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What does a healthy city budget look like?



Your Turn
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Guest columnist

Financially responsible cities handle their money in the same way — the others botch up their finances in their own creative ways.

A city takes money from its citizens in the form of taxes and fees. In exchange, it provides essential services and improves quality of life. A well-governed city does this effectively and efficiently, making tough decisions to help its citizens prosper and enjoy their lives.

Others stumble along. They choose what is convenient or politically popular that day and ignore the consequences of these decisions as they let the city slowly crumble.

At the Tennessee Comptroller's Office — with our responsibility to oversee city finances — we see both kinds. We've also developed clear guidance that we're providing to local governments across the state.

So what do we see in the budget in a well-governed city?

First, and most important, there is cash available to pay its bills when due. Sounds simple, but it's cold hard cash — not receivables, fund balances, anticipated revenue, promises or expected receipts. Only cash buys groceries for your family or, likewise, pays salaries for city employees. The budget must contain adequate revenues, along with cash on hand, to fund the government throughout the year and have plans in place to get more cash if something goes wrong, as it invariably will.

Next, the budget is structurally balanced. This means the money a city knows is coming in every year as recurring revenue (property taxes, sales taxes, wheel taxes) equals or exceeds the money a city spends each year as recurring expenses (salaries, debt payments, utilities). If a government relies on revenue that doesn't always occur — like selling real estate or deferring necessary repairs — to meet ongoing expenses, it's effectively selling the furniture in its house to keep the heat on. You should use one-time revenue for one-time expenses like capital investments or just save it as reserves.

Plan for the future

A sound budget plans for the unexpected. Stuff happens. Cutting it close is like getting on an airplane for a 3,000-mile trip with enough fuel for a 3,010-mile journey. This is why reserves are important. They should be built up in good times and available for use when needed.

If a city does not have adequate reserves — and unfortunately many do not — RIGHT NOW is an excellent time to start. Seriously, if you don't, you're no better than a squirrel that doesn't put away some nuts in the summer for a cold winter. And who wants to be a squirrel with no nuts?

Tomorrow is coming and the promises you made must be kept: debt payments, pension payments and benefits for retired employees. If not provided for, these can become huge liabilities that can crowd out even the most essential services. But with careful planning and faithfully making regular payments toward these future obligations, these promises will be kept.

Even more goes into a well-thought-out budget: realistic forecasting, contingency spending plans, and multi-year financial planning. The budget is not some once-a-year-political-pie-in-the-sky-placeholder. It's a contract with

your voters; and to be truly effective, it should look well beyond one year.

The governing bodies of Tennessee's cities have awesome responsibilities. Each must decide what level of services the city will provide for its citizens, and then be willing to raise the money to pay for them.

There are two constants in budgeting

No matter how much money is available, there are always two constants — worthy needs that cannot be met, and taxes that seem too high. There is no magic answer about what the level of service or what the proper level of taxes should be. That decision is ultimately up to the elected officials, and officials who refuse to make tough decisions necessary for a sound budget shirk the reason they were elected.

Tennessee's economy is booming, particularly in its urban areas, so there is no better time to get our cities' finances in order. Our citizens expect nothing less.

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