

## BUDGETING AND APPROPRIATIONS PROCEDURES

The financial plans of the City are included in the annual capital and operating budgets. These budgets project all receipts and disbursements, and present the level of governmental services and the method of distributing costs to the various segments of the community through the collection of taxes and fees.

The Council has final responsibility for approving certain program and fiscal policies, approving the annual Operating Budget and the Capital Improvement Program, and setting the tax rate and fees for services. The Administration is responsible for proposing programs and recommending funding levels to the Council and for implementing service programs in accordance with established goals and objectives.

**Operating Budget** The Annual Operating Budget is submitted to the Council approximately 90 days prior to the end of the fiscal year in April. At least 3 to 4 weeks prior to the end of the fiscal year, the City Council approves the Operating Budget.

The City of Memphis operates on a July through June fiscal year and is required by City Charter to submit and have approved a balanced budget each fiscal year.

The budget process is a series of reviews and analyses of budget requests submitted by the various city departments. The staff of the Budget Office, along with the Finance Director and each division director, Chief Administrative and Financial Officers, Mayor, City Council and the public are all involved to ensure that the approved budget is reflective of the needs and desires of the entire community.

The adopted budget ordinance appropriates spending and provides for budgetary control at program levels. Program budgets cannot be exceeded without the approval of the City Council except for the year-end clean up process authorized via budget ordinance. Strict budgetary compliance is maintained by an automated accounting system to assure effective fiscal management and accountability. All requests for purchases or payments are checked by the budgetary control system to assure that funds are available. Purchase Orders and contracts are encumbered prior to their release to vendors. Those Purchase Orders and contracts that exceed appropriated amounts cannot be executed until additional appropriations are made available, either by transfer of existing appropriations or by a resolution granting additional appropriations by Council. The system controls are maintained at the program levels and are basically set up within Personnel, Operations and Maintenance and Capital categories.

**Capital Budget** The Capital budget and Capital Improvement Program are prepared annually to present the capital expenditures planned for each of the next five fiscal years. The total costs of each project and the sources of funding (local, state, federal and private) required to finance each project are estimated. The Capital Improvement Program is prepared after a rigorous review and evaluation of all proposed projects by the Capital Review Committee. The Mayor approves the single year Capital Budget and five year Capital Improvement Programs and presents them to the Council for adoption. The single year Capital Improvement Plan allocates the capital expenditures to be made in the current budget year.

Additional authorizations (appropriations) for each capital project in the Capital Budget must precede the expenditures of construction funds. The Capital Budget must be in full conformity with that part of the Capital Improvement Program applicable to the fiscal year which it covers.

The timetable for approval of the Capital Budget and Capital Improvement Program closely parallels that of the Operating Budget.

## BUDGET DEVELOPMENT PROCESS

The Budget Office uses financial data provided by city divisions to facilitate the review and approval of the Operating and Capital Improvement Budgets. This service center is responsible for ensuring the operation of all divisions within financial guidelines established by Administrative policy and City Council legislation. The Budget Office is also responsible for forecasting all general revenue for the City.

The Operating Budget is established annually. The process begins in October for the following fiscal year. Divisions are asked to enter Personnel, Materials & Supplies and Capital outlay into the Budget System over a three week period. The information is then analyzed and divisions are consulted with respect to noticeable budgetary changes. The process continues in January with the second quarter forecast and revision of next year's operating budget. Administrative hearings are held In March to examine each service center's budget and to make necessary revisions. After finalizing any necessary revisions, the Operating Budget is presented to Council in April. The Council then conducts its own hearings to scrutinize the budget. The process ends in June with Council's approval of the budget and the June loading into the Accounting system of the new budget. Funding approvals are limited to one fiscal year, with surpluses or deficits corrected through fund balance.

The Capital Improvement Program (CIP) is a five-year plan for capital allocations, which is reviewed annually for priority and project changes and additions. This plan examines each project in which the City participates and specifies the source of financing for the projected expenditures. The process for the CIP also begins in October with the divisions entering their requests into the Budget System. The projects are analyzed by the Budget Office and the CIP Committee and then administrative hearings are held in January with each division to assist them in justifying their requests. After finalizing revisions, the CIP Budget is presented to Council in April. The Council then conducts its own hearings to scrutinize the budget. The process ends in June with Council's approval of the budget and the June loading into the Accounting system of the new budget.

The Council adoption of the CIP authorizes a portion of engineering, architecture, land acquisition and development costs through administrative appropriation. Funds for construction costs, equipment, and acquisition contracts are subject to additional authorization by the Council. Prior and current CIP allocations will remain in the plan until the Division in charge of the project or Council determines that the project is completed or is not needed.

The Budget Office ensures operation with the legally established financial guidelines by monitoring the budgets and reviewing mid-year changes to the budget. The Budget Office monitors the CIP by using tracking reports, which are usually completed during budget submission and may be requested at various intervals during the year. The Budget Office also monitors the operation budget through forecasts provided by service centers management personnel. This enables the Budget Office to project citywide surpluses and deficits. These forecasts help the Administration to determine which service centers need additional assistance in planning or funding. Both CIP and Operating Budgets change during the fiscal year (mid-year changes) when user service centers process transfers and resolutions. The CIP Committee reviews and approves resolutions and transfers and forwards them to the Finance Director, City Attorney, CAO, and Council for legal actions.

Due to changes in the yearly Budget Submission process, both Operating and CIP, the Budget Office staff provides training and reference manuals, which are available to division personnel responsible for the budget submission. Documentation of the past years' budgets is available for review electronically, in the Annual Report, and in Appropriation Ordinances.

---

## BUDGET CALENDAR

### July – August

Prior Year Performance and Budget Highlights  
4<sup>th</sup> Quarter & Year End Total Actuals due  
Budget Policies developed for current year forecast and next year's budget request

### September

Initial revenue projections for current year and next year  
Final personnel and supplies/services cost assumptions prepared  
Budget training material published

### October

Operating Budget training sessions with divisions for 1<sup>st</sup> quarter forecast and next year's budget  
Memphis Poll conducted  
Capital Improvement Program Training & Preparation  
Current Year 1st Quarter Actuals reviewed

### November

Divisions submit 1<sup>st</sup> Quarter Operating and next year's requests to Budget Office  
Divisions submit CIP to Budget Office  
Divisions develop Measures and Metrics

### December, January

Revenue projections updated for current year and next year  
Budget meeting with divisions for 2<sup>nd</sup> Quarter forecast and next year's budget request  
Review of Divisional GOPMs conducted for next Budget Year  
Current Year 2nd Quarter GOPM Actuals reviewed

### February, March

Operating Budget/CIP Administrative hearings with divisions  
Operating Budget/CIP review with Mayor, CAO  
Final recommendations made and budget documents prepared

### April

Operating Budget/CIP is presented to the City Council on the third Council Tuesday in April  
Current Year 3<sup>rd</sup> Quarter Actuals reviewed

### May, June

Budget hearings with the City Council Operating Budget and CIP Committee  
Property Tax Rate set and adopted and tax bills prepared by Treasurer's Office

**OPERATING BUDGET IMPLEMENTATION**

After the overall hearings are completed, the Budget Office finalizes the Adopted Operating Budget Book. Data is input into the budget system and the Budget Office generates line item budget reports for operations. Summaries are presented to the Director of Finance, the Chief Administrative Officer, and the Mayor.

**MID-YEAR CHANGES TO THE OPERATING BUDGET**

The Operating budget is a guideline or plan of operation for each division. However, budget changes may be necessary during the fiscal year (for example, new grant monies can be made available or changes in a service center's personnel can disrupt an otherwise successful budget). When unforeseen circumstances arise, changes can be made to the budget two ways: Intra-Category Line Item Transfer (Black Line) or Inter-Category Line Item Transfer (Red Line).

**Intra-Category Line Items Transfers**

Intra-category line item transfers, called administrative transfers, are used to transfer budgeted funds from one expenditure to another as long as the transfer is within the same legal level and does not exceed \$50,000 between categories or a cumulative total of \$100,000 for the year.

Administrative transfers are necessary when transferring small amounts of funds within a legal level, such as moving \$1,000 from document reproduction to City Hall printing within a service center. The Request for Transfer of Budget Appropriation Intra-Category Line item Transfer must be completed in full including a justification of the transfer. The explanation should address why surplus funds are available and why funds are needed. This form must be signed by the division director and forwarded to the Budget Office for approval.

**Inter-Category Line Item Transfers**

Inter-category line item transfers, called council transfers, are used to transfer funds from one legal level to another or between categories. The council transfer form is very similar to the administrative form. Since the changes require approval of the City Council, each transfer must be accompanied by a resolution and a Council Agenda Check-Off Sheet.

## **CAPITAL IMPROVEMENT PROGRAM**

### **INTRODUCTION**

The Capital Improvement Program (CIP) is a five-year planning tool for urban growth and development. It outlines the schedule of public improvements and the associated costs. The CIP lists each proposed capital project to be undertaken, the year in which it will be started, the amount to be expended in each year, and the proposed method of financing. Over the life of the program, the plan will be reviewed and revised on an annual basis.

The CIP consists of projects that provide long-term improvements to the City and its infrastructure. An initial project is usually comprised of one of the following items: land, building, and/or equipment. These items can generally be defined as eligible on the following basis:

LAND acquisition and/or development expenditures are eligible as capital costs regardless of whether they are purchased in connection with future economic development.

BUILDING renovations, additions to existing structures or new construction costs are capital expenditures. Inclusive in these costs may be feasibility studies and architectural/engineering designs.

EQUIPMENT or machinery purchases that are essential to the initial operation of a project are included within that scope of the project's costs.

The replacement of equipment that is essential to the operation of a facility can be considered a capital project provided its cost is \$5,000 or more and its useful life is greater than (5) years.

### **PURPOSE**

The Capital Improvement Program allows the projection of future needs and enables the City to develop a financial blueprint to accommodate the growth of its infrastructure. From this long-term planning process evolves a capital project priority system that coordinates public needs and resources with the availability of funding.

The thorough preparation required in formulating the Capital Improvement Program allows the City to forecast the impact of each project on the City's Annual Operating Budget. For example, the construction of a project may be financed through the CIP; however, the staffing and operations may be funded through the operating budget. Therefore, timing of facility construction and its subsequent operation enables the City to anticipate future expenditures and revenues.

The publication of the Capital Improvement Program supplies information to various groups interested in the future development of Memphis. The CIP outlines the City's intent for Federal and State agencies that provide grant dollars for specified projects. Private investors can preview the attractiveness of the City and its assets as related to investments in municipal securities. Developers are made aware of new projects and may plan accordingly. Finally, individual taxpayers, neighborhood groups and other civic organizations are familiarized with the City's plan for future development and the effects such changes will make in their lives.

## **CAPITAL IMPROVEMENT PROGRAM IMPLEMENTATION**

### **OVERVIEW**

The Finance Division coordinates the full spectrum of budget activities for the divisions as directed by the Chief Administrative Officer, and Mayor. The Budget Office provides the divisions with pertinent financial and budgetary data and opens the Budget System for input.

Building Design and Construction reviews and manages the scope of all requests involving construction or major renovations to City owned structures. Debt Management studies the fiscal feasibility of the projects submitted for future funding needs.

Upon completion of the annual CIP request, administrative hearings are held with the Mayor, the Chief Administrative Officer, the Director of Finance, the Budget Office Manager and staff, Building Design and Construction, and staff from the division being reviewed. This group reviews the proposed fiscal constraints. A major consideration at the time of the hearings is the extent to which these fiscal proposals will impact the City's debt service requirements relative to the benefits provided to the City.

When the fiscal analysis is complete and recommendations formalized, the proposed CIP is sent to the Mayor for review and approval. The Mayor then presents the proposal to the Council. The City Council's CIP Committee schedules legislative hearings that provide a forum for the review of capital requests on an individual project basis. The City's five (5)-year projection of capital expenditures is carefully studied, revisions made as needed, and then presented to the full Council membership for adoption.

The CIP establishes the direction for future growth and balances forecasted tax revenues with the City's ability to assume additional debt service obligations. When the full Council adopts the proposed Capital Improvement Program, that year's process of analysis, revision, and implementation is complete.

### **TRANSFERRING ALLOCATIONS/APPROPRIATIONS**

Once the CIP has been adopted by the City Council, the data is loaded into the City's Accounting System. During the life of the project, it may be necessary to transfer funds to aid in the completion of the project.

Initially, the CIP revenues/expenses report is checked for funds verification. After it is determined that the funds are available, two methods are used to transfer or establish allocation and/or appropriations.

The Capital Improvement Budget Request for Administrative Transfer or Appropriation form (Black Line) is used to:

1. Record the initial appropriation of the planning lines (A/E, land development, land acquisition) upon the adoption of the CIP by the City Council.
2. Transfer allocations and appropriations within planning lines or within construction lines (contract construction, latent conditions, and other costs).
3. Transfer allocations from "cover-line" project planning lines to the new project planning lines and the appropriation of the lines.

The Capital Improvement Budget Request for Council Transfer and Appropriation form (Red Lines) is used to:

1. Appropriate all construction lines.
2. Transfer allocations and appropriations between projects.
3. Increase/decrease allocations or appropriations of a project.

(\*Please note, the red line and black line form serve the same purpose. The color and title of the form simply identifies whether the allocation or appropriation is administrative or council related.)

In order to transfer or establish a Council appropriation, the following items must be prepared: Resolution, Council Agenda Check-Off Sheet, and Council Transfer form and/or Appropriation by Council form (red line).



**BUDGET RESOLUTION REVIEW PROCESS (Operating & CIP)****RESOLUTIONS**

A resolution is a document asking the City Council to amend the Appropriation Budget Ordinance or Capital Improvement Budget. A resolution is written in two sections: the “WHEREAS” section and the “RESOLVED” section. The WHEREAS section explains why the change is necessary, what the money will be spent for, and why funds are available and where the funds will come from. The RESOLVED section includes the statements that actually change the Budget Ordinance.

A resolution details the action requested by Council and should answer one or more of the following questions:

- What is the purpose of the change?
- Why is the change necessary?
- What will the funds be used for?
- Why are funds available?

A resolution shall be written in clause format. Each clause in the preamble shall begin with the work “WHEREAS”, include a brief statement answering one or more of the above questions, and continue with “AND,” an adopting clause. “NOW THEREFORE BE IT RESOLVED”, shall summarize all information as requested regarding changes to the City Resolution. The adopting clause may be followed by several additional clauses.

After finalizing a Resolution, a Council Agenda Check-Off sheet must be prepared which summarizes the Resolution and includes all organizational date, account numbers, and dollar amounts.

**COUNCIL AGENDA CHECK-OFF SHEET**

The Council Agenda Check-Off Sheet must accompany all documentation that goes before Council. The originating division/service center must complete the form and have it signed by the appropriate service center manager and division director.

**Routing and Handling of Transfers****A) Administrative Transfers and Appropriations**

- Division Directors
- Budget Office
- Comptroller’s Office

**B) Council Transfers and Appropriations**

The budget resolution package (Council Agenda Check-Off Sheet, original resolution and 13 copies, Red Line forms- including appropriate signatures from the division director) should be forwarded to the Budget Office one week before the Council Committee meets. From there the documents will be forwarded as follows:

- 1) Director of Finance and Administration
- 2) City Attorney
- 3) CAO



- 4) Mayor's Office – Resolutions appropriating or transferring CIP funds must be received by the Mayor's Office by noon on Thursday for Council Committee action on the following Tuesday.
- 5) Council Committee reviews monetary transfers and makes recommendations to the full Council.
- 6) The Mayor's Office forwards the resolution to Council Records after the Council Committee recommendation (s) are made. Then the resolutions are placed on the Council Agenda for consideration by the full Council on the following Tuesday.

Council's approval of the resolution gives legal authority to amend the fiscal year's budget.

Resolutions may be returned to the originating division/bureau for corrections at any time during the process.

The need for accuracy in the completion of all appropriate forms and recognition of time constraints is crucial in processing transfers. The Budget Office may be contacted for further assistance and/or information.