County Technical Assistance Service

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Budgeting Formula, Fund Balances, Revenues and Expenditures

Dear Reader:

The following document was created from the CTAS electronic library known as e-Li. This online library is maintained daily by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other e-Li material.

Sincerely,

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Table of Contents

Budgeting Formula, Fund Balances, Revenues and Expenditures

Reference Number: CTAS-729

A best method for projecting fund balances and reserves for the current fiscal year (which will be used as the beginning balances for the next fiscal year), is shown as follows:

Available fund balance *(from previous audit)*

+ Estimate adjusted current year revenues

= Total estimated available funds

- Estimate adjusted appropriation *(expenditures)*

= Estimate current year ending fund balance

NOTE:

* The effect of legally restricted funds (beginning plus revenues) minus expenditures should be considered.

One should examine every line-item revenue and expenditure account. Each should be reviewed and adjusted to reflect the current budgetary conditions. After making these calculations, there will be a better understanding of the current budget and the best estimates of the beginning balances.

This formula calculates an ESTIMATE only. The calculation may or may not take into consideration reserves and designated fund. The calculation should be performed periodically during the development of the budget.

Sample of a fund balance formula.

Recommended Practice: Periodically during the budget development process, estimates should be prepared to reflect the projected ending fund balance. This calculation should be for each fund.

Use of Fund Balances

Reference Number: CTAS-743

Sometimes a government accumulates a rather large fund balance, usually because a new tax is added and amounts received exceed the original estimate. When this happens, should taxes be lowered? Should the excess fund balances be used to prevent a tax increase the next fiscal year? Or, should these funds be held for future emergencies or new services? Often, a government will use these funds to prevent a tax increase for the immediate fiscal year; but when this action is taken, greater pressure results for the next fiscal year because these funds must be replaced with new taxes. Usually property taxes and additional taxes must be raised to cover the increased costs due to inflation. One idea is to spread the use of the fund balance over a 3 to 5 year period so that growth in other revenue sources might relieve the pressure; or the funds could be used for non-recurring expenditures such as capital improvements or equipment. An alternative use of excess fund balance would be the establishment or additional funding of capital improvement plan/project/budgets.

To develop a fund balance policy, determine

1. What an optimal fund balance should be for each fund.
2. Uses for the fund balance.
3. Steps to reach the optimal fund balance.
4. How the fund balance should be used if the balance is greater than needed.

GASB Statement 54 encourages counties with fund balance policies to place these policies in writing and formally adopt them. Additionally, surplus funds should not be placed in separate “rainy day” special revenue funds. These funds do not meet the criteria to qualify as a special revenue fund as defined by Statement 54. The Statement defines excess funds that are held for potential revenue shortfalls or unexpected expenditure needs as “stabilization arrangements” and the use of such stabilization arrangements is seen as a positive indicator of a government’s fiscal management philosophy. County management should place stabilization funds in the county general fund and commit this portion of the fund balance by formal action of the county commission (i.e. resolution).

Recommended Practice: Develop a **fund balance policy**

Estimating Revenues

Reference Number: CTAS-730

A common method for projecting the next fiscal year's estimates is to take the current year's eight or nine months actual, divide by the number of months, and multiply by 12 for a full year's estimate. This method assumes that the estimated three or four months' average will be the same as the actual months of receipts. However, very few revenues follow an average, constant pattern. The operating budget includes revenues from many sources (local, state, and federal). To be more accurate in preparing estimates, the budget coordinator should review each revenue separately, and use a different method to project each revenue. The following two methods are suggested for the various revenue sources.

1. Revenue Estimates Based on Precise Factors. Revenues from the state and federal governments for specific or earmarked purposes are based on precise factors; therefore, each revenue source must be individually calculated based on these factors. Below are the revenue sources included in this category.

- State grants
- State reimbursements
- State educational payments
- Federal educational payments
- Federal grants
- Contracts with other local governments and citizen

2. Revenues That Fluctuate Monthly. This group of revenue fluctuates monthly based on the economy, collection procedures, or legally required payment deadlines. A best method to estimate revenue is to (1) compare the current year's receipts for the same period of time for the previous year, (2) calculate the percentage increase or decrease, and (3) apply this percentage change to the uncollected months. The sum of this year's actual plus the projected uncollected months will provide a reasonable estimate for the current year. For estimating next year's receipts, use the current year's revised estimates and add or decrease using your best judgment. The revenue sources which best fit this group are—

- Current property taxes
- Delinquent property tax
- Litigation taxes
- Pick-up taxes
- Interest and penalties on property tax
- Business taxes
- Local option sales tax
- Wholesale beer tax
- Hotel/motel tax
- In-lieu of tax payments
- License and permits
- Wheel tax
- Fines
- State beer tax
- State alcoholic beverage tax
- State gas and fuel taxes
- State mixed drink tax
- Charges for current services
- Ambulance charges
- Fees in-lieu of salary or excess fees collections
- Other similar revenues

Estimating Expenditures

Reference Number: CTAS-731

An approach to estimating expenditures for the next year is to recalculate the current year's budget in January or February using the most recent information. While recalculating the current budget, a detailed analysis of cost elements for each account should be maintained and used for estimating next year's expenditures. Using this budget analysis, expenditure estimates for the next fiscal year other than salaries and capital outlay needs can be calculated adjusting for changes in economy, etc.

Salary estimates should be projected using the percentage adjustment or changes in salary schedules based on the changes in the number of employees. Some jurisdictions figure what a one percent increase will cost and make any adjustment to all budgets upon deciding what a reasonable increase is.

Estimates for capital outlay needs should be based on projected needs and estimated costs for the next fiscal year.

If increases are requested in expenditures, clear and accurate justification should be presented with the budget document.

Factors When Developing Budget

Reference Number: CTAS-2155

Once an optimal fund has been achieved then it is a recommended practice that government's establish a budget that will maintain the fund balance.

The GFOA states that the minimum fund balance should be "no less than two months of regular general fund operating revenues or regular general fund operating expenditures."

Strongly recommended that the county establish a minimum fund balance in the debt service funds of at least 6-13 months of expenditures.

GASB Statement requires a written adopted minimum fund balance policy if the county is maintaining a minimum fund balance.

Over-estimating revenues and under-estimating expenditures will jeopardize the financial condition of the local government.

If your county has gone through reappraisal confirm with the property assessor on the value of the penny and the certified tax rate. Also, confirm with the trustee on the percentage of prior year collections

Balancing Budget with Property Tax

Reference Number: CTAS-721

Whenever the estimated expenditures exceed the estimated available funds, the property tax rate must be increased or expenditures reduced. The property tax rate must be used to balance the budget because it is the only tax rate that the local government has complete authority to set. Therefore, it is very important that each local government official understand how the property tax revenue source is calculated.

1. Property Assessments Subject to Property Taxes. The county assessor of property determines the assessed values for all property except public utilities, which are determined by the Office of State Assessed Properties. There are two types of assessments: (1) real property and (2) personal property. The real and personal property are applied to four classifications of property: (1) commercial and industrial, (2) residential, (3) farm, and (4) public utilities.

In determining property assessments, a summary calculation could be made using the following form:

Property Assessments	Real	Personal	Total
Commercial and Industrial			
Residential			
Farm			
Public Utilities			
Total			

Assessment Summary Example

Calculation of Property Tax Estimate

Sample property tax collection considering a variance factor
