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# Budget Planning

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Dear Reader:

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We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

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# Budget Planning

Reference Number: CTAS-716

Each county government should plan, develop, adopt and manage operating budgets for the various operations. During this budget process, a forum should be established where various factions, interests, and operations are discussed, debated, and reviewed. The final product should be a budget that reflects a consensus of all the players involved. Even though conflicts cannot be eliminated, an attempt should be made to identify these potential conflicts and minimize them with a good budgeting system. It is important to develop procedures for the budgeting process.

Before January 1, time should be devoted to reviewing the current budget and beginning the budgeting process for the next fiscal year. Department heads and committees of the legislative body should meet to hear concerns relating to services and the current budget. It is very important that all interests are heard; the merits of these interests discussed; and, in the end, a consensus reached thereby ensuring a positive environment in developing the next fiscal year's budget.

Some ideas that could be implemented during the planning time are

1. Reviewing current problems relating to services with the department heads and "brain-storming" possible solutions.
2. Attempting to solve these problems within the present budget appropriations.
3. Reviewing the present economic conditions of the county or community.
4. Determining the status of revenue estimates for the current budget by asking the following questions: (1) Are the local sales tax collections running as expected? (2) What about the property tax and other local taxes?
5. Reviewing the status of expenditure estimates. Are the estimates sufficient to provide the services planned for the current fiscal year?
6. Identifying steps the county can take to improve the prior year's process by asking (1) what information is needed? (2) how can the information be presented to help the decision-making process? (3) do the members of the legislative body and department heads have ideas for improving the budgeting process?

In order for all department heads to have time to develop the budget information needed to meet deadlines, it is imperative they be informed of the applicable budgetary timeline for the county. With the passage of Public Chapter 1080 in 2016, most counties now have the option to adopt their own budget timeline or follow the applicable statutory timeline. It is important all interested parties in the county are aware of the applicable timeline. An example of a budgeting calendar which could be adopted locally can be found here: [Sample Budget Calendar](#)

## Required and Optional Services

Reference Number: CTAS-2113

The approach of each county government budget will vary based on the information needed to inform the public, legislative body, elected officials, and department heads. In deciding on the approach, the key is what information is needed to answer the following basic questions:

1. *What services are needed to meet the mandates of federal and state governments?*
2. *What services are required due to the demands of your local citizens? (See the following list of required versus optional services)*
3. *What revenues are available to fund these services?*

### **Required Services**

Tennessee State statutes require counties provide the following services:

- Ambulance service
- Education
- Civil defense
- Courthouse, including fee officials
- Growth management policy

- Health department
- Law enforcement, including jail
- Medical examiner
- Roads and bridges
- Solid waste (convenience centers only)
- Solid waste (site for batteries, used motor oil, and tires) (If a county has an interlocal agreement with another governmental entity or contracts with a private company, this service can be waived)
- Storm water management

### **Optional Services**

The following services are optional:

- Airport
- Animal control
- 911 system
- Fire protection
- Incinerator(s)
- Industrial development
- Mass transit
- Planning
- Port authority(s)
- Recreation
- Sewer system
- Support for non-profit/charitable organizations
- Water system
- Workhouse

After asking the basic questions mentioned above, the dialogue below usually follows:

1. What is the purpose of the program (e.g. juvenile services), service (e.g. Geographic Information System), or activity (e.g. planning)? How will the additional cost improve the service? Will the benefits from the new program or service justify the additional cost? What research is available to support the additional cost?
2. How can we communicate this problem to the public and legislative body? This is a major issue. ***The key to effective budgeting is properly communicating the problem and solution to the public and the legislative body.***
3. What will it cost to provide the services? Why must we raise taxes or increase the tax rate?
4. What information can be provided that will justify a tax increase? How do we justify the increase in personnel, salaries, capital outlay, and other operating costs?
5. Where are the funds coming from to fund the program or service? How much local funds are needed to fund the program? Will the state or federal government fund the program and for how long?

The approach to answering these questions is very important, especially if taxes must be increased. In determining the approach, the budget coordinator should think about what information he/she would want if they had to make the final decision on whether or not to raise taxes.

## **Key Budgeting Issues**

Reference Number: CTAS-2154

The following issues should be considered when developing a budget.

## **Maintenance of Effort**

## Reference Number: CTAS-722

Tennessee Code Annotated requires certain financial mandates for local governments. Financial mandates are often referred to as "maintenance of effort" requirements. These requirements are either on local revenues or on the expenditure budget. We see these mandates for education, public safety, highways, and election commission. Maintenance of effort requirements prevent local governments from substituting state (or federal) funds for local revenues as state (or federal) funding increases. The rationale is to ensure that the additional funds provided are used for improvements or inflation, not simply to maintain spending levels previously supported by local revenue.

While not technically a maintenance of effort requirement, another financial mandate that must be considered when budgeting is the statutory minimum staffing level for the assessor's office. For more information, see Deputies and Assistants-Assessor of Property.

## County Mayor MOE

### Reference Number: CTAS-2491

T.C.A. § 5-9-408 provides that the county legislative body cannot adopt a budget that reduces the budget for the county mayor's office below the budgeted amount for the previous fiscal year for office personnel salaries and benefits, office supplies, communication expenses, postal charges, duplicating services, professional development training, and membership dues and fees, unless the reduction is approved by the county mayor.

## Education MOE

### Reference Number: CTAS-723

For education, "maintenance of effort" requirements differ from matching requirements in that the former do not require a minimum amount of local funds in exchange for receipt of state or federal funds, but rather prohibit reductions in local funding from one year to the next. The maintenance of effort test is a supplanting test that ensures local governments do not use state dollars in place of local dollars. This is governed by T.C.A. § 49-2-203 and § 49-3-314.

The MOE is not a one-time pass/fail test. Once the budget has been approved, the only way the MOE can be affected is through budget amendments.

The MOE test is a comparison between the new/next budget and the amended/original budget. This is used to see if MOE has been met for the new/next budget. This is a bottom line total test and does not compare each line item as a means of passing the test. *If the school system receives less than has been budgeted, the county government is not responsible for making up the shortfall.*

There are several possible scenarios that will allow the county to reduce its MOE, which are discussed under School Budget - Maintenance of Effort under the Education topic in this library.

In cases where the MOE is not met in the current budget year, the state has the option of withholding funds until the test is met. During the budget process the school MOE should be reviewed prior to passage of local budget.

## Education Maintenance of Effort Tests

### Reference Number: CTAS-2469

#### First Level - Year to Year Revenue Comparison

	2018 - 2019 Budget	2017 - 2018 Amended	2017 - 2018 Original Budget	2017 - 2018 Actual Revenue	Budget to Budget Comparison	Budget to Actual Comparison
Total County Taxes	\$13,814,445	\$13,552,115	\$13,552,115	\$ -	\$262,330	\$(13,552,115)
Total City/Special School District Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Other Local and State Revenue	\$1,115,199	\$1,115,199	\$1,115,199	\$ -	\$ -	\$(1,115,199)

Total Revenue	\$14,929,644	\$14,667,314	\$14,667,314	\$ -	\$262,330	\$(14,667,314)
Less Local Revenue Increases for:						
Capital Outlay	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Adjusted Revenue	\$14,929,644	\$14,667,314	\$14,667,314	\$ -	\$262,330	\$(14,667,314)

If the Budget to Budget Comparison is greater than zero, the MOE test passes.

	2018 - 2019 Budget	2017 - 2018 Amended	2017 - 2018 Original Budget	2017 - 2018 Actual Revenue	Budget to Budget Comparison	Budget to Actual Comparison
Total County Taxes	\$16,605,000	\$16,909,000	\$16,909,000	\$ -	\$(304,000)	\$(16,909,000)
Total City/Special School District Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Other Local and State Revenue	\$7,000	\$7,000	\$7,000	\$ -	\$ -	\$(7,000)
Total Revenue	\$16,612,000	\$16,916,000	\$16,916,000	\$ -	\$(304,000)	\$(16,916,000)
Less Local Revenue Increases for:						
Capital Outlay	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Debt Service	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total Adjusted Revenue	\$16,612,000	\$16,916,000	\$16,916,000	\$ -	\$(304,000)	\$(16,916,000)

If the Budget to Budget Comparison is negative, the MOE test fails at First Level.

## Sheriff/Law Enforcement MOE

Reference Number: CTAS-724

The county legislative body is required by law to fund authorized expenses fixed by law for the operation of the sheriff's office, including the salary of all the sheriff's deputies. T.C.A. § 8-24-103(a)(1) *State ex rel. Ledbetter v. Duncan*, 702 S.W.2d 163, 165 (Tenn. 1985) (We hold that the provision requires the county legislative body to fully fund the salaries of all deputies as set by the circuit or criminal court pursuant to T.C.A. Chapter 20 of Title 8).

The county legislative body may not adopt a budget that reduces below current levels the salaries and number of employees in the sheriff's office without the sheriff's consent. In the event the county legislative body fails to budget any salary expenditure that is a necessity for the discharge of the statutorily mandated duties of the sheriff, the sheriff may seek a writ of mandamus to compel such appropriation. T.C.A. § 8-20-120.

## Highways MOE

Reference Number: CTAS-725

County highway departments are also required to meet a "maintenance of effort" for local revenues according to T.C.A. § 67-3-901(d). It states a county shall be eligible to receive those revenues to be distributed directly to it from the tax increases imposed by Acts 1985, Ch. 419, Acts 1985, Ch. 454, effective 1985, and Acts 2017, Ch. 181, only if it appropriates and allocates funds for road purposes from local revenue sources in an amount not less than the average of the five preceding fiscal years, except bond issues and federal revenue sharing proceeds shall be excluded from the five year average computation. If a county fails to appropriate at least such average amount for road purposes, then the amount of "gas tax" revenue that would otherwise be allocable to a county would be reduced by the amount of the decrease below the five year average.

Highway certification form.

## Election Commission MOE

Reference Number: CTAS-726

Pursuant to T.C.A. § 2-12-209, no county receiving payments from the state for having a certified administrator of elections shall reduce the total amount appropriated to the county election commission below the total amount appropriated to the election commission in previous comparable election or non-election years.

## Recurring Revenues and Expenditures

Reference Number: CTAS-742

If an expenditure will continue each year, will the revenue source to fund the expenditure continue? Often programs are added that require recurring expenditures, but the revenue source is terminated. Therefore, there should be a clear understanding that whenever a new program is added and it is partially or fully funded from non-local tax sources, the program will be terminated or funded from the property tax when the funding source is stopped. The best examples of this problem are when recurring expenditures are funded by non-recurring revenues such as federal grants, federal revenue sharing funds, state grants, or from the undesignated fund balance.

### **POLICY RELATIVE TO TERMINATED STATE & FEDERAL GRANTS**

What is the policy of the county relative to continuing the service when a federal or state grant is terminated? A policy should be established for each grant whenever it starts relative to the continuation of the service if and when the grant funds are terminated.

Recommended Practice: Develop a policy on dealing with grant funds or projects that may not have future revenue to support the programs.

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