

# Fiscal Health Principles for Tennessee School Districts and Local Governments

## PURPOSE

This document presents 10 fiscal health principles for school districts, also known as local education agencies (LEAs) and local governments regarding LEA budgets. The principles reflect the expectations of the Comptroller's Office and align with state law, federal funding requirements, and national best practices in government finance.

The principles can be applied throughout the budget cycle – from initial planning through year-end review. Adherence to all 10 will strengthen fiscal decision-making, improve communication between entities, ensure that limited public resources are used effectively, and promote transparency, long-term planning, and sound financial management.

## INTENDED AUDIENCE

This document serves:

- **LEA leadership** (finance officers, directors of schools, school boards) responsible for preparing, approving, and executing school budgets;
- **Local government officials** (county commissioners, city councils, mayors, budget committees) who review, approve, and oversee local budgets; and
- **Community stakeholders** interested in understanding the shared responsibilities that support the financial health of Tennessee's public schools.

## PRINCIPLE 1: DEVELOP A MULTI-YEAR BUDGET PLAN

While budgets are created annually, they represent both one-year and multi-year commitments. For example, facility upkeep and pension obligations extend beyond a single year. A forward-looking approach that projects revenues and expenditures at least three to five years ahead allows districts to anticipate challenges and plan for evolving needs.



Multi-year planning communicates to county commissions and city councils that the district is a reliable partner in stewardship of taxpayer funds. Aligning the district's multi-year outlook with the county's or city's broader fiscal plans for debt, pensions, and capital projects fosters transparency between the entities. Integration of the multi-year plans of school districts and local governments can align school funding assumptions with county debt and revenue forecasts and promote collaboration between the two entities.

### LEA Leadership:

- Develop and maintain a rolling three- to five-year financial forecast that considers potential shifts in revenue, expenditures, and enrollment trends.
- Communicate early and regularly with the local government about official revenue projections, upcoming concerns about the budget, and anticipated cost drivers.

## Local governments:

- Request long-term projections from the district before approving budget increases.
- Align school funding assumptions with the county's debt and revenue forecasts.
- Communicate early and regularly with the school board about local revenue projections and upcoming budgetary concerns that may impact the school district.

## PRINCIPLE 2: ADHERE TO FISCAL PLANNING TIMELINES

Timely and accurate budget submissions are essential for compliance with state law and for effective coordination between LEAs and local governments. Local option budgeting laws and private acts that may be in effect in a particular county will affect the budgeting process and must be consulted.<sup>1</sup> LEAs should ensure that the final budget submitted through the Tennessee Department of Education (TDOE) ePlan matches the budget approved by the local funding body and submitted to the Comptroller's Office.



### Budget Timeline

- May 1 – LEAs must submit their budgets to their local funding body.
- June 30 – Every county and municipality in Tennessee must submit their final budget to the Comptroller's Division of Local Government Finance (LGF) within 15 days of its adoption. Local budgets include general purpose school fund budgets. LGF reviews each budget to ensure that the budget is balanced, provides for the payment of all debt service, maintains sufficient liquidity, and does not place the local government into financial distress.
- July 1 – If the county legislative body has not adopted a budget for the operation of the public schools by July 1, the school budget for the year just ended continues in effect until a new school budget has been approved.<sup>2</sup> Note that spending is capped at 1/12 of the prior year's budget each month until a final budget is approved. If operating under a continuation budget after July 1, monthly allotments may not exceed the prior year comparable month; an extension through September 30 requires Comptroller approval for extraordinary circumstances.
- August 31 – Final deadline for budget submission to LGF.
- October 1 – All county and city budgets, including the general purpose school fund budget, must be approved by LGF. Any continuing general purpose school fund budget is not valid beyond October 1 of the current fiscal year for purposes of the LEA's ability to receive state funds. Therefore, if a budget has not been adopted by October 1, the state may discontinue the county's funding.<sup>3</sup>

### LEA Leadership:

- Submit budgets to local funding bodies by May 1 each year.
- If the submitted budget is not approved by the local funding body, make changes and submit a revised budget in a timely manner or as required by law to gain approval.
- Ensure the final budget uploaded into ePlan and submitted to the Comptroller's Office of Local Government Finance matches the budget submitted to and approved by the local funding body.

## Local governments:

- Clearly communicate local government and state budget submission deadline requirements.
- Hold school districts accountable to the communicated budget submission deadlines.

<sup>1</sup> County Technical Assistance Service, "County School Budget," <https://www.ctas.tennessee.edu/eli/county-school-budget>.

<sup>2</sup> Tennessee Code Annotated (TCA) 5-9-404.

<sup>3</sup> TCA 49-3-316(d).



### PRINCIPLE 3: FOLLOW BEST PRACTICES FOR FISCAL ACCOUNTING

The Comptroller's Office of Local Government Finance (LGF) provides budget-related resources for local governments and school districts, including the [Tennessee Budget Manual for Local Governments](#). Uniform guidance for local governments on the annual budget process is included in the manual.

Another LGF resource is *Seven Keys to a Fiscally Well-Managed Government*, which describes the seven essential elements present in financially well-managed governments. Follow this link for a printable copy: [tncot.cc/7keys](http://tncot.cc/7keys).

The Government Finance Officers' Association (GFOA) has identified budgetary best practices, including:

- Establishment of strategic plans
- Multi-year capital planning
- Capital budget presentation
- Working capital targets for enterprise funds
- Public engagement in the budget process

GFOA best practices can be found at [www.gfoa.org](http://www.gfoa.org).

Proper fiscal management depends on consistent adherence to sound accounting practices, internal accountability, and meeting relevant national and state standards. Following Tennessee laws and policies and the best practices of professional associations ensures credibility with the public.

#### Key practices include:

- Keeping expenditures within current-year revenues
- Understanding the district's legal level of spending authority
- Amending the budget when additional legal spending authority is necessary
- Maintaining adequate fund balance to cover unanticipated shifts in revenue
- Monitoring fiscal health metrics and trends
- Using proper account codes to ensure accurate reporting
- Maintaining full documentation of contracts, invoices, and payroll records

The Comptroller's Office of Local Government Audit (LGA) performs or contracts for the annual audits of all counties, cities, and school districts in the state. Audits ensure public entities are fiscally responsible, transparent with the use of taxpayer dollars, and are compliant with laws and regulations. Audits demonstrate to the public that, in the case of a school district, the school board and district administration are accountable for the stewardship of the district's finances. Throughout the year, district finance teams should provide regular updates to their school boards on the state of the district's finances with monthly budget-to-actual reports. Reviewing budget-to-actual reports frequently throughout the year is the most effective way for the school board to maintain a well-managed budget. Current and accurate accounting data is essential to make useful budget-to-actual reports, and timeliness in reviewing budget information is vital. Following the publication of the annual audit, district leaders should ensure a copy of the published annual audit is provided to all school board members. Some audit findings related to the school district could be based on inefficiencies or errors at the centralized finance office but still may need to be reviewed at the budget hearings. The audit report should include corrective action plans for all audit findings.

## LEA Leadership:

- Regularly review the Tennessee Budget Manual for Local Governments to ensure budgetary processes and policies adhere to state law.
- Require periodic budget-to-actual reports from the finance team throughout the year.
- Adopt [GFOA Best Practices](#).
- Review district audit findings in the annual audit and confirm completion of corrective action plans.

## Local governments:

- Require periodic budget-to-actual reporting from the LEA finance team for review by the budget committee.
- Budget hearings should include a review of school district audit findings to reinforce accountability and highlight clean audits to build public confidence.

## PRINCIPLE 4: ASSESS MAINTENANCE OF EFFORT REQUIREMENTS AND COMMUNICATE POTENTIAL CHANGES WITH YOUR LOCAL FUNDING BODY

Maintenance of effort (MOE) laws require local governments to budget at least the same level of funding for K-12 education each year. This is to prevent supplanting, whereby local funding for education is reduced as state funding for education increases. MOE requirements also apply to local budgets for county law enforcement, libraries, highways, and election commissions for the same reason. The Tennessee Investment in Student Achievement (TISA), the state's K-12 funding formula, stipulates the amount of required local funds that each county or city is responsible for contributing to the LEA's budget each year, based on a fiscal capacity calculation. In many cases, the local required match amount is less than the maintenance of effort amount.

Local governments may reduce funding below the maintenance of effort amount if an LEA is experiencing enrollment decline. In these situations, an LEA may request a second-level MOE test to confirm that the local government is budgeting at least the same funding per student as the previous year.



Dollars budgeted for capital projects and debt service are not included in maintenance of effort calculations. If a local budget does not meet maintenance of effort requirements, then the Comptroller of the Treasury shall not approve the local government's budget, and the Department of Education can withhold state TISA funds from the school district until the funding body passes a budget that is in compliance.<sup>4</sup>

## LEA Leadership:

- Model budget scenarios based on enrollment trends to determine if the TISA formula will require an increase to the local required match.
- Develop a contingency budget to respond to maintenance of effort reductions if enrollment declines and the local revenue budget is subsequently reduced.
- Attend the budget committee meetings of the local government. Know what concerns elected officials have and be prepared to answer or pose questions during the budget development process, not at the end.
- Confirm that the budget to be voted on and passed by the county or city aligns with the board-approved budget.

<sup>4</sup> TCA 49-3-314(c)(1)) and 49-3-108(h).

## Local governments:

- Understand your city or county's financial obligation as it relates to local required match (the minimum amount of local funds required by TISA) and maintenance of effort funding (the minimum amount of funds that must be budgeted based on last year's funding amount).
- Request enrollment trend information from the school district to understand potential long-term trends and the implications for state and local funding obligations.
- Maintain consistent communication with the LEA about official revenue projections and possible reductions in maintenance of effort, if applicable.

## PRINCIPLE 5: ESTABLISH A FORMAL POLICY ON THE LEVEL OF UNRESTRICTED FUND BALANCE

A strong unrestricted fund balance is an essential element of a government's overall fiscal health. A healthy reserve supports creditworthiness, stabilizes cash flow between tax collections, and positions the government to respond in a fiscally responsible manner to economic downturns, natural disasters, and funding reductions from the federal or state government. Reserve funds can be used for one-time investments, to respond to emergencies, or to bridge temporary cash-flow gaps, but should not be used to prop up the recurring revenues used for recurring expenditures. The use of reserves to cover shortfalls in recurring revenues creates a potentially unsustainable funding situation that runs afoul of Tennessee law requiring counties, cities, and school districts to pass balanced budgets.

School boards should maintain an unrestricted fund balance of no less than two months – or approximately 16.7 percent – of regular general fund operating revenues or expenditures, according to the Government Finance Officers Association (GFOA).<sup>5</sup> For some school boards, an unrestricted fund balance of more than two months may be prudent based on factors such as the predictability of revenues and perceived exposure to one-time outlays (e.g., disasters, immediate capital needs, potential revenue shortfalls, etc.).

Accordingly, school boards should adopt a formal fund balance policy that targets at least two months of operating revenues or expenditures. In developing and adopting a formal fund balance policy, close consultation and communication between the school board and the director of schools and other administrators of the school district is essential. LEA leaders should ensure that school board members understand the purpose and importance of the adoption and adherence to a fund balance policy, so fund balance is viewed as a tool to be used for specific circumstances and not used in a routine way to balance the budget.



Note: The GFOA's best practice standard of two months (approximately 16.7 percent) of regular general fund operating revenues or expenditures is separate from a statutory requirement concerning unrestricted fund balances. State law requires local governments to establish an unrestricted fund balance for any unexpended education funds remaining at the end of a fiscal year. Any accumulated fund balance in excess of three percent of the budgeted annual operating expenses for the current fiscal year may be budgeted and expended for any education purposes but must be recommended by the board of education prior to appropriation by the county legislative body.<sup>6</sup>

## LEA Leadership:

- Adopt a formal fund balance policy that targets at least two months, approximately 16.7 percent, of budgeted operating revenues or expenditures.
- Coordinate with local government leaders to determine a fund balance threshold that meets fiscal health standards and expectations of both school board members and elected local officials.

<sup>5</sup> Government Finance Officers Association, "Fund Balance Guidelines for the General Fund," <https://www.gfoa.org/materials/fund-balance-guidelines-for-the-general-fund>.

<sup>6</sup> TCA 49-3-352.

## Local governments:

- Monitor school fund balance trends in budget submissions.
- Support policies that prevent the school district from having to consistently dip into their reserves to fund recurring operations, such as:
  - Adopting or reinforcing structurally balanced budget policies,
  - Engaging in joint long-term financial planning with the school district,
  - Maintaining local funding levels that keep pace with inflation, enrollment, and mandated cost increases,
  - Requiring replenishment plans when reserves are used for operational purposes.

## PRINCIPLE 6: MONITOR KEY ENROLLMENT INDICATORS

The number of students enrolled in a school district and enrollment projections are critically important indicators to monitor. State and federal funding formulas are driven by student enrollment, so changes in enrollment have a direct impact on the revenues used to operate a school district and meet future capital needs. Since personnel costs make up the bulk of school district expenditures, enrollment projections – and the corresponding revenues projected – can raise significant questions about future staffing needs.

Enrollment trends and other student data trends, such as unique learning needs, also shape numerous other decisions about attendance zones, bus routes, hiring, professional development needs, and more. For example, a district projecting steady growth in early elementary grades can begin recruiting additional kindergarten and first grade teachers in advance, avoiding disruptive mid-year hires. In cases of declining enrollment in a particular zone, a district can adjust by consolidating classes or repurposing facilities.



Sound enrollment projections are the foundation of sound school finance because they directly influence revenues, staffing, and facility planning. State and federal funding formulas are enrollment-driven, and since personnel costs make up the bulk of expenditures, even modest changes in student counts can result in major financial consequences.

Enrollment projections should be updated annually, disaggregating data by grade level, by school, and by cluster zones or feeder patterns – or any other grouping that drives local decision-making. To further inform and refine enrollment projections, districts should review U.S. Census population trends, birth rate data, and local housing development patterns. At the same time, finance officers should be mindful of which data points may be less reliable today, such as data on free- and reduced-price lunch populations as collection requirements for such data have changed over the past several years.

The use of accurate, timely enrollment tracking can help align district financial planning with instructional and operational realities, ensuring long-term stability and success.

## LEA Leadership:

- Update enrollment projections on an annual basis at multiple levels (e.g., grade, school, zone).
- Monitor student data and enrollment in the LEA's student information system at least monthly to ensure information is current and accurate, as these data drive TISA funding.
- Use enrollment projections to guide staffing and facilities planning.

## Local governments:

- Request updates from the school district about enrollment trends.
- Incorporate enrollment trends into county planning for capital needs, debt issuance, and community growth patterns.

## PRINCIPLE 7: PLAN FOR PERSONNEL COSTS

Personnel costs account for 70 to 80 percent of a typical district's budget, so careful planning for these costs is one of the most important responsibilities of a school district finance team. The drivers of personnel costs are many and include the number of employees; compensation levels and projected increases; health insurance premiums and cost sharing; and retirements and pension contributions, among others.



Districts must be mindful of state salary adjustments included in TISA and how those translate to the local level. A percentage raise funded partially through the state formula may require an additional local contribution to bring salaries to the desired level, and once a district commits to increasing its salary scale, that decision represents a permanent financial obligation every year thereafter.

Districts must balance the affordability of past personnel-related spending decisions with important new human capital initiatives. For example, a district struggling to attract new, promising teachers and keep effective existing ones, especially those early in their career, who are the most likely to leave, must weigh the cost of needed new recruitment and retention programs alongside the district's existing obligations and long-term fiscal outlook. Proactive collaboration between district and school-level administrators is, thus, essential for striking the right balance between affordability and effectiveness. The two teams may wish to identify high-need positions and then assess the district's current pay structure and model different pay structures, including differentiated pay, sign-on bonuses, and retention incentives to jointly develop a beneficial human capital strategy for the district that is also fiscally sound.

Districts should keep local funding bodies informed of the school district's current and projected personnel costs. A good understanding on the part of local funding bodies of long-term projected costs, in particular, is key. When they have been kept informed along the way, local funding bodies are less likely to be surprised by a district's future personnel-related funding requests.

The challenge is that every decision ultimately affects teachers' pocketbooks – whether through direct pay increases or by absorbing more of their benefit costs – and districts must weigh what local governments can realistically sustain. This is particularly important in the current environment of teacher recruitment and retention challenges, where districts must attract new talent and keep early-career teachers who are most at risk of leaving within their first few years.

District and school-level administrators should work together proactively to identify high-need positions such as special education teachers, math and science educators, and paraprofessionals. Together, they can model different pay structures, such as differentiated pay, sign-on bonuses, or retention incentives for hard-to-fill roles. While these approaches may complicate traditional step-and-lane salary schedules, scenario modeling allows districts to anticipate long-term costs and avoid surprises. Just as importantly, districts should keep local funding bodies informed about these commitments. When governing bodies understand in advance that today's pay decisions will require sustained local support in the future, they are less likely to be shocked when districts return with higher funding requests to maintain the salary schedule and meet workforce needs.

### **LEA Leadership:**

- Request information from the HR team to project retirements, turnover, and high-need positions.
- Stay up to date on statutory and State Board of Education rule changes that may impact personnel costs.

### **Local governments:**

- Engage in ongoing discussions with school district leaders to better understand and monitor school district personnel costs and anticipate future budget requests from the school district.

## PRINCIPLE 8: STRENGTHEN CAPITAL PLANNING

Capital costs, such as facilities, buses, and technology, are among the largest and most visible long-term obligations for districts and counties. Because these investments often require significant debt and long-term repayment, careful capital planning is essential to maintaining fiscal stability. Without a long-term plan, districts may face deferred maintenance or costly increases in borrowing costs. A long-term capital improvement plan (10–20 years) that prioritizes projects, aligns with enrollment trends, and is coordinated with the county’s debt capacity is essential.

To maintain transparency and accountability, school boards should maintain a publicly available capital improvement plan that ranks projects based on urgency, safety, and cost. Sharing facility condition data with the public and local funding bodies allows for an understanding of the district’s long-term needs.

Similarly, local governments should incorporate school capital needs into their own county or city capital improvement plans. Joint planning between the school district and the local government builds trust and avoids conflict when both entities must compete for limited tax dollars.



### LEA Leadership:

- Maintain a 10–20 year capital improvement plan with ranked priorities.
- Share facility usage and condition data publicly.

### Local governments:

- Incorporate school needs into county capital improvement plans.
- Require joint planning before authorizing new debt.

## PRINCIPLE 9: MAINTAIN STRONG INTERNAL CONTROLS

Internal controls are the backbone of fiscal integrity. Strong internal controls include ensuring that financial roles are well defined, segregating financial duties, requiring dual approval for major transactions, and maintaining clear written procedures. Internal controls safeguard public funds, ensure transactions are documented and accurate, and ensure that public funds are spent in compliance with laws and grant requirements. State and federal law require all counties, municipalities, and metropolitan governments to establish and maintain internal controls.<sup>7</sup> Weak internal controls increase the likelihood of audit findings and raise the risk level for fraud, which causes reputational damage and erodes public trust.



See “Understanding Internal Controls and Implementing a Self-Assessment” published by the Tennessee Department of Education for more information, available [here](#) as well as Internal Controls Risk Assessment Templates for LEAs, available [here](#).

### LEA Leadership:

- Ensure strong internal controls are in place throughout the school district and that staff receive regular training on them.
- Require annual internal control reviews of policies and procedures.

### Local governments:

- Request confirmation from the school board that district staff are exercising strong internal controls and receiving regular training.

<sup>7</sup> 7CA 9-18-102(a); 2 CFR 200 9-18-102(a); 2 CFR 200.302 (b)(4).

## PRINCIPLE 10: MAXIMIZE TRANSPARENCY TO BUILD PUBLIC TRUST

Transparency is one of the most powerful tools a school district can use for building trust and credibility with the local funding body and the public. An LEA can demonstrate its commitment to transparency by providing clear, accessible, and timely information throughout the annual budget process.

The LEA budget should be accessible to the public and understandable. Budget documents, financial reports, and spending details should be posted on the school district's website in a format allowing for easy navigation by the public. Budget materials should be written in plain language, and jargon and technical terms should be avoided. Narratives and visuals should also be used. For example, if proposals for increasing funding for the school district are being discussed, showing the "value of a penny" in property tax revenue can illustrate the scale of local funding needs in relatable terms.



Engagement with the community is also important. The school district should share budget timelines and milestones with stakeholders and hold public meetings during the budget development process to gather feedback from staff, families, and community members.

Transparency and clarity regarding mandated expenditures (i.e., those required by the federal and/or state government) and discretionary expenditures are especially important for illuminating what is within the district's control and what is not. A clear distinction between non-discretionary and discretionary spending in the school district's budget benefits members of the local funding body, especially when deciding whether to raise taxes to increase revenues for schools.

A budget is not just a spreadsheet. It is an opportunity for a school district to communicate what public funds are being spent on, the rationale for spending decisions and proposed investments, and expected outcomes and measures of success. For example, through communications and presentations about the school district's budget, a district can explain the connection between current and proposed expenditures and long-term goals, such as improved literacy rates.

Finally, the responsibility for transparency should be shared by multiple parties in the school district. The Director of Schools, program staff, finance staff, and others should identify opportunities for enhancing the system's transparency. By blending financial details with programmatic context, school districts can give local officials and the public a fuller understanding of how resources are used to meet student needs.

Suggestions to improve fiscal transparency include:

- **Access:** Post budget documents, financial reports, and spending details on the district's website in a format the public can easily navigate.
- **Engagement:** Hold regular public meetings and clearly communicate budget timelines and milestones so stakeholders know when to expect updates and how to participate.
- **Communication:** Use plain language to explain financial information in terms understandable to non-experts, focusing on how decisions affect students, families, and taxpayers and develop interactive tools such as online dashboards or visualizations to break down revenues and expenditures by category, school, or program.
- **Feedback:** Provide opportunities for community members to weigh in on priorities and then demonstrate how that feedback informed budget decisions.
- **Transparency policies:** Adopt formal policies committing the district to transparency, including how feedback will be gathered, reported, and used.

Finally, transparency is a shared responsibility. While fiscal staff provide the data and ensure accuracy, program staff are critical partners in explaining the rationale for investments. For example, a curriculum director can explain why new instructional materials are essential, or a transportation manager can clarify cost drivers for bus routes. By blending financial detail with programmatic context, districts can give county officials and the public a fuller understanding of how resources are used to meet student needs.

#### **LEA Leadership:**

- Require budget presentations from school district administrators that connect spending to the strategic plan.
- Publish plain language budget summaries on the district website.
- Hold public meetings during the budget development process to gather input from staff, families, and community members.

#### **Local governments:**

- Request clarity from the school district on mandated versus discretionary costs.
- Ask clarifying questions during school district budget presentations.