Councilwoman Schipske R-12

Practice 4.4a

Examples:

City of Germantown, TN: General Economic Setting

Prince William County, VA: Revenue Estimates

Element 4

Evaluate the Use of Unpredictable Revenues

Practice:

A government should identify major revenue sources it considers unpredictable and define how these revenues may be used.

Rationale:

Unpredictable revenue sources cannot be relied on as to the level of revenue they will generate. Particularly with major revenue sources, it is important to consider how significant variation in revenue receipts will affect the government's financial outlook and ability to operate programs in the current and future budget periods.

Outputs:

For each major unpredictable revenue source, a government should identify those aspects of the revenue source that make the revenue unpredictable. Most importantly, a government should identify the expected or normal degree of volatility of the revenue source. For example, revenues from a particular source may fluctuate, but rarely, if ever, fall below some predictable minimum base. A government should decide, in advance, on a set of tentative actions to be taken if one or more of these sources generates revenues substantially higher or lower than projected. The plans should be publicly discussed and used in budget decision making.

Notes:

Many of the most important revenue sources relied on by state and local governments are unpredictable to some degree. Examples may include intergovernmental revenues, inheritance taxes, taxes on mineral production, interest income, sales and use tax, lottery revenues, and revenues subject to future judicial rulings. These revenues are often used to fund ongoing programs. A financial plan for governments should take into account the unpredictable nature of key revenues. This ensures that a government understands the potential impact on its ability to cover service costs and develops contingency plans in advance to address unpredictable revenue fluctuations. Specific allocation and contingency plans do not have to be developed for all unpredictable revenues, but become increasingly necessary as the size or unpredictability of the revenue source increases. This practice may address or refer to a separate policy on the use of stabilization funds. (See Practice 4.1 entitled: *Develop Policy on Stabilization Funds* and Practice 4.7 entitled: *Develop Policy on Contingency Planning*.)

Practice 4.4 Develop Policy on Use of One-time Revenues

Examples:

[Mesa County, CO: Revenue Policies]

[City of Bend, OR: Revenue Policies]

[Element 4]

Practice:

A government should adopt a policy limiting the use of one-time revenues for ongoing expenditures.

Rationale:

By definition, one-time revenues cannot be relied on in future budget periods. A policy on the use of one-time revenues provides guidance to minimize disruptive effects on services due to non-recurrence of these sources.

Outputs:

One-time revenues and allowable uses for those revenues should be explicitly defined. The policy should be publicly discussed before adoption and should be readily available to stakeholders during the budget process. The policy, and compliance with it, should be reviewed periodically.

Notes:

Examples of one-time revenues include: infrequent sales of government assets, bond refunding savings, infrequent revenues from development, and grants. These revenues may be available for more than one year (e.g., a three-year grant), but are expected to be non-recurring. Examples of expenditures for which a government may wish to use one-time revenues include startup costs, stabilization (e.g., to cover expenditures that temporarily exceed revenues), early debt retirement, and capital purchases. Uses that add to the ongoing expenditure base should be carefully reviewed and minimized, e.g., capital expenditures that significantly increase ongoing operating expenses without a sustainable and offsetting long-term revenue plan. Certain variable components of major revenue sources are similar to one-time revenue sources. While they may be addressed in a one-time revenue policy, they also may be considered separately. (See Practice 4.4a entitled: *Evaluate the Use of Unpredictable Revenues*.)