, and Similar Entities

- Debt Guarantee for a Joint Venture
- Loan to a Component Unit
Section 6 – The Budget Process (Preparation)

Revenue Forecasting and Expenditure Estimating

• Reliable and realistic
• Online instructional videos: www.tncot.cc/budget
• MTAS and CTAS assistance
• TAUD assistance

TENNESSEE COMPTROLLER OF THE TREASURY
Section 6 – The Budget Process (Preparation)

Forecasting Property Tax Revenue in a Reappraisal Year

• Do not delay your budget process 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 there are special circumstances, local officials should contact your financial analyst and we will work with you and the State Board of Equalization to address the situation.
Section 6 – The Budget Process

1. Preparation
2. Adoption
3. Execution
4. Oversight

- Timely Adoption
- Continuation/Extension
- Legal Form
- Balanced Budget
- Budgetary Basis
Section 6 – The Budget Process (Adoption)

Timely Adoption & Budget Continuations

TRUE, FALSE, or IT DEPENDS

If a local government adopts a continuation budget prior to the beginning of the budget year or operates pursuant to a budget continuation statute, this meets the requirement of adopting a budget prior to the beginning of the budget year.
If a local government adopts a continuation budget prior to the beginning of the budget year or operates pursuant to a budget continuation statute, this meets the requirement of adopting a budget prior to the beginning of the budget year.
Timely Adoption & Budget Continuations

- Before the budget year begins
- Budget Calendar
- Estimates

- Permitted by state law
- Counties, metropolitan governments, and municipalities

Two Month Statutory Requirement
§§ 7-82-501, 9-21-404, 68-221-611, 68-221-1306
Section 6 – The Budget Process (Adoption)

Legal Form of the Annual Budget Document

- Municipalities
  - Budget Law of 1982
  - Other state law or private charter
- Counties & Metropolitan Governments
- Utility Districts and Authorities
  - Minutes vs. Resolution
Section 6 – The Budget Process (Adoption)

Legal Form of the Annual Budget Document

TRUE, FALSE, or IT DEPENDS
A municipality has a private act charter; therefore, they are exempt from the ordinance requirements of the Budget Law of 1982.
A municipality has a private act charter; therefore, they are exempt from the ordinance requirements of the Budget Law of 1982.
## Legal Form of the Annual Budget Document

**Tenn. Code Ann. § 6-56-202**

This part (the Municipal Budget Law of 1982) applies to any municipality that does not have budget provisions in its charter that are at least as detailed as provided by § 6-56-203(1) and (3).

### Municipal Budget Ordinance

<table>
<thead>
<tr>
<th>GENERAL FUND</th>
<th>Actual FY 2020</th>
<th>Estimated Actual FY 2021</th>
<th>Budget FY 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local Taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licenses And Permits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Intergovernmental</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Charges For Services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fines And Forfeitures</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other Financing Sources</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuance of Debt / Debt Proceeds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sale of Capital Assets</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers In - From other funds</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers In - From other funds (PILOT)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenues and Other Financing Sources</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Appropriations

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>Actual FY 2020</th>
<th>Estimated Actual FY 2021</th>
<th>Budget FY 2022</th>
</tr>
</thead>
<tbody>
<tr>
<td>Department of Administration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Police Department</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fire Department</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Office of Building Inspector</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parks Department</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Debt Service - Principal and Interest</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Section 6 – The Budget Process (Adoption)

Balanced Budget

Tennessee law has balanced budget requirements for counties, metropolitan governments, municipalities, utility districts, water and wastewater treatment authorities, and other local governments.

- Estimated Revenue
- Other Financing Sources
- Beginning Unrestricted Fund Balance

≥

- Estimated Expenditures
- Other Financing Uses
- Entity’s Minimum Fund Balance Policy
Section 6 – The Budget Process (Adoption)

Structurally Balanced Budget

• Recurring revenues are budgeted to pay for recurring expenditures
• A structurally unbalanced budget may be a sign of financial distress
• If your local government plans to adopt a structurally unbalanced budget, you should contact our office.

TENNESSEE COMPTROLLER OF THE TREASURY
Section 6 – The Budget Process (Adoption)

Budget Basis

Generally Accepted Accounting Principles (GAAP)

- Fund Level
- Modified Accrual Basis – General Fund, Special Revenue Funds, and Debt Service Fund
- Accrual Basis – Proprietary Funds (Utility Funds)
Section 6 – The Budget Process (Adoption)

Utility Systems

The budget should be adopted to comply with requirements of the respective Utility Board that has oversight for your system:

• Utility Management Review Board (UMRB)
  • Utility Districts
• Water and Wastewater Financing Board (WWFB)
  • Municipal, County, or Metropolitan Governments with a Water or Sewer System
  • Water and Wastewater Treatment Authorities
Section 6 – The Budget Process (Adoption)

Utility Systems

WWFB & UMRB Financial Distress Indicators

1. Statutory decrease in net position for 2 consecutive years;
2. Defaulted debt; or
3. A negative ending net position balance.
Section 6 – The Budget Process (Adoption)

Utility Systems

Statutory Change in Net Position:

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

TENNESSEE COMPTROLLER OF THE TREASURY
Section 6 – The Budget Process

1. Preparation
2. Adoption
3. Execution
4. Oversight

- Monthly Budget to Actual Reports
- Budget Amendments
- Allotments and Impoundments
Section 6 – The Budget Process (Execution)

• Assign responsibility (department-level)
• Monitoring
  • Systematic review to ensure your government is within spending levels
  • Establishes an expectation of accountability (monthly budget to actual reports)
  • Enables you to respond quickly to financial distress identified as part of the monitoring process
• “Amend before you Spend”
  • Send amendments to: LGF@cot.tn.gov
Section 6 – The Budget Process

1. Preparation
2. Adoption
3. Execution
4. Oversight

- Approvals
- Audits
- Utility Boards
Section 6 – The Budget Process (Oversight)

APPROVALS
AUDITS
UTILITY BOARDS
Section 7 – Best Practices

Tennessse Comptroller of the Treasury
Section 7 – Best Practices

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:

• Achieving a Structurally Balanced Budget
• Financial Forecasting in the Budget Preparation Process
• Long-Term Financial Planning
• Using Cash Forecasts for Treasury and Operations Liquidity
Section 7 – Best Practices

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 – FAQs
7. Budget Cycle (Illustration)
Online COT Budget Resources

www.comptroller.tn.gov/office-functions/lgf.html

- Example budget ordinances and resolutions
- Instructional Videos
- Budget Manual
- Budget Schedules
- Budget Submission Checklist
- Annual Budget Memo
- Cash Flow and Revenue Forecasting Tools
- Annual Budget Certificates
- Seven Keys
Conclusion

If you fail to plan, you are planning to fail.
- Benjamin Franklin

TENNESSEE COMPTROLLER OF THE TREASURY