October 24, 2012

**Amending the Budget**

Question: We are going to go over our spending limit in one of our funds. We’ve got enough unencumbered cash to increase our spending limit high enough to cover what we think we’ll spend. Can we wait until the end of the year to do the amendment?

Answer: Maybe. The budget law provides In K.S.A. 79-2934 that “[n]o money in any fund shall be used to pay for any indebtedness created in excess of the total amount of the adopted budget of expenditures for such fund.” The budget law also allows a municipality the option of amending its budget to increase its spending authority. (K.S.A. 79-2929a.) Read together, the statutes cited require that a municipality amend its budget before its spending exceeds its current spending authority.

So, if by waiting until “the end of the year” to amend your budget means that you will spend more than your budget authority prior to the amendment occurring, the answer is that the budget law requires that you amend prior to overspending, whenever during the year that might occur.

Remember, too, that K.S.A. 79-2929a requires that an amendment to your current year budget be completed (i.e. amendment preparation, publication, hearing, and adoption) prior to the end of the budget year

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Question: The statute on amending the budget says that the fund being amended must be balanced by *unbudgeted receipts*. What does that mean?

Answer: K.S.A. 79-2929a provides that “[a]ny proposed increase in expenditures [i.e. increase in budget authority] shall be balanced by *previously unbudgeted increases in revenue* other than ad valorem property taxes.”

Generally, the only reason to amend the budget is to provide additional spending authority. To do this you must build an amended budget with an expenditure total exceeding the total that was originally adopted.

In addition, your budget must balance between projected receipts and projected expenditures. The same goes for your amended budget: projected receipts must equal the projected expenditures. So, to go higher in expenditures than what you originally budgeted you need to identify projected receipts that, in total, exceed the projected receipts used to build your original budget. The projected receipts that exceed those found in the adopted budget represent receipts that were “previously unbudgeted.”

Examples of “previously unbudgeted increases in revenue” might include unencumbered cash carryover from the preceding year. When the budget was created the carryover amount was merely an estimate; with completion of the preceding year you may find that actual carryover is higher than what was budgeted. This difference between actual and projected carryover is a “previously unbudgeted” increase in revenue.

Another example might be grant dollars that were not identified in the budget that was adopted. Or, perhaps you sold some equipment and the sale is not something that was anticipated last year when this budget was adopted.

As for the rest of your receipt line-items (excluding ad valorem property taxes), review your projections from when the budget was first adopted to see if any of those estimates were too conservative and; if so, the difference between the adopted projections and the latest projections will provide “previously unbudgeted” increases in revenue which can be used to build a higher expenditure amount, thus providing you with greater budget authority.

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Question: We are in the process of obtaining a loan through G.O. Bonds for water meter replacement purposes. This was not budgeted for. Do we need to make a budget amendment for this, showing cash received via the loan and the expenses for the water meter replacement? If this was from a grant, would we have to? Thanks!

Answer: Good afternoon. K.S.A. 79-2935 probably addresses this issue, and allows as an exception to the budget law, payment of additional expenditures beyond the adopted budget “when provision has been made for payment by the issuance of bonds.”  So at this point, as long as your expenditures don’t exceed the amount of the bond issue, the city should be okay.

In reporting this on the budget (for the year you actually incur the expense), you would record your expenditures in the appropriate fund, and if the GO bond proceeds were not budgeted for in the receipt portion of the fund, we would treat the bond proceeds as a *credit expenditure* (not a receipt) as in the following example:

Water Fund

Expenses

Water Meter Replacement $250,000

Bond Proceeds for Water Meter Replacement ($250,000)

By following this methodology, you don’t have to worry about triggering a possible budget law violation on the budget forms.

Hope this information helps.

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