

Understanding the Comptroller's Review of LEA Budgets

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November 21, 2024





Jason E. Mumpower, *Comptroller of the Treasury*



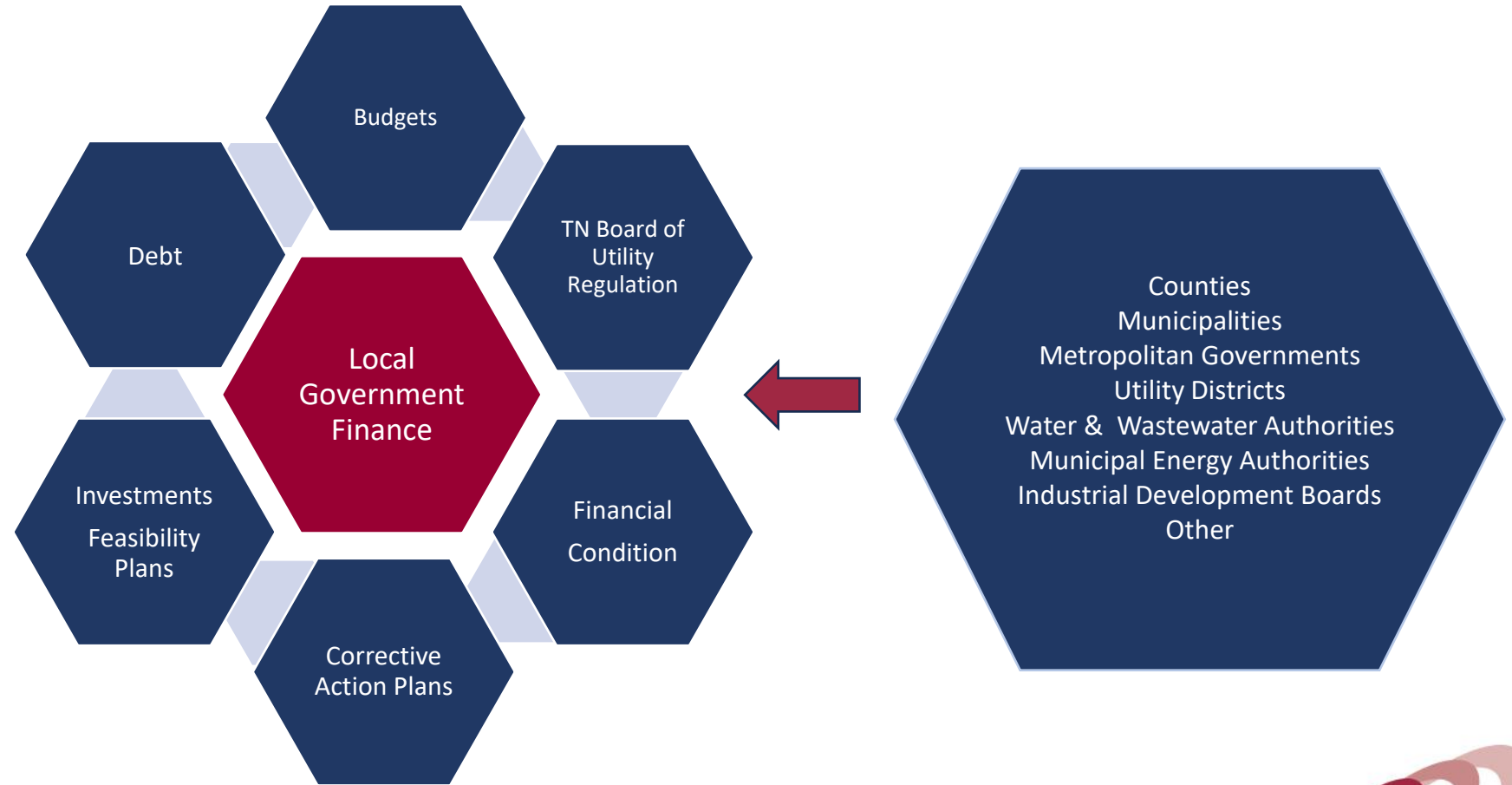
LGF Leadership



Sheila Reed, Director, *Division of Local Government Finance*



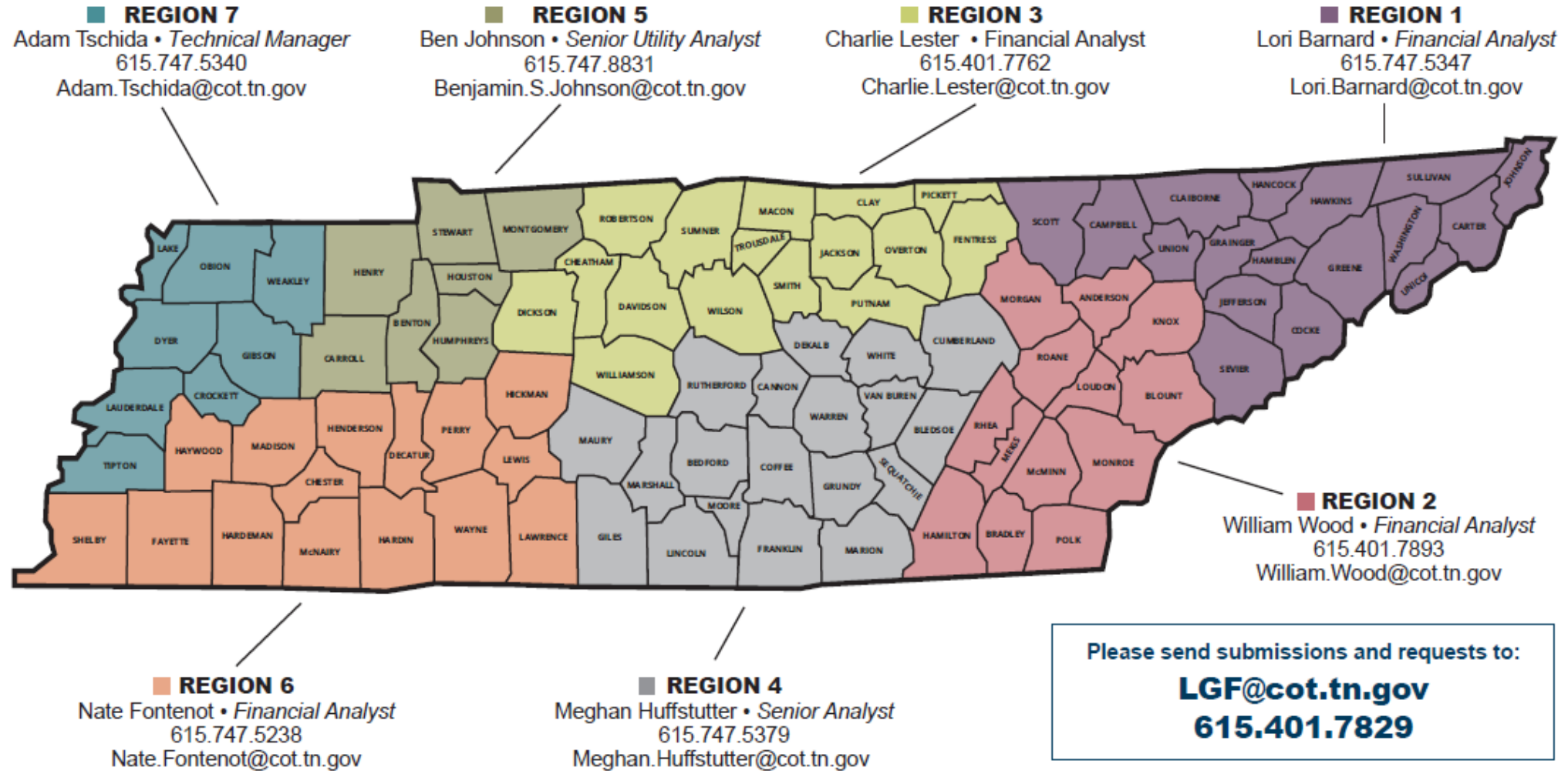
Areas of Oversight and Support to Tennessee's Local Governments





Financial Health

Local Government Finance Contact Information



Effective July 2024

Thank
You!



Agenda

- Basic Budget Principles
- Best Practices
- Financial Health Metrics
- Common Budget Issues Addressed to LEAs

Basic Budget Principles

UNDERSTANDING THE COMPTROLLER'S REVIEW OF LEA BUDGETS



Basic Budget Principles

Budgets Must Be:

- Adopted Timely
- Submitted to LGF for Approval
- Balanced
- Sustainable



Basic Budget Principles

Budgets Must Be:

- Adopted Timely
 - May 1: LEA Budget Submitted
 - June 1: Committee Vote on LEA Budget
 - June 30: Adopt Budget
 - August 31: Last Day to Adopt Budget



Basic Budget Principles

Budgets Must Be:

- Submitted to LGF for Approval
 - 15 Days
 - Review
 - Budget Letter
 - Approval
 - Conditional



Basic Budget Principles

Budgets Must Be:

- Balanced
 - At Adoption and Throughout the Year
 - Structurally Balanced
 - Fund Balance
 - Local Match



Basic Budget Principles

Budgets Must Be:

- Sustainable
 - Reasonable Use of Reserves
 - Not have a Distress Concern
 - Sufficient Cash to Meet Obligations
 - Tax Anticipation Note



Basic Budget Principles

- Budgets Must Be:
 - Adopted Timely
 - Submitted to LGF for Approval
 - Balanced
 - Sustainable



Basic Budget Principles

Tenn. Code Ann. § 9-21-403

(a) (1) In order for the current available funding of a local government to be sufficient to meet current expenditures, an annual budget must be required of the local government by the comptroller of the treasury or the comptroller's designee. ... The comptroller of the treasury shall provide guidance to the form of the budget, including supplemental schedules, as necessary, to demonstrate local governments have adequate cash to meet its current obligations, including principal and interest, as applicable.

Basic Budget Principles

Tenn. Code Ann. § 9-21-403

(c) ...The annual budget of each local government must be submitted to the comptroller of the treasury or the comptroller's designee immediately upon its adoption. The comptroller of the treasury or the comptroller's designee shall thereupon determine whether or not the budget will be in balance in accordance with this chapter. ...The comptroller of the treasury shall approve the budget only when the comptroller is satisfied that it complies with this chapter.

Basic Budget Principles

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.

Basic Budget Principles

Comptroller's Budget Manual

Budgets must be balanced when adopted, remain balanced throughout the fiscal year, and be sustainable going forward. Estimated expenditures and other financing uses (or expenses) should not exceed estimated revenue, other financing sources, and beginning unrestricted fund balance (or net position).

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Basic Budget Principles

Cash Flow Forecast Schedules Required for:

1. Operating funds with a budgeted ending cash balance less than 15% of annual expenditures;
2. Operating funds with an ending cash balance in the prior year audit less than 15% of annual expenditures;
3. Any fund that received proceeds from TANs for the past two consecutive years; and

Best Practices

UNDERSTANDING THE COMPTROLLER'S REVIEW OF LEA BUDGETS





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



PLANNING FOR UNKNOWNNS

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



Seven Keys to a Fiscally Well-Managed Government

A	B	C
<p data-bbox="351 391 917 551">Building a Strong Budget for a Resilient Government</p> 	<p data-bbox="1116 391 1437 491">Planning for Unknowns</p> 	<p data-bbox="1753 391 2074 491">Planning for Tomorrow</p> 
<ol data-bbox="326 739 932 1022" style="list-style-type: none">1. Structurally Balanced Budget2. Cash Flow Management3. Forecasting Budgetary Amounts	<ol data-bbox="975 739 1538 902" style="list-style-type: none">4. Rainy Day Reserve5. Contingency Spending Plans	<ol data-bbox="1612 739 2130 968" style="list-style-type: none">6. Long-Term Liability Plan7. Multi-Year Financial Planning

STEPS TO A WELL-MANAGED BUDGET

For more information, visit tncot.cc/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**

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.

Budget Monitoring



Do

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



Don't

- 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.



FREQUENTLY ASKED QUESTIONS

For more information, visit tncot.cc/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:

- Are our original estimates holding? If not, you should

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 economic trends

Best Practices

Policies and Procedures

Fund
Balance
Policy

Structurally
Balanced
Budget

Cash
Flow
Management

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.



Best Practices – Fund Balance Policy



- Improves and maintains financial stability.
- 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.

UNDERSTANDING THE COMPTROLLER'S REVIEW OF LEA BUDGETS

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.

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.

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.

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

Best Practices – Structurally Balanced Budget



Do

- 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.



Don't

- Fund salary increases with fund balance reserves.
- Postpone needed tax increases.
- Deplete reserves with recurring expenditures.

Financial Health Metrics

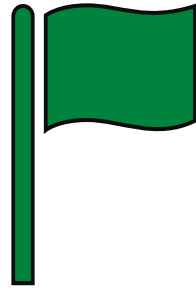
UNDERSTANDING THE COMPTROLLER'S REVIEW OF LEA BUDGETS



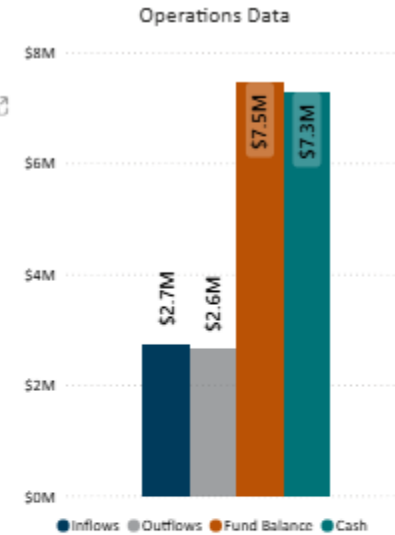
Financial Health Metrics

Financial Distress Metrics	Description	No Concern	Mild Concern	Distress Concern
Cash as a percent of Expenditures	How much cash do I have to pay cash flow and unexpected spending?	Above 15%	15% to 8%	Less than 8%
Current Liabilities as a percent of cash	Have I been paying my bills?	Less than 25%	From 25% to 75%	Greater than 75%
Debt as a percent of Assessed Value	How Burdensome is my debt load?	Less than 8%	8% to 10%	Greater than 10%
Change in Fund Balance as a percent of Expenditures	How much did we overspend last year (if cash balance is also an issue)?	Positive value	0% to negative 2%	Less than negative 2%

Financial Health Metrics



General Purpose School

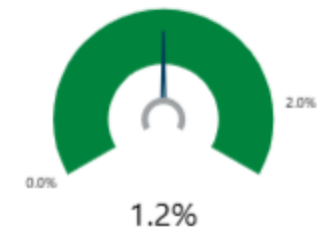
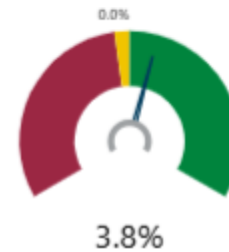
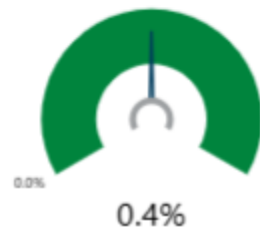
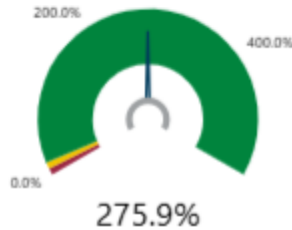


\$7,285,026
Cash

\$5.4M
Total Governmental Debt

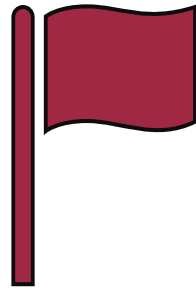
\$99,925
Change in Fund Balance

Expenses Covered by Cash Liabilities to Cash Change in Fund Balance Margin Debt to Assessed Value



UNDERSTANDING THE COMPTROLLER'S REVIEW OF LEA BUDGETS

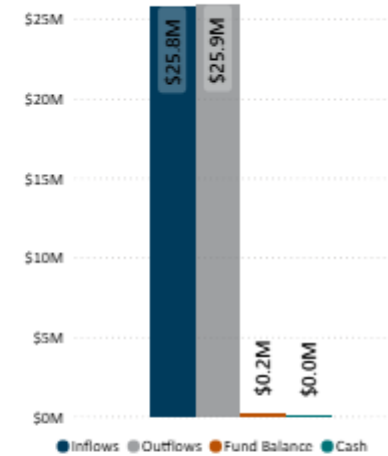
Financial Health Metrics



General Purpose School



Operations Data



\$217

Cash

\$28.3M

Total Governmental Debt

(\$96,767)

Change in Fund Balance

Expenses Covered by Cash

Liabilities to Cash

Change in Fund Balance Margin

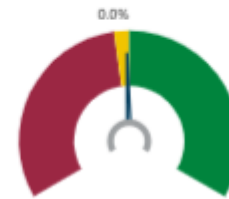
Debt to Assessed Value



0.0%



291.6K%



-0.4%



3.9%

UNDERSTANDING THE COMPTROLLER'S REVIEW OF LEA BUDGETS



Financial Health Metrics

Capital Outlay: \$4M

General Purpose School

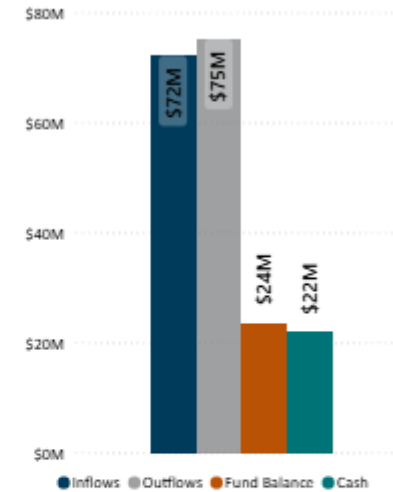


\$22,004,041
Cash

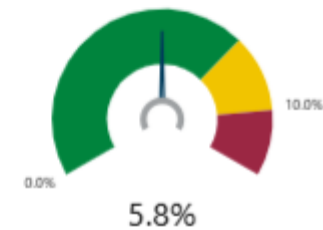
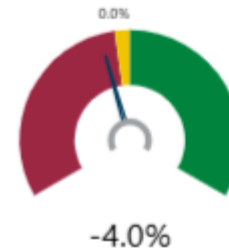
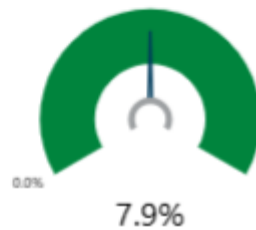
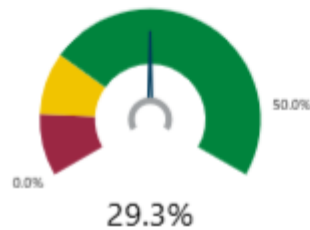
\$80.8M
Total Governmental Debt

(\$3,035,266)
Change in Fund Balance

Operations Data



Expenses Covered by Cash Liabilities to Cash Change in Fund Balance Margin Debt to Assessed Value



UNDERSTANDING THE COMPTROLLER'S REVIEW OF LEA BUDGETS

Financial Health Metrics

Capital Outlay: \$400k

General Purpose School

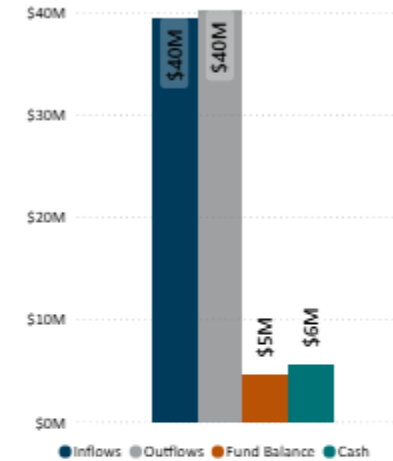


\$5,547,129
Cash

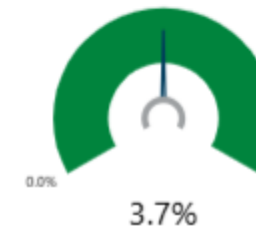
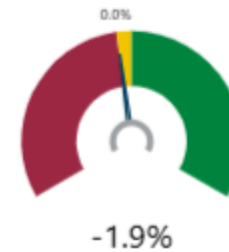
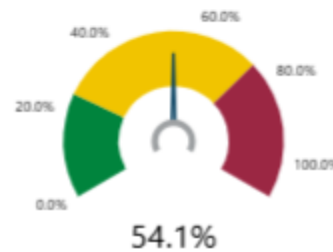
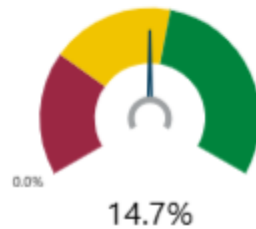
\$20.1M
Total Governmental Debt

(\$733,908)
Change in Fund Balance

Operations Data



Expenses Covered by Cash	Liabilities to Cash	Change in Fund Balance Margin	Debt to Assessed Value
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UNDERSTANDING THE COMPTROLLER'S REVIEW OF LEA BUDGETS

Common Budget Issues Addressed to LEAs

UNDERSTANDING THE COMPTROLLER'S REVIEW OF LEA BUDGETS



Common Budget Issues

- Fiscal Year 2025 Budget Letters
 - Structurally Balanced
 - Low Cash
 - Overspending Prior Year's Budget
 - Cash Overdraft
 - ePlan Entry (TISA)

Common Budget Issues

- Structurally Balanced

FY 2025	Beginning Balance	Revenues	Expenditures	Change in Fund Balance	Ending Fund Balance	Balance as a % Exp
County A	\$ 11,526,793	\$ 32,566,257	\$ 38,100,000	\$ (5,533,743)	\$ 5,993,050	15.7%
County B	7,882,519	28,248,347	32,462,442	(4,214,095)	3,668,424	11.3%

FY 2026	Beginning Balance	Revenues	Expenditures	Change in Fund Balance	Ending Fund Balance	Balance as a % Exp
County A	\$ 5,993,050	\$ 32,566,257	\$ 38,100,000	\$ (5,533,743)	\$ 459,307	1.2%
County B	3,668,424	28,248,347	32,462,442	(4,214,095)	(545,671)	



Common Budget Issues

- Low Cash

Cash Management

As part of the annual budget submission process, you provided projected beginning and ending cash balances for each fund and have projected to end the budget year with an ending cash balance for the General Purpose School Fund (the “Fund”) that is less than one month’s average spending. The Fund appears to have sufficient cash during the fiscal year to remain balanced; however, to ensure this continues, your finance staff should provide the following information to the governing body, if it does not already do so:

- An updated cash flow analysis for the Fund showing actual data from the prior month and any changes to forecasted data, and
- A budget-to-actual report for the Fund including both revenue collections and expenditures.
- These reports should be presented to and reviewed by the governing body at each regular meeting. We recommend that the finance staff provide the governing body these reports for all funds.



Common Budget Issues

- Overspending Prior Year's Budget

Expenditures Not Appropriated

During our review of the budget we noted that your most recent audit has a finding of actual expenditures exceeding budget appropriations. All expenditures should be authorized in the original budget or an amendment to that budget or in a supplemental appropriation. The governing body needs to take steps to ensure that expenditures are closely monitored, and spending authority is provided by the adoption of budget amendments prior to any expenditures being made that were not included in the initial budget. Future audits should reflect that the finding has been resolved for your local government to be eligible to receive the annual budget certificate: tncot.cc/budgetcertificates.

Common Budget Issues

- Cash Overdraft
 - Generally Associated with the Federal Projects Fund
 - Sufficient Working Capital
 - Budget Manual
 - <https://comptroller.tn.gov/content/dam/cot/lgf/documents/manuals/LocalGovernmentBudgetManualFinal.pdf>

Appendix 4

Resolution to Transfer Funds to the School Federal Projects Fund

Resolution No. _____

RESOLUTION OF THE GOVERNING BODY OF

_____ TENNESSEE,

AUTHORIZING THE TRANSFER OF \$ _____

FROM

THE GENERAL PURPOSE SCHOOL FUND

TO

THE SCHOOL FEDERAL PROJECTS FUND

WHEREAS grants in the Federal Projects Fund are on a reimbursement basis and funds are requested from the State of Tennessee by [Name of School System] for expenditures on a monthly basis; and,

WHEREAS the School Federal Projects Fund operates with a cash deficit at various times throughout the fiscal year due to a slow turn-around time for reimbursements from the State of Tennessee; and,

WHEREAS a cash deficit in any fund is considered to be a significant deficiency in internal control; and,

WHEREAS [Name of School System] does not desire to operate any fund with a cash deficit.

NOW, THEREFORE, BE IT RESOLVED by the Board of Education of [Name of School System], a local education agency in Tennessee, meeting in called session on this _____ day of _____, 202____, and by the [Name of Governing Body of the Name of City or County], a [Municipality/ County] in Tennessee, meeting in called session on this _____ day of _____, 202____, that:

Section 1. The General Purpose School Fund shall transfer \$ _____ to the School Federal Projects Fund on _____, 30, 202____.

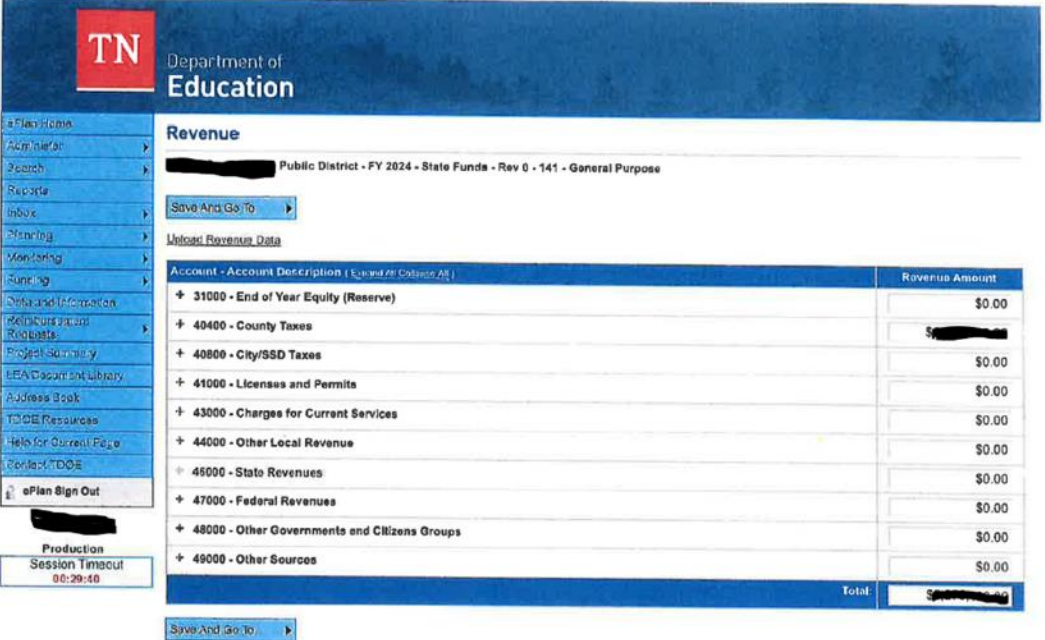
Section 2. The \$ _____ transfer shall remain in the School Federal Projects Fund as a committed fund balance from the General Purpose School Fund and may be repaid at any time as noted in a resolution passed by the Board of Education and [Name of Governing Body of the Name of City or County].

UNDERSTANDING THE COMPTROLLER'S REVIEW OF LEA BUDGETS



Common Budget Issues

- ePlan Entry (TISA)
 - Local Match Required for Budget Approval
 - TDOE Verified Local Match Met
- Process:
 - Enter all revenues into ePlan
 - Take a snip of the ePlan screen showing the revenues entered
 - Send as part of the budget submission



The screenshot shows the Tennessee Department of Education's ePlan system. The header includes the TN logo and 'Department of Education'. The page title is 'Revenue' for 'Public District - FY 2024 - State Funds - Rev 0 - 141 - General Purpose'. A table lists various revenue accounts and their amounts. A 'Production Session Timeout 00:29:40' warning is visible at the bottom left of the table area.

Account - Account Description (Expand/Collapse All)	Revenue Amount
+ 31000 - End of Year Equity (Reserve)	\$0.00
+ 40400 - County Taxes	\$[REDACTED]
+ 40800 - City/SSD Taxes	\$0.00
+ 41000 - Licenses and Permits	\$0.00
+ 43000 - Charges for Current Services	\$0.00
+ 44000 - Other Local Revenue	\$0.00
+ 45000 - State Revenues	\$0.00
+ 47000 - Federal Revenues	\$0.00
+ 48000 - Other Governments and Citizens Groups	\$0.00
+ 49000 - Other Sources	\$0.00
Total	\$[REDACTED]

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Assets as a Service



UNDERSTANDING THE COMPTROLLER'S REVIEW OF LEA BUDGETS



Leasing Law

- New Law: Leases need approval when:
 - Total amount is over \$100,000 or multiple leases over 100,000 in one fiscal year (including school systems), and;
 - Has an interest rate; or
 - Has a purchase option not based on fair market price; \$1.00 buy out.
- Must be approved at the Governing Body Level
- Items needed for approval:
 - Request Letter
 - Plan of lease Financing:

Leasing Law (continued)

The Plan of Lease Financing is a certified copy of the draft lease agreement that includes the following key elements:

- Not to exceed dollar amount.
- Schedule of estimated annual principal and interest requirements.
- Detailed estimated costs of issuance, including one-time fees and recurring administrative or similar fees paid over the life of the lease.
- Lease terms that are reasonable and comparable to debt being issued in the current markets.
- The life of the lease does not exceed the life of the asset(s) (WAM).
- Description of the project(s) to be financed with: (1) Estimated useful life (or lives), and (2) Authorizing law to incur indebtedness for the project.
- Not to exceed interest rate that is less than the state usury maximum.





Questions?



TENNESSEE COMPTROLLER OF THE TREASURY

