

Fiscal Health Principles for Tennessee School Districts and Local Governments

Division of Local Government Finance

TDOE Spring Fiscal Workshops

TENNESSEE COMPTROLLER OF THE TREASURY

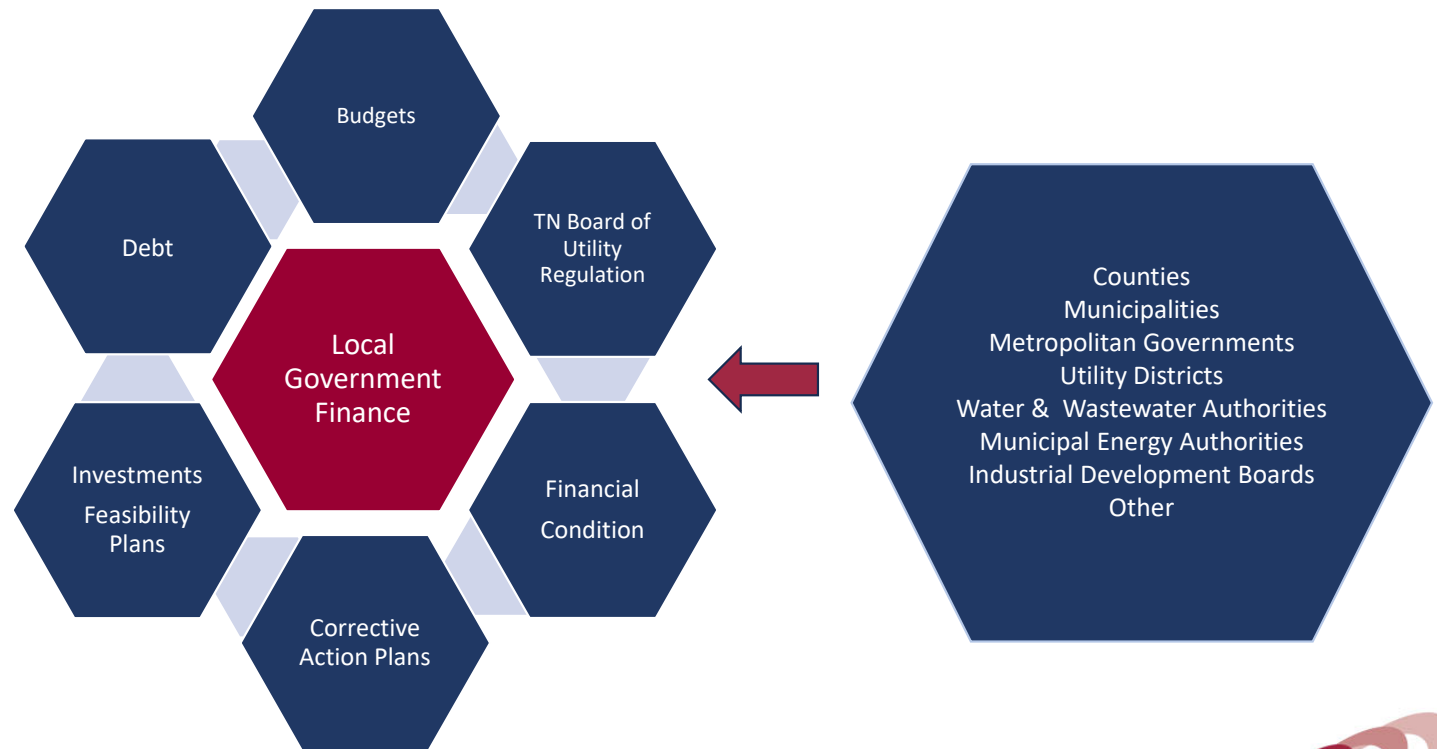




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Areas of Oversight and Support to Tennessee's Local Governments



Fiscal Health Principles for Tennessee School Districts and Local Governments

- 10 Principles
- Intended for:
 - LEA Leadership
 - Local government officials
 - Community stakeholders

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DIVISION OF LOCAL GOVERNMENT FINANCE

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.



Purpose of Today's Session

- **Strengthen financial decision-making**
- **Improve communication between LEAs and local funding bodies**
- **Promote transparency and long-term planning**
- **Ensure effective use of public funds**

Why Fiscal Health Matters

- **Strong financial decisions support student outcomes**
- **Increasing expectations for accountability**
- **Importance of local partnerships**
- **Volatile funding environment**

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Decision-Making Authority

- School boards = Decide *how* to spend education dollars (line items)
- Local Government = Decide *how much* to appropriate (total bucket)

1. Multi-Year Budget Planning

Think beyond one year to ensure long-term stability



LEA Role

- Develop rolling 3–5-year financial forecasts
- Communicate early about revenue trends and cost drivers
- Align projections with enrollment and expenditure changes



Local Government Role

- Request long-term projections before funding decisions
- Align school funding with broader fiscal plans
- Communicate revenue expectations early

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2. Fiscal Planning Timelines

Timely budgets ensure compliance and uninterrupted operations

Date	Action
May 1	LEAs submit budgets to local funding body
June 30	County/Municipalities submit final budget to Comptroller Division of Local Government Finance within 15 days of adoption
July 1	Fiscal year begins If budget is not approved, contingency budget goes into place
August 31	Final deadline for local government budget submission to LGF
October 1	All county and municipal budgets must be approved by LGF



2. Adhere to Fiscal Planning Timelines

Timely budgets ensure compliance and uninterrupted operations



LEA Role

- Submit budgets by required deadlines
- Revise and resubmit quickly if not approved
- Ensure consistency across all submitted versions



Local Government Role

- Clearly communicate deadlines and requirements
- Hold LEAs accountable for timely submissions



3. Follow Best Practices for Fiscal Accounting

Strong accounting practices build credibility and control



LEA Role

- Use budget-to-actual reporting regularly
- Follow state guidance and GFOA best practices
- Address audit findings and corrective actions



Local Government Role

- Require regular financial reporting
- Review audit findings during budget hearings



4. Monitor Maintenance of Effort

Maintain consistent local investment in education



LEA Role

- Model funding scenarios based on enrollment
- Prepare contingency plans for funding changes
- Engage early in local budget discussions



Local Government Role

- Understand MOE and required local match
- Monitor enrollment trends and funding impacts
- Communicate potential funding changes early



5. Establish Fund Balance Policy

Healthy reserves provide stability and flexibility



LEA Role

- Adopt a fund balance policy (~2 months of expenditures)
- Coordinate targets with local government



Local Government Role

- Monitor fund balance trends
- Support policies that prevent overuse of reserves



6. Monitor Enrollment Indicators

Enrollment drives funding and staffing decisions



LEA Role

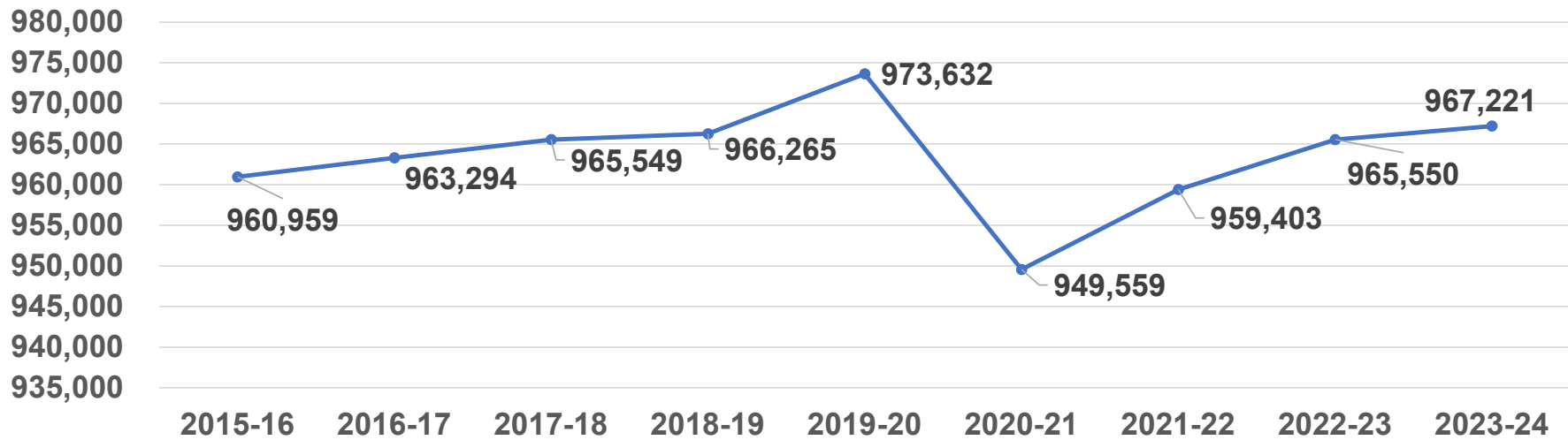
- Update projections annually at multiple levels
- Monitor enrollment data regularly
- Use projections for staffing and facilities planning



Local Government Role

- Request enrollment updates
- Incorporate trends into capital and fiscal planning

Statewide Enrollment Trends





7. Plan for Personnel Costs

Staffing decisions are long-term financial commitments



LEA Role

- Project retirements and turnover
- Monitor policy and salary changes



Local Government Role

- Engage in discussions about personnel costs
- Anticipate long-term funding needs



8. Strengthen Capital Planning

Plan long-term for facilities and infrastructure needs



LEA Role

- Maintain a 10–20 year capital improvement plan
- Share facility condition and usage data



Local Government Role

- Incorporate school needs into capital plans
- Require joint planning before new debt



9. Maintain Strong Internal Controls

Strong controls protect public funds and trust



LEA Role

- Implement and train staff on internal controls
- Conduct annual reviews of procedures



Local Government Role

- Request assurance of strong controls
- Ensure ongoing compliance and training



10. Maximize Transparency and Trust

Transparency builds trust and informed decision-making



LEA Role

- Monitor fund balance trends
- Avoid using reserves for recurring costs



Local Government Role

- Understand fund balance purpose
- Support sustainable funding decisions

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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.

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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

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.



Questions?

Thank
You!

