

## Are California Cities Required to Have Budgets?

### No. But ...

There is no explicit requirement in state law for a California city to adopt a budget.<sup>1</sup> But many other laws and practical requirements make budget procedures and documents essential for any city.

- A public agency may not spend public funds without the legal authorization to do so. Among other things, a budget appropriates public funds, thereby providing the legal authorization from the governing body to expend these funds. Appropriation authority can also be conferred by an ordinance or resolution.
- Like other California public agencies, each city must annually establish its appropriations limit pertaining to the proceeds from taxes in compliance with Article XIIB of the California Constitution and Cal. Government Code Sec 7910. The appropriations limit is often established as a part of an annual budget and must be reviewed as a part of an annual financial audit.
- It is nearly impossible for even the smallest government agency to operate without incurring any debts or liabilities, even short-term, i.e. pay upfront cash for all employees, services, and supplies. The California Constitution (Section 18 of Article XVI) states that no city or county may incur any debt or liability in any year that exceeds the income and revenue anticipated for that year without two-thirds voter approval. In order to verify compliance with this, an agency must determine its anticipated income and revenue. A budget does this.
- Cal. Government Code Sec 53901 requires each local agency to file its budget with the county auditor within 60 days after the beginning of its fiscal year. If an agency does not have a "formal budget" it must "file a listing of its anticipated revenues, together with its expenditures and expenses for the fiscal year in progress" which amounts to much the same thing as a budget.
- In order to qualify to receive federal funds, a local agency must comply with the federal Single Audit Act and must retain a Certified Public Accountant to prepare an annual audit of its financial records. Such an audit will require the agency to comply with Generally Accepted Accounting Principles and government accounting and audit standards. That compliance will be very difficult without an adopted budget.

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<sup>1</sup> Some cities have budget requirements in their charters. Government Code Section 7900 provides budget requirements for counties. Budget requirements for special districts are in the various statutes authorizing those types of local agencies.