

Fiscal Health Principles for Tennessee School Districts and Local Governments

PRINCIPLE 1: DEVELOP A MULTI-YEAR BUDGET PLAN

Budgets are created on an annual basis, but they represent multi-year commitments. 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. Aligning the district's financial projections with the county or city's broader fiscal plans fosters transparency and reduces friction during the budget process.



Key takeaway: Multi-year planning supports long-term stability and strengthens the relationship between school districts and local governments.

PRINCIPLE 2: ADHERE TO FISCAL PLANNING TIMELINES



Timely and accurate budget submissions are essential for compliance with state law and for effective coordination between school boards and local governments. LEAs must follow statutory deadlines, ensure submissions match the budget approved by the local funding body, and remain aware of applicable changes in law. Local governments and LEAs must hold one another accountable for providing information, such as local revenue projections, and meeting deadlines.

Key takeaway: Meeting all budget deadlines is essential to maintaining operations and ensuring state approval.

PRINCIPLE 3: FOLLOW BEST PRACTICES FOR FISCAL ACCOUNTING

Sound fiscal management depends on consistent adherence to state laws, internal accountability, and professional standards. Resources such as the [Tennessee Budget Manual for Local Governments](#), [Seven Keys to a Fiscally Well-Managed Government](#), and [GFOA best practices](#) support effective budgeting and financial reporting. Regular budget-to-actual reviews, accurate accounting data, and timely corrective action following audits help maintain transparency and public trust.



Key takeaway: Adhering to established accounting practices and audit processes supports strong fiscal stewardship.

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, preventing supplanting when state funding increases. 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. Early communication between districts and funding bodies about funding allocations and enrollment trends helps ensure budgets meet legal requirements.

Key takeaway: Understanding MOE and communicating early prevents compliance issues and funding delays.

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



A healthy reserve supports creditworthiness, cash flow stability, and the ability to respond to emergencies or economic downturns. GFOA recommends an unrestricted fund balance of at least two months of operating revenues or expenditures, though more may be prudent depending on local conditions. School boards should adopt a formal fund balance policy, coordinate with local officials, and avoid using reserves for recurring expenditures.

Key takeaway: A strong fund balance policy safeguards fiscal health and prevents reliance on reserves for operating costs.

PRINCIPLE 6: MONITOR KEY ENROLLMENT INDICATORS

Enrollment and other student data directly affects state and federal revenues and drives staffing and facility needs. Sound annual projections at multiple levels – grade, school, and zone – allow districts to plan for growth or decline. Reviewing census trends, birth rates, and housing development patterns further refines forecasts and supports long-term decision making.



Key takeaway: Accurate enrollment data is foundational to effective budgeting and long-term planning.

PRINCIPLE 7: PLAN FOR PERSONNEL COSTS



Personnel costs account for 70 to 80 percent of a typical district's budget, making careful planning essential. Districts must consider compensation, benefits, staffing needs, and TISA salary adjustments, and work collaboratively across district and school-level leadership teams. Keeping local governments informed about projected personnel costs reduces surprises and supports responsible long-term commitments.

Key takeaway: Proactive planning for personnel costs strengthens both financial sustainability and workforce stability.

PRINCIPLE 8: STRENGTHEN CAPITAL PLANNING

Capital costs—such as facilities, buses, and technology—require long-term planning to avoid deferred maintenance or costly borrowing. A 10–20-year capital improvement plan aligned with enrollment trends helps prioritize investments and supports fiscal stability. Sharing facility usage and condition data and coordinating planning with local governments enhances transparency and reduces conflict over limited capital dollars.



Key takeaway: Long-term capital planning ensures responsible investment and coordinated use of public funds.

PRINCIPLE 9: MAINTAIN STRONG INTERNAL CONTROLS



Internal controls safeguard public resources by ensuring accuracy, compliance, and proper documentation of financial activities. Segregating duties, requiring dual approvals, and maintaining written procedures reduce the risk of fraud and audit findings. Regular reviews and training reinforce accountability across the district. Regular assessments of internal controls are required by state law and federal regulations. Training reinforces accountability for internal controls across the district and other responsible offices, such as centralized finance offices that manage many of the financial internal controls.

Key takeaway: Strong internal controls protect district finances and maintain public trust.

PRINCIPLE 10: MAXIMIZE TRANSPARENCY TO BUILD PUBLIC TRUST

Transparency requires providing clear, accessible, and timely budget information that the public and local governments can easily understand. Distinguishing between mandated and discretionary spending and using plain-language explanations, visuals, and public engagement helps clarify decision-making. Sharing budget timelines, posting materials online, and blending financial and programmatic context strengthen credibility.



Key takeaway: Transparent communication builds trust and supports informed decision-making.