Tennessee Comptroller of the Treasury

DIVISION OF LOCAL GOVERNMENT FINANCE

Seven Keys to a Fiscally Well-Managed Government

For more information, visit ***tncot.cc/7keys***

Building A Strong Budget For A Resilient Government

Structurally Balanced Budget – A budget is structurally balanced when recurring revenues are sufficient to pay recurring expenditures. Recurring revenues can be relied on every year (property taxes, sales taxes, wheel taxes). Recurring expenditures are those required for normal governmental operations (debt payments, salaries, pension payments). Using overly optimistic revenue projections or underestimating expenditures, as well as relying on one-time revenue from selling assets, restructuring debt, spending savings, or deferring maintenance indicate the budget is not structurally balanced. [TCA § 9-21-403]

Cash Flow Management – A local government's ability to track how much revenue is coming into the government and how much is going out is vital to its fiscal health. Local governments that rely heavily on property taxes will need larger cash reserves to fund governmental services until tax revenue is received. Prior to its adoption, the budget must contain adequate revenues along with cash on hand to fund the government throughout the year. In addition, local governments need to have plans in place if additional sources of liquidity either internally (interfund tax anticipation note "TAN") or externally (bank issued TAN) prove to be necessary. [TCA § 9-21-801]

Forecasting Budgetary Amounts – Mechanisms for forecasting revenues and expenditures that consider economic trends and growth rates provide for reliable revenue estimates. Local governments that do not routinely forecast budgetary amounts may find revenues overstated and expenditures understated. [TCA § 9-21-403]

Planning For Unknowns

Rainy Day Reserve – Beyond liquidity management, local governments need to have reserves for unforeseen events like natural disasters or economic downturns. A government that creates a rainy-day fund should at times expect to use the reserves, but also have a policy for replacing the funds.

Contingency Spending Plans – Knowledge of what part of a budget is discretionary and can be legally and practically cut is necessary for dealing with unforeseen circumstances. If an event decreases a significant revenue source or increases spending during a year and revenues cannot be adjusted quickly then cuts to expenditures are necessary. Prior planning as to what cuts will be made will expedite the recovery.

Planning For Tomorrow

Long-Term Liability Planning – Debt, pension, and OPEB payments are set amounts in the annual budget. The larger these payments are, the less ability the governing body has to make changes to the budget. Ongoing decisions of whether to issue additional debt or to make changes to benefits have a direct budgetary impact that must be considered. When the repayment of long-term liabilities comprise a large percentage of the budget, consistent management of the government's obligations is essential.

Multi-Year Financial Planning – Having a plan that considers the long-term affordability of programs or projects before they become an item in the annual budget is crucial. Assets will need to be replaced, maintenance performed, and programs expanded; advanced planning of these items will help ensure the funding is available in the future.