


Budgeting in the Real World
Dos and Don'ts of Budgeting

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 Nate Fontenot, Financial Analyst

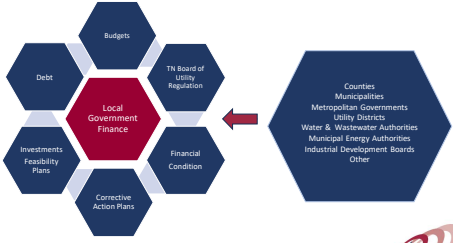
Division of Local Government Finance
 October 16, 2024

TENNESSEE COMPTROLLER OF THE TREASURY




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Areas of Oversight and Support to Tennessee's Local Governments



TENNESSEE COMPTROLLER OF THE TREASURY



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615.401.7829

Effective July 2024

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Thank You!

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Agenda

- Comptroller Review
- Preparation, Adoption, Submission, and Monitoring
- Best Practices

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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Comptroller Review

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING




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Comptroller Budget Oversight and Support

Annual Budget Memo	Sample Submission	LGF Letters and Contacts	Submission Checklist
TISA Requirements	Financial Schedules	Ordinance and Resolution Templates	Budget Manual
Instructional Videos	Best Practices	Utility Templates	Annual Budget Certificate

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING




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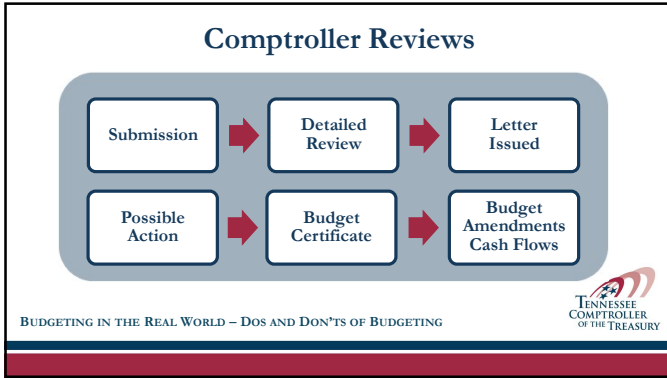
Comptroller Budget Oversight and Support

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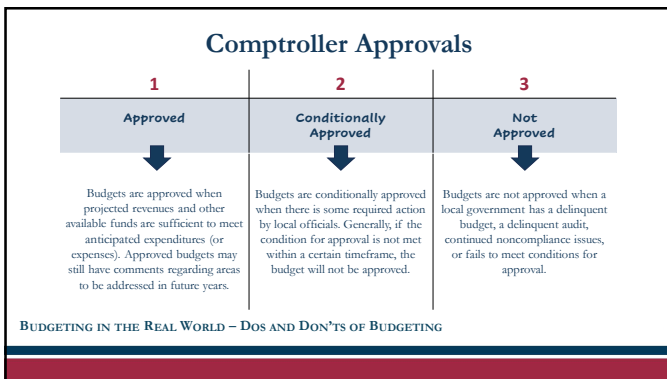
Comptroller Approvals

Tenn. Code Ann. § 9-21-404

State legislators have recognized the importance of having an approved budget by passing legislation specifying that when a local government's budget is not approved, the governing body may not issue debt or financing obligations. In the case of an emergency, the Comptroller's Office may waive the requirement of budget approval to allow a local government to enter into emergency financial transactions.

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Comptroller Approvals

FY 2025 Change in Conditional Approval Process



Local governments have **45 days** after a letter is issued by the Comptroller's Office to meet a condition for approval.

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Comptroller Approvals

FY 2025 Change in Conditional Approval Process

Resolution No. _____

A Resolution of the _____, Tennessee

(Name of Municipality)

Amending the Fiscal Year 20__ Budget

Cities and Towns

WHEREAS the governing body adopted the fiscal year 20__ budget by ordinance number _____ on _____, 20__ and submitted the budget to the Tennessee Comptroller of the Treasury, Division of Local Government Finance, for review.

WHEREAS the Tennessee Comptroller's Division of Local Government Finance has required an amendment to the budget pursuant to Tenn. Code Ann. § 9-21-403.

WHEREAS pursuant to Tenn. Code Ann. § 9-21-108, at the direction of the Tennessee Comptroller of the Treasury, or the Comptroller's designee, any budget amendment required pursuant to Tenn. Code Ann. § 9-21-403 may be amended by resolution of the governing body.

WHEREAS pursuant to the Tennessee Budget Manual for Local Governments, to be eligible for approval, the budget must be amended by resolution and returned to the Tennessee Comptroller's Division of Local Government Finance within 45 days of the date of the letter requiring the amendment. Should the budget not be approved, the municipality will not be able to issue debt beyond an emergency financing preapproved by the Comptroller's Division of Local Government Finance.

WHEREAS adoption of a budget amendment by resolution is permitted by state law to meet a condition for approval of the annual budget by the Tennessee Comptroller of the Treasury, or the Comptroller's designee, and all other budget amendments shall be made consistent with the public and/or private act(s) that govern the budget adoption and amendment process of the municipality.

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2025 Budget Approvals – Counties/Metro



Our initial reviews resulted in:

- 76 approvals, and
- 19 conditional approvals.

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING



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2025 Budget Approvals - Municipalities



Our initial reviews resulted in:

- 244 approvals
- 58 conditional approvals, and
- 40 budgets that were not approved.

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING



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Non-Approvals - Municipalities

- | | |
|-----------------------------------|---|
| Late Audits | • The municipality had one or more late audits at the time of our review of the budget. |
| Late Budget Submissions | • The budget was filed more than two months after the beginning of the fiscal year.
• The budget was not submitted for review. |
| Failure to Meet Conditions | • Condition(s) required for approval were not met. |

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Conditional Approvals

- | | |
|-------------------------------------|---|
| Budget Resolution/ Ordinance | <ul style="list-style-type: none"> • Debt service for principal and interest were omitted. • Planned spending from the detailed budget was not legally appropriated. • Transfers between funds were excluded. • An unbalanced budget was adopted for a particular fund. • Special revenue funds were excluded. • Certification, signatures, and date(s) were omitted. • Minimum legal requirements for content were not met. |
|-------------------------------------|---|


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Conditional Approvals

Detailed Budget	<ul style="list-style-type: none"> • Utility funds projected a statutory decrease in net position. • Depreciation was not included or was not a reasonable estimate. • Shared costs between funds were not allocated correctly. • The budget was not consistent with GAAP. • Debt service payments were omitted.
Submission	<ul style="list-style-type: none"> • The budget submission was incomplete.
Repeat Issues	<ul style="list-style-type: none"> • Issues addressed from prior years were not corrected.
TBOUR	<ul style="list-style-type: none"> • Continued compliance with TBOUR directives was required.


 Don't

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Future Considerations

Submission & Adoption	Resolution/ Ordinance	TBOUR Oversight	Reasonable Estimates
Monitoring	Low Projected Cash & Fund Balances	Structural Balance	Best Practices



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Budget Approvals



The most repeated comments in our review letters relate to:

1. expenditures that were not legally appropriated in the budget resolution/ordinance, as evidenced by the most recent audit on file;
2. incomplete submissions; and
3. budget adoption after the beginning of the budget year.



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2025 Annual Budget Certificates

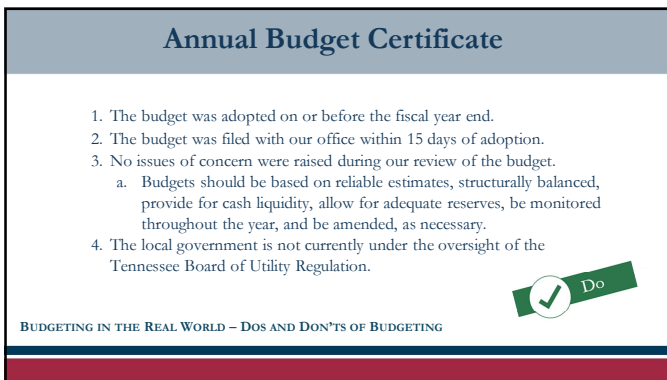
Counties/Metros – 29%
Municipalities – 26%

tncol.cc/budgetcertificates

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BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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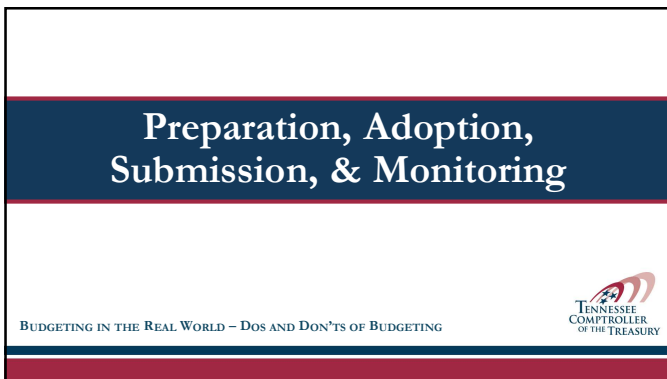
Annual Budget Certificate

1. The budget was adopted on or before the fiscal year end.
2. The budget was filed with our office within 15 days of adoption.
3. No issues of concern were raised during our review of the budget.
 - a. Budgets should be based on reliable estimates, structurally balanced, provide for cash liquidity, allow for adequate reserves, be monitored throughout the year, and be amended, as necessary.
4. The local government is not currently under the oversight of the Tennessee Board of Utility Regulation.

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Preparation, Adoption, Submission, & Monitoring

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Preparation

- 1. Review of policies and benchmarks
- 2. Collaboration with other departments and component units
- 3. Budget committee meetings
- 4. Publication requirements
- 5. Budget Calendar/Timeline
- 6. Revenue forecasting and expenditure/expense estimations
- 7. Fund balance levels
- 8. Long-term capital planning
- 9. Legal spending requirements, maintenance of effort
- 10. Rainy day and other reserve levels
- 11. Program and service goals (public safety, sanitation, streets, schools)
- 12. Contingency Spending Plans
- 13. Long-Term Liability Planning
- 14. Multi-Year Financial Planning
- 15. Structurally balanced budgeting



BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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Appropriation Act Checklist

Ordinance/Resolution & the Detailed Budget

- Ordinance/Resolution complies with governing law.**
 - Use LGF template for general law.
- Fund Balance Test**
 - Budgeted balances comply with fund balance policy.
 - Use LGF Budget Summary Schedule.
- Cash Balance Test**
 - Budgeted balances comply with cash management policy.
 - There is cash available through the year to pay obligations.
 - Use LGF Budget Summary Schedule and cash flow forecasts.
- Appropriation Test**
 - Do amounts appropriated in the budget ordinance or resolution agree with the detailed budget?
- Legal spending requirements have been met.**

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Appropriation Act Checklist

Ordinance/Resolution & the Detailed Budget

- The budget is structurally balanced.**
 - Non-recurring revenue and expenditures are identified in the detailed budget.
 - Fund balance is not used for recurring expenditures.
- Revenue projections have been performed.**
 - Significant revenue sources.
 - Use LGF revenue forecasts.
- Expenditure estimates have been determined.**
 - Adjusted for rising costs or new obligations.
 - Capital and Debt expenditures are budgeted.
- Detailed Budget**
 - Includes three columns – prior year audit, current year estimated, and budget year.
- The budget follows generally accepted accounting principles.**

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Budget Summary Schedule

Step 13 Type government units - City of Paducah

Step 21 Enter information for government units only. Funds to follow table. DO NOT type in any cells.
(The column fund area has provided an example. Do not type in any cells in this column.)

Governmental Funds	Funds					Outlines					Funds for June 30		As % of Outlines Level Category		
	Revenue	Expenses	Reserve	Debt Proceeds	Transfers In	Expenditures	Capital Expenditures	Transfers Out	Total Outlines	Revenue	Expenses				
General Fund	9,241,000	11,042,000	8,022,242	0	85,137	8,937,000	111,000	0	9,048,000	7,200,000	7,170,000	11,042,000	12,242,000	115.2%	101.0%
Police Fund	30,000	34,217	31,000	0	31,000	31,000	0	0	31,000	0	0	34,217	34,217	100.0%	100.0%
Public Works	1,100,000	1,242,117	1,048,000	0	104,800	1,152,800	1,200,000	0	2,352,800	1,400,000	1,390,000	1,242,117	1,400,000	112.7%	104.6%
Water Sewer Aid	112,251	482,340	114,478	0	114,478	114,478	114,478	0	228,956	0	0	482,340	482,340	100.0%	100.0%
General Purpose Special Fund	2,111,000	2,320,000	1,251,000	0	1,251,000	1,251,000	1,251,000	0	2,502,000	2,000,000	2,000,000	2,320,000	2,400,000	103.4%	103.4%
Interest Payment Special Fund	100,000	100,000	100,000	0	100,000	100,000	100,000	0	200,000	0	0	100,000	100,000	100.0%	100.0%
Interest Collection Fund	400,000	311,211	323,000	0	323,000	323,000	323,000	0	646,000	100,000	100,000	311,211	311,211	99.1%	99.1%
Total	13,184,251	15,788,684	12,061,720	0	1,599,415	13,462,305	2,574,478	0	16,036,783	10,200,000	10,270,000	15,788,684	16,853,211	107.4%	107.4%

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Budget Preparation and Adoption

✔ **Do**

✘ **Don't**

- Collaborate with other departments.
- Follow a budget calendar.
- Adopt on a GAAP basis.
- Have timely audit information.
- Comply with Open Meetings laws.
- Adopt the budget before the budget year begins.

- Use zero budgeting.
- Adopt a structurally unbalanced budget.
- Delay budget adoption during a reappraisal year.
- Budget to end the year with low fund balance and cash levels.
- Forget to match appropriated amounts with the detailed budget.

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OF THE TREASURY**

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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Appendix 8

Adopting the Budget During a Reappraisal Year

At specified intervals, counties in Tennessee must revalue land and buildings for property tax purposes. This is referred to as a reappraisal year. In a reappraisal year, the Tennessee State Board of Equalization gives each taxing jurisdiction a Certified Tax Rate (CTR) as prescribed by Tenn. Code Ann. Title 57, Chapter 5, Part 17. The CTR is designed to ensure that taxpayers that there is no tax increase hidden in the reappraisal, accordingly, the CTR will generate property tax revenue consistent with the prior year. Newly taxable real and personal property are backed out of CTR calculation but will generate additional property tax revenue. This document examines the impact of the CTR on the budget adoption process.

New addition to the budget manual.

...should be adopted on or before June 30 of each year. ...not be available at the time of budget adoption, local officials should proceed to adopt the budget in a timely manner and then follow the steps provided by the State Board of Equalization for adoption of the tax rate when the CTR is available.

DEFINED TERMS

County Assessor—an elected official whose role is to accurately identify, list, appraise, and classify all taxable properties in preparation of the annual assessment roll. The county assessor plays an important role in calculating the certified tax rate.

Certified Tax Rate (CTR)—the rate, as calculated by the county assessor and chief executive of the tax jurisdiction and reviewed by the Tennessee State Board of Equalization, that represents the tax rate needed to collect property tax revenues consistent with the prior year after a reappraisal of property values. The certified tax rate can only be exceeded after the notification of and the holding of a public hearing.

Certified Tax Rate (CTR) Law—requires local governments to conduct public hearings before adopting a property tax rate that generates more taxes overall in a reappraisal year than were billed the year before at the previous year's lower values. The CTR law is codified in Tenn.

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Budget Preparation – Audited Information

Tips for Timely Audits

- Find a CPA firm early.
- Close your accounting records within 60 days of the end of the fiscal year - Tenn. Code Ann. § 9-2-102.
- Keep on schedule with your CPA firm.

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Budget Adoptions Before June 30

Budgets Adopted By June 30	2022	2023	2024	2025
Municipalities	266	287	295	294
Counties/Metro	58	62	61	61

Budgets Adopted By June 30 as a %	2022	2023	2024	2025
Municipalities	78%	84%	86%	86%
Counties/Metro	61%	65%	64%	64%

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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Budget Timelines

Municipalities

Date	Budget Cycle Phase	Responsible Party	Procedure
January/February	Preparation	Finance Director	Review prior year audit and current year estimates and prepare estimate forms.
March/April	Preparation	Finance Director	Meet with departments and estimate revenue to complete budget.
By May 15	Preparation	Finance Director	Submit estimated budget to Finance Committee for review/consideration.
Immediately after Prior	Preparation	Mayor	Submit proposed budget to legislative body.
By June 1	Adoption	Legislative Body	Finalize budget, hold public meeting to adopt the budget on first reading.
Immediately after Prior	Adoption	Finance Director	Publishes budget notice and call a public hearing for at least 10 days after publication.
On or Before June 30	Adoption	Legislative Body	Adopt the fiscal year budget (if a three reading City plan to hold third reading prior to June 30).
Within 15 days of Adoption	Oversight	Finance Director	Submit the Budget to the Comptroller's Division of Local Government Finance for approval.
After Adoption	Execution	Finance Staff	Implement the budget and enter into the accounting system.
July 1 through June 30	Execution	Finance Staff	The Finance Staff shall monitor the budget and make any recommended amendments to the County Commission prior to over spending an appropriation.
As Applicable	Oversight	Legislative Body	Implement policies and procedures to address audit findings related to the budget process.
As Applicable	Oversight	Legislative Body	Implement Divisions from the Tennessee Board of Liability Regulation.

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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Budget Preparation Utility Funds

WHEN PREPARING THE BUDGET, ASK YOURSELF:

- Have we reviewed the most recent audit?
- What changes from the current year impact our financial planning?
- Are our financial projections based on reasonable assumptions?
- Is our capital improvement plan up to date?
- When was our last rate study? Are rates sufficient for the upcoming year?
- Have we remembered to budget for depreciation?
- Does our budget follow the accrual basis of accounting?
- Will our budget produce a positive statutory change in net position?
- Do we have enough cash available to pay for operations without an operating loan?
- Have we reviewed and updated financial policies?
- Do we have steps in place to keep watch on operations throughout the year?

Check out the entire publication "Better Utility Budgeting and Financial Planning" on our website.


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Budget Submissions

Budgets should be submitted to the Division of Local Government Finance "immediately upon its adoption" (Tenn. Code Ann. § 9-21-403).

- and -

within two months of the beginning of the fiscal year, or by August 31 (Tenn. Code Ann. § 9-21-404).




BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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2025 Budget Submissions

	Within 15 days	By Aug 31
Municipalities	77 %	97 %
Counties and Metropolitan Governments	93 %	100%



BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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Budget Submissions

✓ Do

✗ Don't

- Send within 15 calendar days of adoption.
- Send to LGF@cot.tn.gov
- Use the budget submission checklist available on our website.
- Include key contacts in your cover letter.
- Look for a return email acknowledging receipt.

- Send numerous files.
- Limit your submission to your financial analyst.
- Send by US mail.
- Send in parts and pieces over several days.
- Submit after August 31.

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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Budget Monitoring

Budget monitoring is a formal set of processes for comparing **budget to actual results** and acting upon those results.

Local officials must not only **adopt** a balanced budget; they must **maintain** a balanced budget throughout the fiscal year. Monitoring is **key** to maintaining a balanced budget.

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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Budget Monitoring

✓ Do

✗ Don't


- Adopt a formal process.
- Review budget to actual reports at least monthly.
- Amend **before** you spend.
- Include cash as part of your budget monitoring.

- Limit monitoring to expenditures.
- Amend the budget after the fiscal year end or amend for the entire year in a "June batch".
- Forget to look at the most recent audit to identify where you may have fallen short in the past.

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DIVISION OF LOCAL GOVERNMENT FINANCE



STEPS TO A WELL-MANAGED BUDGET

For more information, visit tncol.ce/guidance

The most important action a governing body takes each year is the adoption of the annual budget. Through the budget, elected officials establish spending authority and set the priorities of the local government. One community's priority could be the reduction of crime, while another's may be investing in better parks and sidewalks. Whatever the plan, if the budget is not monitored to ensure that public dollars are spent as intended, problems can occur.

BUDGET TO ACTUAL MONITORING
After the governing body approves the budget, the members will need updates on how the plan is going. Reviewing budget to actual reports frequently throughout the year is the most effective way for the governing body to maintain a well-managed budget. Budget to actual comparisons show how close the budget estimates are, if changes to the budget are needed, or if everything is on course as planned. Accuracy in accounting data is essential to make useful budget to actual reports, and timeliness in reviewing the information is vital.

REVENUES
Revenues are meticulously forecast during the budget preparation phase, but as the


with less variability, the level of spending should be monitored throughout the year. A local government should closely review items like overtime, fuel and commodity purchases, repair and maintenance, and any item that can quickly increase due to outside forces. If changes to the operating budget are planned for mid-year, then those changes should be forecast throughout the remainder of the fiscal year.

CAPITAL EXPENDITURES
Most capital expenditures tend to be planned well in advance, but cost overruns on large capital items, as well as small replacement items, can add up to an unbalanced budget. Local governments should frequently review any ongoing capital projects and ask department heads for updates on their plans to replace items so adjustments can be made if needed. It is important to know in advance what the funding source is for capital project cost overruns.

AMENDING THE BUDGET
Every item in this document has led to this. It is very

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DIVISION OF LOCAL GOVERNMENT FINANCE



FREQUENTLY ASKED QUESTIONS

For more information, visit tncol.ce/guidance

In our publication "Steps to a Well-Managed Budget" we discuss the importance of monitoring and amending the budget as needed. In this follow-up publication we address questions we have received on this topic with best practice responses to those questions.

Q: HOW OFTEN SHOULD A GOVERNING BODY RECEIVE A BUDGET TO ACTUAL REPORT?
A: Our office recommends individual board members receive a monthly budget to actual report with updated financial information as of the most recent month for each budgeted fund.

Q: AS A BOARD MEMBER, WHAT SHOULD I LOOK FOR IN THE BUDGET TO ACTUAL REPORT?
A: The report shows you year-to-date actual revenue and expenditures/expenses compared to the original budget you passed and the impact to fund balance (or net position). Ask yourself:

Keep in mind that some revenues and expenditures/expenses by their nature do not occur each month and monthly variances are expected. However, you want to be sure to pay attention and ask questions when budget variances are unexpected. Your finance staff will be a valuable support.

Q: WHAT OTHER FINANCIAL DATA SHOULD THE GOVERNING BODY RECEIVE AND HOW OFTEN?
A: At a minimum, and in addition to the budget to actual report, our office recommends the governing body receive:

- current cash balances for each fund
- updates from finance staff on the budget status for each fund, identifying any needed amendments to the budget

Additional recommended items include:

- updated cash flow forecasts
- multi-year historical financial data that shows the history of recurring and non-recurring revenue and expenditures/expenses, assets, liabilities, and fund balances
- multi-year historical data and ratios to support

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Best Practices

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING



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DIVISION OF LOCAL GOVERNMENT FINANCE

SEVEN KEYS TO A FISCALLY WELL-MANAGED GOVERNMENT

For more information, visit tncot.ce/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

PLANNING FOR UNKNOWN

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



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Seven Keys to a Fiscally Well-Managed Government

A	B	C
Building a Strong Budget for a Resilient Government	Planning for Unknowns	Planning for Tomorrow
<ol style="list-style-type: none"> 1. Structurally Balanced Budget 2. Cash Flow Management 3. Forecasting Budgetary Amounts 	<ol style="list-style-type: none"> 4. Rainy Day Reserve 5. Contingency Spending Plans 	<ol style="list-style-type: none"> 6. Long-Term Liability Plan 7. Multi-Year Financial Planning

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Best Practices

1. Fund Balance Policy
2. Cash Management Policy
3. Structurally Balanced Budget
4. Budget Calendar
5. Monitoring the Budget
6. Forecasting Budgetary Amounts

7. Reserves
8. Contingency Spending Plans
9. Long-Term Liability Planning
10. Multi-Year Financial Planning
11. Financial Health Metrics
12. Budget to Actual Reports

BUDGETING IN THE REAL WORLD – DOS AND DON’TS OF BUDGETING



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Best Practices

<ol style="list-style-type: none"> 1. Fund Balance Policy 2. Cash Management Policy 3. Structurally Balanced Budget 4. Budget Calendar 5. Monitoring the Budget 6. Forecasting Budgetary Amounts 	<ol style="list-style-type: none"> 7. Reserves 8. Contingency Spending Plans 9. Long-Term Liability Planning 10. Multi-Year Financial Planning 11. Financial Health Metrics 12. Budget to Actual Reports
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BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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Best Practices – Fund Balance Policy

- Establishes guidelines for the level of unrestricted fund balance.
- Unrestricted Fund Balance = committed + assigned + unassigned
- Why unrestricted fund balance?
Constraints on spending, if any, are controlled by the local government. Unrestricted fund balance reflects expendable available financial resources.
- GFOA recommends a minimum of 2 months of operating revenue or expenditures for operating funds, such as the general fund.

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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Best Practices – Fund Balance Policy

- Improves and maintains financial stability.
- Helps ensure stable tax rates.
- Supports long-term financial planning.
- Protects from unforeseen budget situations: declining tax collection rates, loss of a major taxpayer, sudden changes in revenue or spending requirements, natural disasters, major infrastructure failures, and unexpected litigation.
- Reduces your local government's risks to revenue shortfalls and unanticipated expenditures.
- Strengthens credit rating. Rating agencies monitor unrestricted fund balance. The ability to intentionally maintain healthy reserves is a common characteristic of highly rated local governments.

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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Best Practices – Fund Balance Policy



Do

- Consider all funds.
- Adjust model policies for your needs.
- Review and update at set dates and for major changes.
- Receive governing body approval.
- Make it integral to the annual budget process.



Don't

- Limit to the general fund.
- Adopt model policy without adjusting for your local government.
- Adopt and forget about it.
- Do it on your own.
- Forget, 2 months is the **minimum** for operating funds.

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING



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Best Practices – Fund Balance Policy



Do

- Include guidance for how fund balance will be replenished should reserves be needed.
- Consider your region's vulnerability to natural disasters and the length of time it takes to receive reimbursements from TEMA/FEMA grants.

- Consider other funds that depend upon transfers from the fund.
- Define permitted uses of reserves and excess reserves.
- Consider revenue vulnerabilities for major taxpayers and a declining economy.

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING



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Best Practices – Cash Management Policy

- Establishes guidelines for managing public dollars.
- Sets minimum amounts for cash reserves.
- Ensures liquidity so that cash is available when needed.
- Considers financing needs and addresses financial risks and costs, such as interest.
- Addresses interfund transactions: transfers, reimbursements, and loans.
- Ensures statutory restrictions on authorized investments are fulfilled.

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING



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Best Practices – Cash Management Policy


Do

- Consider all funds individually.
- Perform cash flow forecasting.
- Look at monthly cash activity.
- Review and update and receive governing body approval.
- Make it integral to the annual budget process.

Don't

- Take cash receipts and disbursements and divide by 12 months.
- Neglect its importance.
- Adopt and forget about it.
- Do it on your own.
- Forget interfund transactions.

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING




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Cash Flow Management

Interfund Transactions

1. Interfund Loans
2. Interfund Transfers
3. Interfund Reimbursements

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING



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Cash Flow Management

Interfund Loans

When money from another fund is temporarily needed throughout the year to manage cash flow, you need approval from our office for an interfund TRAN. For example:

- Using money from another fund that is available in shared or pooled cash accounts.
- Making a transfer to and from another fund for the same amount within the fiscal year for cash flow.
- Delaying reimbursement to another fund for shared costs because cash is not available to reimburse the paying fund.

As a best practice, we recommend sufficient cash reserves to manage cash flows without the need for an interfund TRAN.

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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Cash Flow Management

Interfund Transfers

- Define in your policy those that are permitted by state law, as well as those that are not, e.g., restricted dollars.
- State law prohibits the transfer of restricted revenue to other funds. Unless the amount can be repaid in full a corrective action plan will follow.



BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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Cash Flow Management

Interfund Transfers

T.C.A. Restrictions

- Utility Revenues – T.C.A. § 7-34-115
- Sanitation/Solid Waste Revenues – T.C.A. § 68-211-835(g)
- State Street Aid Funds – T.C.A. § 54-4-204
- Drug Funds – T.C.A. § 39-17-420
- Other



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Cash Flow Management

Interfund Reimbursements

- Reimbursements should be made as timely as practical.
- Allocation percentages should be reasonable and based upon measurable factors.
- If cash is not available to reimburse the paying fund, there is a cash flow issue, and you must request approval for an interfund TRAN.



BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING

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Best Practices – 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. [T.C.A. § 9-21-403]

Source: Seven Keys to a Fiscally Well-Management Government

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Best Practices – Structurally Balanced Budget

- | | |
|--|--|
|  Do |  Don't |
| <ul style="list-style-type: none"> • Increase recurring revenue sources (taxes, rates, and fees) when increasing recurring expenditures such as salaries. • Identify non-recurring revenue sources in your budget. • Have planned smaller incremental increases in recurring revenue sources that will be less impactful to citizens. | <ul style="list-style-type: none"> • Fund salary increases with fund balance reserves. • Postpone needed tax increases. • Deplete reserves with recurring expenditures. |

BUDGETING IN THE REAL WORLD – DOS AND DON'TS OF BUDGETING



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