Use of Fund Balances

Dear Reader:

The following document was created from the CTAS website (ctas.tennessee.edu). This website is maintained 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 CTAS website material.

Sincerely,

The University of Tennessee
County Technical Assistance Service
226 Anne Dallas Dudley Boulevard, Suite 400
Nashville, Tennessee 37219
615.532.3555 phone
615.532.3699 fax
www.ctas.tennessee.edu
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<tr>
<th>Use of Fund Balances</th>
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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

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