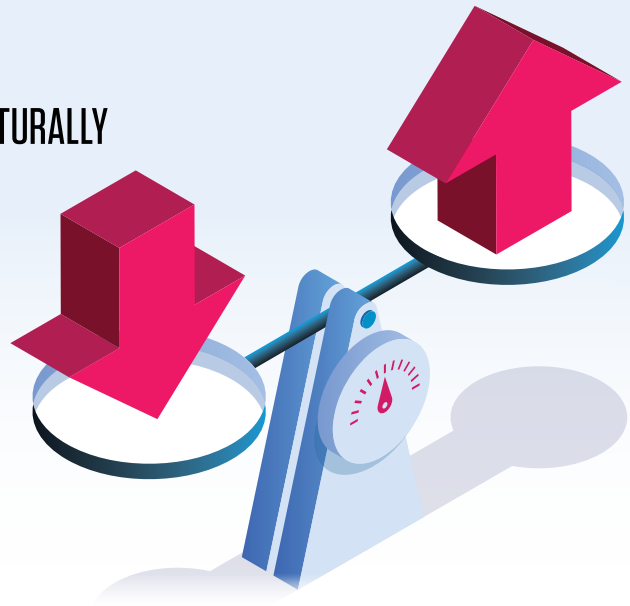


# 10 Steps TO ACHIEVING A STRUCTURALLY BALANCED BUDGET

Most state and local governments are required to pass a balanced budget; however, a balanced budget isn't necessarily financially sustainable (for example, using one-time resources to fund ongoing expenditures leading to a long-term budget deficit). Here, we outline ten steps your organization can use to achieve a structurally balanced budget that also helps ensure long-term financial sustainability.



## 1 Commit to long-term financial sustainability by adopting a structurally balanced budget policy.

Recurring revenues (such as property taxes) must be equal to or greater than recurring expenditures (such as a settlement from a lawsuit).

## 2 Recognize that some revenue sources may have both non-recurring and recurring components.

Sales tax is a good example of a revenue source that has recurring and non-recurring components. A government may regularly receive sales tax revenues, but a large part of its base may be made up of retailers with highly volatile sales. Exercise judgment in determining how much of the source is truly recurring. Unusually high revenue yields might not continue and should perhaps be considered a non-recurring revenue.

## 3 Identify your organization's recurring and non-recurring expenditures.

Recurring expenditures include salaries, benefits, materials and services, and asset maintenance costs. In general, recurring expenditures are those that you expect to fund every year to maintain the government's service levels.

## 4 Determine your target level of reserves.

Reserves are the portion of fund balance a government sets aside as a hedge against risk. Government should have a policy that identifies a targeted range for reserves. Compare actual levels of reserves to the target range to help determine the extent to which structural balance goals are being achieved. If reserves are maintained at the target levels, the organization is maintaining a structurally balanced budget. Declining reserves may indicate an imbalance in the budget—if reserves are being used to fund ongoing expenditures, for example.

## 5 Adopt a one-time revenue policy that complements your structurally balanced budget policy.

A one-time revenue policy should commit the organization to using one-time revenue for non-recurring expenditures. GFOA has a template to help you get started on drafting such a policy: [gfoa.org/materials/one-time-revenue-policy-template](https://www.gfoa.org/materials/one-time-revenue-policy-template).

## 6 Engage in long-term financial planning.

Your budget may be structurally balanced this year, but a structural deficit may be on the horizon. Long-term financial planning involves projecting revenues, expenses, and other key factors that have a financial impact on the organization. Ideally, the organization should be projecting at least five to ten years into the future.

## 7 Develop a multi-year capital plan.

Governments will need to plan for large, infrequent expenditures for capital and make sure that over time there is sufficient ongoing revenue to pay for not only operating costs, but the cost of facilities, vehicles, infrastructure, or other large capital investments. Dedicating a portion of the budget each year to fund capital can be a responsible strategy to ensure these needs are funded.

## 8 Plan for how to get back into structural balance.

It might not be possible to achieve true structural balance at a given time. If your organization needs to use reserves or other non-recurring revenues to balance the budget, it must also develop a plan to return to structural balance, replenish reserves, and remediate any other negative impacts of any short-term balancing actions that may be necessary. The plan should include a timeframe.

## 9 Communicate with internal and external stakeholders about the importance of structural balance.

The government's budget communications should explain the concept of structural balance and its importance to long-term sustainability, and how your budget is (or is not) structurally balanced in its budget communications.

## 10 Provide regular reports on structural balance and reserve levels to your stakeholders.

To keep your target reserves levels and structural balance goal top of mind for both internal and external stakeholders, provide regular reports that show how the organization is (or is not) meeting these goals. Use these reports to start discussions about how the organization can further improve its long-term sustainability. 