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What to Do With a Surplus When Planning a Government Budget

During times of plenty, when tax income is high and budgets are full, it's easy for local governments to spend as though the surplus will last forever. But given the cyclical nature of economic trends, governments need to make smart choices about their spending. This includes making sure they're prepared for leaner times. That's why it's important to think long-term when planning a government budget.

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One of the most important responsibilities of local governments is making sure that they're responsible and forward-thinking when putting together a budget. It's also one of the most difficult tasks, because it's impossible to forecast exactly what expenses—or revenue—will look like in the future. This can be particularly challenging for county governments that need to balance their own priorities with state and federal mandates.

Realistic budget planning can make it easier for your municipality to address these challenges and accomplish its goals. Here's a look at common mistakes that governments make when they have surplus revenue—and some ideas for better ways to spend.

Common mistakes with a surplus

Some of the missteps that local governments tend to make with a budgetary surplus include:

- **Incorporating it into the general budget:** By integrating a windfall or higher-than-average revenues into the general budget, it becomes easier to justify higher across-the-board spending. But this might become unsustainable if and when revenues fall.
- **Creating new expenses without a plan:** Spending on a project such as a new building or park can be a good way to use a windfall, but only if the municipality has a plan for the additional expenses the project creates. A new school, for example, becomes a recurring cost of teacher salaries, utilities and building maintenance. These ongoing expenses can make it much more difficult to balance the budget in the future.
- **Making decisions in the dark:** Having a transparent budget process—along with the opportunity for input from citizens, department heads, and other stakeholders—not only increases trust in government, but also allows for more informed decision making.

Better ways to use a windfall

Instead of falling into these common pitfalls, here some alternative approaches that can help you think longer-term and use a budgetary surplus in a strategic way.

- **Focus on capital improvements or infrastructure spending:** Consider using high tax revenues from periods of economic growth to cover one-time expenses, such as building or road improvements. This can be a smart way to get these projects done with minimal impact to the rest of the budget.

- **Pay down liabilities:** Whether a municipality has extensive debt obligations or an underfunded pension plan, using surplus money to reduce obligations can help improve future cash flow.
- **Build reserves:** If your local government has an insufficient rainy day fund for emergencies and unexpected expenses, times of plenty can be an opportunity to build up these reserves and improve resiliency.

One of the reasons why planning a government budget is so important is that its central to the municipality's mission. You've been entrusted to use those funds in a way that improves residents' lives first and foremost. Following these best practices can help your municipality achieve its goals by planning a government budget carefully and using surpluses smartly, with the betterment of the city or town in mind.

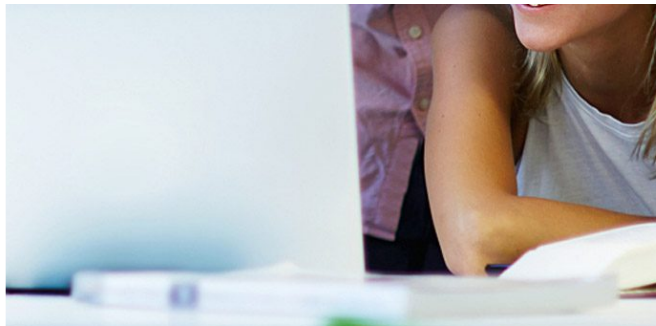
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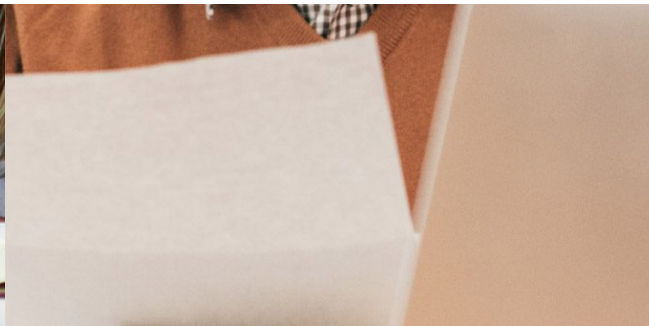
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