Issue Paper — Balanced Budgets and Fiscal Discipline (15 Jan 26)

Purpose

This issue paper explains the necessity for a new chapter for the Financial Management Policies and Procedures Manual, entitled **Balanced Budget and Fiscal Discipline**; approved today by the Financial Management Committee. The policy is a critical reform that will lead to structurally balanced budgets and long-term fiscal stability. It aligns Giles County with the Tennessee Comptroller's Seven Keys to Fiscally Well Managed Government, recently briefed during Commission training on 24 Nov 25. This paper summarizes the County's longstanding financial challenges, recent setbacks, and expectations for the FY 26–27 budget.

Background: Three Years of Work Toward Responsible Budgeting

For the past three years, the Finance Director and I have labored to modernize Giles County's financial operations. Key efforts focused on clearer reporting, consistent processes, stronger oversight, and disciplined capital planning through the POP Board.

For a time, progress was evident. With the support of the Finance Director and a few committed commissioners, we were moving away from the old habit of relying on savings to paper over recurring budget shortfalls, and we were taking proactive steps to strengthen reserves and plan for capital needs versus reacting to emergencies.

The Setback: FY 25–26 Returned to Unsustainable Practices

Despite the initial progress, the FY 25–26 budget represented a significant step backward. The Commission's decision to draw deeply from Fund Balance and Fund 171 to support recurring operating costs revived the very practices the Finance Director and I spent three years working to correct.

Let me state this plainly: **The Commission's habitual approach is unsustainable.**

No organization — no county government — can maintain services, plan responsibly, or manage risk when it repeatedly drains its savings and capital funds to subsidize its annual budget.

While these decisions may have been made with good intent, they rely on one-time resources for ongoing needs, which increases long-term financial risk and deepens the structural deficit. Genuine fiscal conservatism requires making the hard decisions today, rather than papering over recurring shortfalls and creating pitfalls for future commissions.

The Hole We've Dug: A Systemic Deficit

At its core, the County must be operated like a business: **recurring costs cannot exceed recurring revenue**, and one-time funds cannot subsidize ongoing operations. This principle has been violated for many years, creating a structural deficit.

The issues that confront us are the cumulative result of many years of short-term decisions. The Commission's FY 25–26 budget did not create the problem — but it did deepen the hole.

We are dealing with:

- Recurring expenses outpacing recurring revenue
- Depletion of capital accounts for annual operations
- Erosion of reserves without a replenishment plan
- Increasing cash flow pressures
- Compounding backlog of deferred maintenance and recapitalization

These issues are systemic, not temporary, and cannot be resolved by continued transfers or draws on savings. Durable correction requires disciplined policy.

It is important to be clear on one common misconception: the County's approximately $8 million in reserves does not eliminate the structural deficit. Reserves are savings — they are not income. A government can appear financially healthy while still spending more each year than it brings in. Using savings to fund ongoing operations does not solve the problem; it merely delays it and makes the long-term consequences more severe.

A Clear Expectation: The FY 26–27 Budget Must Be Structurally Balanced

Over the last three years, the Finance Director, a committed group of commissioners, and I have consistently worked to promote sound budgeting and long-term financial discipline. As we approach FY 26–27, adoption of a structurally balanced budget is essential.

The issues I'm addressing in this paper are not political opinions; they are fundamental budgetary principles and basic public service responsibilities.

I have emphasized the need for responsible financial management since my first day in office because our constituents expect accountability, and the Tennessee Comptroller expects soundness. Even as my tenure nears its end, my commitment remains focused on cementing budgetary policy that protect Giles County's financial future.

The Way Forward: Disciplined and Transparent Fiscal Policy

To correct course, the Financial Management Committee (FMC) approved the **Balanced Budget and Fiscal Discipline** policy, which establishes safeguards and processes to enforce structurally balanced budgets.

1. Structural Budgeting

The policy prohibits reliance on one-time funds for recurring expenses and requires annualized expenditures to balance with revenues.

2. Reserves and Liquidity Protection

The policy undergirds our Fund Balance policy, defines when reserves can be used, and requires replenishment when they are drawn down.

3. Strategic Capital Planning Through the POP Board

The policy reemphasizes the FMC and POP Board process as the County's capital planning framework, ensuring that projects are evaluated and prioritized based on need, readiness, and long-term cost.

4. Cash Flow Monitoring

Regular monitoring ensures we maintain adequate liquidity and avoid short-term borrowing stress.

5. Ongoing Risk Assessment

The FMC will regularly review operational, infrastructure, and capital risks so that foreseeable issues are addressed through disciplined planning.

6. Professional Oversight

The FMC will serve as the accountability backstop — reducing short-term decisions that compromise long-term stability.

Alignment With the Comptroller's Seven Keys

The policy aligns with and institutionalizes the Tennessee Comptroller's **Seven Keys to Financially Sound Counties**:

1. **Structurally Balanced Budgets** – Required explicitly.
2. **Adequate Reserves** – Defined and protected.
3. **Cash Flow Budgeting** – Mandated for ongoing oversight.
4. **Debt Management** – Directly tied to the existing Debt Management Policy.
5. **Reliable Revenue** – Structural balance reduces dependence on nonrecurring funds.
6. **Capital Planning** – Formalized through the Strategic Plan, POP Board and multi-year forecasting.
7. **Management Oversight** – Strengthened through FMC review and reporting.

Together with existing policies, this framework offers a comprehensive foundation for long-term financial stability.

Conclusion: A Turning Point for Giles County

After three years of steady work, I am committed to making sure Giles County finally turns the corner toward disciplined, transparent, and sustainable budgeting.

Giles County's finances must be managed with professional discipline. The Balanced Budget and Fiscal Discipline policy ensures we do not spend beyond our means and that taxpayers' resources are protected for the long term.

For many years, Giles County has ignored financial reality. However, we can no longer ignore the *consequences* of ignoring reality. The consequences are now apparent, and responsible correction is no longer optional.

v/r,

G. S. Stowe
County Executive