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Budget Manual for Tennessee Cities

Center for Government Training

Municipal Technical Advisory Service

BUDGET MANUAL FOR TENNESSEE CITIES

prepared by

The University of Tennessee

Center for Government Training

and

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for

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MTAS Headquarters
891 Twentieth Street
The University of Tennessee
Knoxville, Tennessee 37996-4400
Telephone: (615) 974-5301

CGT Headquarters
P.O. Box 24180
The University of Tennessee
Nashville, Tennessee 37202-4180
Telephone: (615) 251-1401

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INTRODUCTION

The headlines in the local paper describe the financial occurrences which are affecting Tennessee Cities: "Proposed cuts in Federal Budget," "City Officials Consider Reductions in Services," etc. Hopefully, the latter headline has not been seen in your newspaper, but the potential for that happening is greater than ever before. How can you avoid a situation like that headline? How can you manage the fiscal affairs of your city more effectively, but with less financial resources? One answer comes in the development of a budget which enables you to plan for the spending of monies during the fiscal year.

The purpose of this handbook is to provide an overview into the budget preparation process. With the staff and other resources available in City Hall, you will be able to develop a "plan for spending money" which enables you to show to the public how you intend to spend their tax dollars, as well as show the controls you will establish by the spending limits you set. The budgetary controls become the yardstick by which the progress of spending money can be measured. Also, the budget serves as a yardstick for measuring the progress of the town's money collection during the year.

The outline found on the first pages provides the steps in the budget process. The MTAS and CGT staff have developed this manual to provide cities an on-site reference document in assisting them through the budget preparation process.

WHAT IS A BUDGET?

Budget Defined. A city budget serves three major functions. First, it is a policy statement by which the governing body of the city sets out what it hopes to accomplish during the next fiscal year. Secondly, it is a financial plan in which the city sets out how it is going to implement the various policy decisions which it has made, this includes the amount of money to be spent for various city services and capital improvements and the means by which the necessary funds will be raised to pay for these services and improvements. Finally, the budget is an accounting document which is used as a basis for setting up the city's books for the following fiscal year and is one of the source materials for the next city audit. The budget may also contain information which serves other purposes in addition to the above such as a budget message to explain the budget to the public, a pay plan for city employees and various statistics relating to the city.

Budget Systems. Since the turn of the century various types of city budget systems have been developed. The best known of these are the line item, program, performance, planning-programming-budgeting systems (PPBS) and Zero Based Budgeting. Any of these systems requires some effort to develop and adequate time should be given to the process.

Line Item Budget. The line item budget is the most commonly used budget form. It is easy to prepare but tells very little about which department performs what services and the extent of services provided. It is a limited device in giving direction and basically fulfills the minimum requirement of having a budget. In a line item budget expenditures are broken down first by department; secondly by major category; such as salary, fringe benefits, contractual services which would include such things as utilities, materials and supplies, capital outlay, and debt service.

Program Budget. A program budget focuses on the services to be provided by the city and budgets money according to functions such as public safety, general government, public works, recreation, etc. It shows the purposes for which money will be expended and the importance the city places on these functions. It does not show the level of services produced and some say that as a result its value as a tool for managing the quantity and quality of public service programs is weakened.

Performance Budget. A performance budget allocates money to activities or programs plus describes the amount of services which will be produced with the monies allocated. It allows an adjustment of the level of services to be given both as to quality and quantity. It is a very useful budget system but is very difficult to prepare because of the amount of information necessary to prepare it properly.

Planning-Programming-Budgeting System. A PPBS System requires (1) a detailed analysis of what services the city is providing and how well they are being provided; (2) a detailed analysis of various alternative methods of delivering both existing and new services; and (3) a projection of services and costs as far in the future as possible. One of the major advantages of PPBS is that it requires a careful review of priorities and alternatives by all responsible decision makers of the city. One of its major disadvantages is, like the performance budget, it requires a great deal of input to come up with the necessary information upon which a decision can be made.

Zero Based Budget. A zero based budget is a process which closely scrutinizes all city services both present and proposed. It places these services in units of manageable size and ranks them according to priority. A level of funding is agreed on and all units which fall below this level are eliminated. A review of some of the legal requirements of budgeting and city finance follows.

WHY HAVE A BUDGET?

Legal Aspects. It is a statutory requirement that a general law municipality have a budget for each fiscal year (State law sets the fiscal year from July 1 to June 30). The Tennessee Code Annotated prescribes the manner in which such a city must comply with the law, with varied procedures based on the form of government, mayor-alderman or commission/manager. Budget requirements for private acts cities would be spelled out in their charters. While there may be some cases where such a charter might not require a budget, we would strongly urge that one be adopted.

Mayor-Alderman Cities. The budget requirements for mayor-alderman cities is indicated in Section 6-2-305 which cites that no levy of taxes shall be made unless a "budget of estimates, itemizing the amount required for each municipal purpose, is first made and reported". The procedure for the levying of taxes or appropriating monies is indicated in Section 308 wherein an ordinance must be read on three (3) separate days and adopted on third reading by a majority of the entire board. In most cities the mayor or city recorder or a committee of aldermen compile a budget from monthly reports presented by the treasurer.

Section 6-2-301 cites that no expenditure of money shall be made unless money is available. A sidelight to this is found in Section 6-2-303 where it notes that the mayor and each alderman shall be liable for expenditures which exceed money on hand or taxes anticipated.

Commission-Manager Cities. The law specifies in the Commission-Manager Charter that the manager shall present on or before November 15 the budget estimate for the coming fiscal year. The modified Manager Charter, which applies to Union City, Elizabethton, and Oak Ridge, notes that no later than 90 days before the beginning of the fiscal year the manager shall submit a budget.

Our experience in Tennessee cities reveals that the work on the budget is begun in the last quarter of the fiscal year.

In all cities in Tennessee a budget is needed, not only because the law "says so", but because in these uncertain economic times, it is a management tool that will allow the best use of fiscal and human resources to provide services to the citizens. There are certain steps that need to be followed in order to complete the budget in a timely manner.

HOW TO COMPLETE A BUDGET

Audit. Each year a municipality has its fiscal affairs audited, another legal requirement found in TCA 6-56-105. This document helps to provide a "picture" of how well the city is doing financially. The information found in the audit can be used to help determine where new revenues are needed, what to set aside for bonded indebtedness, etc. That portion of the audit dealing with revenue and expenditures should be based on the prior fiscal year's budget so that a municipal official can readily compare actual figures with budget estimates. This information, when added to the day-to-day knowledge of the staff, provides a basis in developing a budget, as well as determining needs for improving the city's accounting procedures. While the "numbers" in the audit represent one aspect of the city's fiscal picture, the recommendations of the auditor for changes in bookkeeping, accounting, etc. complete the review, allowing for deficiencies to be rectified. Once a review of the financial affairs is completed, this knowledge can be used to plan for the coming year, with the final step being the development of a budget.

Budget Calendar. The budgetary process varies, legally and practically, in each of the 334 municipalities within the state. Sometime ago, MTAS published a budget calendar for small/middle sized cities (see Appendix A). The use of a calendar as shown in the appendix, or one devised by your city, is important since it establishes a "plan of attack" on the budget process. Each step should be identified, as well as the person responsible for each step. A time frame should be developed in order that the deadline for meeting statutory requirements can be met. Allow enough time to complete the budget, hopefully, before the beginning of the fiscal year. The law for commission-manager cities states that this should be done; however, for a variety of reasons many cities do not meet this deadline. Every effort should be made, however, to adopt a budget by the first council meeting in July. While the calendars from city to city will vary, they should be detailed enough to eliminate confusion about what must be completed, by whom and when.

Funds. One of the distinguishing characteristics of municipal accounting and budgeting is the use of separate funds to properly account for the city's operations. While they are usually combined into one document, each fund which the city has will require a separate budget. While the number of funds will vary depending on the size and complexity of the city's operations, almost all cities in Tennessee will have at least three funds--State Street Aid, Federal Revenue Sharing, and General. Other common funds are water and/or sewer, capital projects, park and recreation, and debt service. There is in effect no limit on the number of funds that a city can establish. However, since each new fund adds to the complexity of the city's financial operation and takes away flexibility, it is advisable to keep the number of funds as small as possible within legal and financial requirements. In general, the budget process is the same for each fund. The most difficult part of the budget process is the projections of revenues and expenditures for the next fiscal year.

REVENUE PROJECTIONS

Local Revenues/General. In the following sections we will be discussing local revenues which are concentrated in the General Fund. By local revenues, we refer to revenues that require local authorization before they can go into effect. And, to a certain extent, the limits of the rates on these local revenues are left to local determination. Certainly there are legal limits as to the maximum rate that can be imposed on such items as wholesale beer tax, business tax and sales tax. Each local government should be aware of where their rates stand in relation to the legal limits of each revenue source.

In addition to legal limits, all revenue sources also have political limits or limits beyond which the voting public will not tolerate. However, these limits are usually based on perceptions unless a referendum is held on a specific revenue. Therefore, timing is a key element in the establishment of new local revenue sources.

Whether it is perception or actual vote, if the point of controversy is a utility rate increase, the citizens need to understand the necessity for a rate increase. Cities which have a service that is funded by fees or a service charge should be aware of the need to maintain such fees or charges at an adequate level.

Certainly, a city may experience growth, and consequently, increased revenues; or, it may reduce the cost of the service without reducing the service. If either of these factors occur, the city is fortunate. However, if revenues are insufficient to maintain a service, they will eventually have to be increased. To postpone action on these questions means that when rates are raised, the increase will be larger and a greater amount of resistance will be encountered. Therefore, annual reviews of revenues compared to previous years' performance are essential.

Once those reviews have been made, it is important to communicate to the citizens how well revenues are performing, and what those revenues mean in services.

Property Tax. The basic local tax is real estate or property tax. When property taxes are levied, they represent a substantial percentage of each city's overall revenue. It is true that most Tennessee cities are not able to control the appraisal of the property within their corporate limits. But, they are able to control their tax rate, which is unlimited unless reimposed by a charter provision subsequent to a 1973 act by the legislature which removed all maximum limits. It is useful to calculate the value of one cent (1¢) in the tax rate based upon the latest assessment figures, so that the governing body can calculate the tax rate necessary to balance the budget.

How to Project. In projecting property taxes in the budget, a city should only project the amount of current property taxes they anticipate collecting during the fiscal year. This, invariably, will be less than the total amount of taxes due. Such projections should use a percentage factor based upon the actual collection experience of the past two or three years. Such information is available in each city's audit report for each previous year.

For example, if in doing the review it is determined that an average of only ninety (90%) of the total taxes due has been collected, then the maximum revenue entry for current property tax would be ninety percent (90%) of the current taxes due. However, unless absolutely necessary, we do not recommend that the maximum amount projected be budgeted for any revenue. It is always better to underestimate a revenue than to overestimate one. An exception to this would be a fixed item such as a pre-agreed in-lieu of tax from a municipally owned electric utility. Reasons for budgeting less than the maximum amount anticipated varies for each revenue source. In the case of property tax, a city needs to allow for economic downturns, or more specifically, in the case of public utility property, assessment action by the Public Service Commission which may reduce the maximum taxes anticipated. Some cities in Tennessee have experienced this difficulty in the past when public utility property was a substantial factor in their tax base.

Delinquent Property Taxes. Projection of delinquent property taxes depends primarily on two factors: first, the extent of delinquent taxes outstanding, and secondly, the level of effort to be exerted in collecting those delinquencies.

Such taxes can be collected under a general law procedure (6-55-201 -- 6-55-206), or as provided in a city's charter. Many cities enter in a joint effort with their respective county government as a practical approach to the problem. But a city, whether working with the county or by itself, needs to remember that by current state law a time limit of six (6) years from January 1 of the year in which the delinquent tax accrued is in effect for filing suit.

How to Project. The projection of this revenue item should be based on the collections for the past two or three years. A constant percentage of total taxes levied would indicate that the same percentage would not be collected in the coming year. A greater collection effort can increase the amount collected substantially. When budgets become tighter, it appears that efforts intensify for the collection of delinquent property taxes.

Local Sales Tax. Sales tax revenue, as with property tax, operates with a fixed rate. But with sales tax, the tax base which is volume of sales, can decline unless prices increase through inflation; this has been a saving factor for many cities during the past few years. A growing local economy or local commercial growth can result in increases in sales and sales tax revenue.

However, be wary of past increases in sales tax that resulted due to inflation or commercial growth. Price increases may not continue at past levels, and the result will be less sales tax growth. Commercial growth will create new customers and will create sales tax growth. However, such growth may only draw customers from other commercial centers within the corporate limits and may not cause an increase in sales tax revenue.

Periodically all retailer's sales tax numbers should be collected and cross checked with the state sales tax division to assure that receipts are being correctly returned to the city. Errors can occur between cities of similar names or in cases where businesses use the home office address, which may be in a different city.

How to Project. In making projections we recommend you base them on at least three (3) years of data as shown in the budget worksheet in Appendix J. The first two are actual years which are obtained from past audit reports.

The third year of data is the current year and is obtained by using both actual year-to-date collections extended to arrive at a total for the current year. It is recommended a city use all possible approaches to estimate current year collections. Each approach requires year-to-date totals through the most recent month. If the budget is prepared in April, revenues should be totaled through March.

Once this data is available, the first approach involves dividing the total by nine (number of months) to obtain a monthly average for the nine month period. Then multiply by twelve for a yearly projection as follows:

Year-to-date	Months		Monthly Average		Months		Year Projection
$900 divided by	9	=	100	X	12	=	$1,200

The second approach involves multiplying the figures for March times three and adding the result for your nine month year-to-date for a yearly total.

March		Remaining Months		Quarterly Projection		Year-to-date		Current Year Projection
$175	X	3	=	$525	+	$900	=	$1,425

The third approach involves adding the current year-to-date total to the actual amount of the last quarter of the previous fiscal year.

Year to date		Actual Last Year Quarter		Current Year Projection
$900	+	$400	=	$1,300

All three of these approaches result in relatively close results. However, when multiplied to reflect many cities actual sales tax revenue, the differences could amount to several thousand dollars. It is recommended that a figure be used which is half way between the high and low figures.

Once three years of data are in place, it is time to make projections for the coming fiscal year. If the current year is less than the previous years, efforts need to be made to determine why. When the factors are identified, determine whether they are temporary or long term.

If the current year projections are substantially more than the previous year, the cause needs to be determined. However, unless unusual growth is taking place, i.e. more people moving in or more jobs being created, the safe approach is to budget the coming year at the current year level with no more than a maximum of five to ten percent (5% - 10%) increase.

It has been stressed previously, but it is important not to over project revenues.

In-Lieu of Taxes. Most statements about in-lieu of tax payments center around municipally owned utilities paying an in-lieu of tax to the parent city. It may not be practical in the case of water or sewer, but many cities have natural gas systems that have accrued substantial retained earnings and have rate structures that are automatically triggered when the wholesale prices increase. The result is the retained earnings continue to increase while the city's general fund may be suffering for need of revenue. If not considered before, a city should keep this possibility in mind when preparing a budget.

Tennessee cities operating municipal electric systems are empowered to take in-lieu of taxes or tax equivalents up to prescribed maximums under the standard provisions of TVA power contracts. However, each city should review its charter because some provide for lesser amounts.

<u>How to Project</u>. Projections of electric system in lieu of taxes depend upon the decisions of the governing body as to whether they will take the maximum allowable or something less. Whatever the decision, the result, less up to twenty-two and one half percent (22 1/2%) of the total (maximum provided for the county), can be entered in the budget.

<u>Wholesale Beer Tax</u>. For those cities with beer retail outlets within the corporate limits, the local wholesale beer tax is a seventeen percent (17%) tax levied on the wholesale price of beer. State law requires the wholesaler to pay this tax directly to the city and to file monthly reports with the city and the State Department of Revenue. It is quite easy to understand that volume of sales determines the amount of this revenue since the rate is fixed at seventeen percent (17%). However, it is important that each city always monitor the monthly receipts for any exceptional fluctuations, and to occasionally check that payments are being received from all beer wholesalers serving the area. Inadvertent errors may result in lost revenue.

<u>How to Project</u>. In making projections, the minimum two or three year history referenced earlier should be used. If the history shows a steady growth in revenues year after year, then the average percentage growth can be projected

for the coming year. However, if the current year is indicating a downturn, the cautious approach would be to budget no more than current year's receipts. New beer retail outlets within the city will not necessarily result in increased revenues if there are several other outlets already located within the corporate limits. However, annexation of existing beer outlets will usually increase revenues. The approximate extent of such increase can usually be determined if the wholesaler or retailer will cooperate by supplying the volume of wholesale sales or purchases for the business in the annexed area.

Business Tax. Business taxes and their maximum rate limits are established by state law. However, the decision as to whether to impose a business tax and the setting of the rates up to the maximum is left to the local governing body. An important point of information in looking for new revenues is to know whether your city imposes a business tax and whether it is levied at the maximum limit.

Collection of current and delinquent business taxes is a local responsibility and an appropriate amount of effort should be devoted to the collection of business tax. An important point on delinquencies is that after the tax is six (6) months delinquent, it becomes the duty of the state to collect the tax, penalty and interest. All amounts collected by the state from the delinquent taxpayer will be retained by the state. Therefore, if a city imposes a business tax, the city should collect it in order to receive the revenue.

How to Project. Projections of business tax revenues again rely on a minimum two or three year performance history. In making projections the impact of additional commercial area (i.e. through annexation and/or new construction) should be considered. Additional city collection effort should also be taken into account.

In most cases, significant fluctuations in business taxes will not occur, and the current year receipts would be the basis for a safe projection for the coming year.

Other Local Taxes. Other local taxes may include franchise taxes, which are usually a fixed percentage on gross receipts and remain basically constant from year to year, unless affected by user rate increases or system expansion. Projections based upon information provided by the franchise or personal knowledge will be appropriate.

Other local taxes may also include room occupancy (hotel/motel), special assessments or mixed drink taxes which have not been discussed in this document because they are not widespread. Check the MTAS Municipal Handbook for other revenue sources.

Licenses and Permits. Normally, the two significant sources of licenses and permits are automobile registration (city sticker) and building code permits. There are other types of permits, but these do not usually generate a significant amount of revenue.

Consideration should be given to the following three factors in reviewing licenses and permits collections. Changes in these factors can make the two year history almost meaningless.

(1) Anticipated volume of business. This should not affect auto registration or annual renewals on licenses, but during periods of slowdown in the building industry it will reduce building related permits to a fraction of earlier years performance.

(2) License or permit fee. If this is significantly lowered or increased it will directly affect the amount of revenue received.

(3) Collection effort. If a strong effort is not made to insure that all contractors acquire a permit for new construction, the volume of receipts will be reduced. This is also true in auto registration where a slowdown on the part of the enforcement agency can result in significant reduction in receipts.

Each city should closely review the amount of construction taking place and by talking to local contractors and developers, try to determine the approximate amount of planned activity for the coming year. Charges for each type of permit connected with building should then be applied to the anticipated volume of business to determine the projection for the coming year.

Intergovernmental Revenues. Intergovernmental revenues can be in the form of an in-lieu of tax payment from the local housing authority, state and federal grants (not including general revenue sharing) and state shared taxes which are the most significant on an annual basis. State shared taxes will be addressed in a later section.

Housing Authority in-lieu of Tax. The in-lieu of tax payment from a housing authority should remain basically constant from year to year unless expansion occurs within the system. Discussion between the housing authority director and the preparer of the budget should provide a reasonably accurate projection for this revenue.

State and Federal Grants. State and federal grants require application to obtain these funds and the amount requested is stated in the application. Budgeting these grants, even though the grant may not be secured, should not affect the other parts of the budget since these grant revenues are tied directly to specific expenditure line items. A city should avoid expending money for a grant program until the grant is finally approved. In many cases federal regulations state that money spent before a grant is approved can not be charged against the grant.

Charges for Service. Charges for service cover a broad range of revenue sources ranging from pool admittance fees to refuse collection charges. These charges have been established based on the premise that users of the service should bear the cost of the service. Since the service charge should relate to the cost of the service, rates should be reviewed annually at budget time. Offsetting factors to increases would be volume increases (i.e. increases in customers) or technical improvements that would reduce costs.

If such information is available, it is useful to have customer counts and/or consumption figures. If not, a city must rely on a multi-year history of revenues for the service. The forthcoming year should not reflect more than the best year of that past history.

Fines, Forfeits, Etc. Although some cities depend heavily on this item for revenue, it is one of the more costly sources to collect. This is not to say that a law enforcement and traffic control program is not needed, but it should not be relied upon as a major revenue source. With almost any city, this revenue will fluctuate with the enforcement efforts exerted.

In making projections each city should review the past history looking for fluctuations from one year to the next. If such fluctuations exist, try to determine why they exist. The budget preparer then needs to consult with the respective department and the governing body (extent of enforcement may be a policy decision for the governing body) in order to determine the level of enforcement for the coming year. Factors to consider in this determination are an increase or decrease in enforcement personnel, change in departmental administration or a change in the governing body.

Should the intent be to reduce enforcement, then revenue projections need to be adjusted accordingly. If the intent is to increase enforcement, then the projections should be adjusted upward. However, a city should be cautious in projecting such increase.

Should any city be anticipating a special census or annexation, they should plan on having the process completed and the census result of such process to their respective Local Planning Office for certification no later than June 1 of the current fiscal year.

Once the certified population is determined, the second factor is to determine the per capita amounts. The adoption of the state budget usually occurs toward the end of the legislative session. The result has been the late issue of the per capita amounts, sometimes as late as June. Waiting for such data can place a city very late in preparing their budget. It is recommended that cities use the current year per capita amounts to establish a tentative revenue projection for state shared taxes. Once data for the coming year is available the (tentative) projections can be adjusted.

On the three exceptions noted previously, i.e. income tax, mixed drink tax and alcoholic beverages tax, a city will have to refer to their past history to make their projections. For most cities those three items are not that significant in the overall budget picture. However, a city should be careful not to project the coming year at a higher rate of increase than the increase shown between the actual previous years and the current year estimate.

In reviewing its past history each city should compare the revenues which it actually received for each of these items against the amount that it was supposed to receive based on the appropriate per capita amount. The reason is that many of the per capita amounts are based on projected sales volumes. This is especially true for state sales tax and state street aid. If such a review indicates a significant difference between what was suppose to be received and what was actually received, a cautious approach might require an adjustment of the projections for these items to reflect past history.

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Three-eights of the state income tax is returned to the location where it is collected. This is done by means of a code placed on the tax return by the preparer. Therefore, it is very important that each person in your community place the correct code number on his or her return so that the city will receive credit.

Appendix I contains the per capita amounts for each item of state shared taxes for the 1981 - 82 year followed by a brief description of each item, the formula which is used to determine the per capita amount to be received by each city and the schedule of payments to the cities. This appendix is an excerpt from a technical bulletin prepared annually by MTAS consultants. The appendix also describes the uses for which each item can be expended. The uses of the Gasoline Inspection Fee and State Street Aid funds will be discussed in greater detail in the section on expenditures.

General Revenue Sharing. General revenue sharing funds are appropriated on a twelve month basis identified as an entitlement period and paid quarterly starting in January of each year. As long as local governments use a fiscal year other than the federal fiscal year which is October 1 through September 30, cities must take into account the fact that they will be receiving revenue sharing funds from two entitlement periods during their fiscal year. This is important in projecting revenues since the allocation can change from one entitlement period to the next. Depending on how each city's auditor handles the city's July quarterly payment (some auditors count this payment in revenues of the year just ending while some place it in the next year's revenues), each city's books in April will either indicate that the city has received all of its Revenue Sharing Funds for the current fiscal year or the one additional payment will be received.

How to Project. During the next fiscal year the city will either be receiving one or two payments from the current entitlement depending on the auditor's credit of the July payment and the other payments will be from your new entitlement. If the books show that all current year payments have been received, take an amount equal to the April payment, double it and add 50% of the amount which will be received during the next entitlement period. If on the other hand the books show one more payment due, take an amount equal to the April payment and add 75% of the amount to be received in the next entitlement period. The city should have received information by May as to the amount of the next entitlement. An example of the above calculations would be as follows:

April Payment	
$400 X 1 =	$ 400
New Entitlement	
$1,200 X .75 =	+ 900
Revenue Projection	$1,300

April Payment	
$400 X 2 =	$ 800
New Entitlement	
$1,200 X .50 =	+ 600
Revenue Projection	$1,400

There will be years in which the estimated allocation is not available in time to meet the city's budget adoption requirements. In such cases the city should multiply the April payment times four (4) and use this figure. If this is done, it is recommended that the budget estimate be revised as soon as the allocation amount is known.

Each city should also be aware that four principal factors figure into the formula for revenue sharing allocations. These factors include: inverse per capita income (i.e. the lower the city's per capita income, the more it will receive in funding), population, intergovernmental revenue and local taxing effort. All of these are compared to the same factors for other local governments within the state, and within each city's respective county.

Each city should be mindful of how neighboring cities are doing in regard to population and local taxing effort. An aggressive local tax effort by one entity in the county could possibly increase that entity's future entitlements at the expense of the other entities within the county, all other factors remaining constant. It is important to note that no city can receive in revenue sharing funds more than fifty percent (50%) of what it collects in taxes.

Each city should complete and promptly return the reports required by the Office of General Revenue Sharing. Failure to complete and return the statement of assurances form, and the actual use report, can result in withholding of quarterly entitlement payments. The money is not necessarily lost because the payments withheld will be forwarded along with the first quarterly payment following the Office of Revenue Sharing's receipt of the report, but it can cause severe cash flow problems for cities, and certainly means a loss of interest earnings if the money could have been invested.

Water and Sewer Revenue. Primary revenue sources for water and sewer systems, as for other utility systems, are user fees. Certainly there are other revenue items but utility operations rely primarily on user fees. In projecting these revenues the past history is very important because of fluctuations which can take place from one year to the next. The minimum history needed is two actual years plus the latest estimate for the current year. To project the revenue for the balance of the current year use an amount equal to that received during the same period in the previous year unless that year was not a normal one. If a rate increase is planned or there are factors that will increase consumption, such as subdivision developments, annexations, utility line extensions, industrial development or projected increases by current users, revenue estimates can be increased accordingly.

In order to estimate increased revenue based on an increase in customers, the city needs to count the number of new customers and multiply this figure by the average monthly bill and then multiply the result times the number of months it is anticipated that the new customers will be served. An example of such a calculation would be as follows:

New Customers		Average Monthly Bill		Monthly Receipts		Anticipated Months		Increase in Coming Year Revenues
1,000	X	$6.00	=	$6,000	X	9	=	$45,000

New industrial or commercial customers will need to provide an estimate of proposed usage for revenue estimates to be made.

Once again, it is important that each utility funded by user fees be annually reviewed to see if revenue is exceeding all obligations of the utility. Such a review should include the past three or four years to see if a downward trend in net earnings is occurring. A reasonable net earnings should always be maintained by each utility. If the review indicates the need for a rate increase, rates should be increased as soon as practical because delay will only make the problem more difficult. Rate increases should be preceded by rate studies. Such studies should analyze the number of customers, consumption and revenue provided by each step of the city's rate structure. These studies should also review the percent of water that is lost between pumping and sales. Bad meters, leaks, etc., place a heavier burden on those citizens with accurate meters. MTAS will shortly have available a manual to assist cities in making rate studies.

After all analysis is completed, the rate study should provide the governing body information on the amount of additional revenue needed to meet future requirements. It should also provide options to meet those revenue needs and the impact of each option on the consumer. The final decision on the extent of rate increase, who will be affected and the resulting financial condition of the utility rests with the governing body.

Delinquent Bills. Each city should have a policy to assure the collection of delinquent water and sewer bills. Failure to do so will result in a loss of revenue and place an unfair burden on those who do pay their bills.

BORROWING

Tax Anticipation Notes. A tax anticipation note can be a valuable financial management tool for Tennessee cities. It allows cities to issue notes early in the fiscal year in anticipation of projected tax revenue which usually is not available until five or six months into the fiscal year. Such notes are limited to sixty percent (60%) of tax anticipation and require approval by the State Director of Bonds and Local Finance.

With the passage of a tax anticipation resolution (See Appendix G) during the budget adoption process, the city can borrow money from time to time during the fiscal year after submitting a letter specifying the amount to the State Director of Bonds and Local Finance for approval. Such notes shall mature without renewal not later than the close of the fiscal year. However, if taxes and revenues do not meet the level estimated, a city may apply to the State Director of Bonds and Local Finance, at least ten (10) days prior to the end of the fiscal year, for permission to issue funding bonds to cover any unpaid balances.

Tax anticipation notes are not a revenue, but they assist in smoothing out the city's cash flow, which is a necessary ingredient in budget management.

Capital Outlay Notes. Another valuable financial management tool is the capital outlay note. It is a short term borrowing tool that provides a means of funding much needed capital items with a limited cash flow. Cities have used capital outlay notes to finance such various items as police cars, garbage trucks and street improvements. Like the tax anticipation note discussed earlier, the capital outlay note also requires prior approval by the State Director of Bonds and Local Finance. However, the time limits are somewhat more liberal.

Capital outlay notes can be executed for a period not to exceed three (3) years from date of issuance, and with approval of the Director of Local Finance, the maturity date may be extended for two additional periods of three (3) years each. Such notes issued solely for the acquisition of land or an interest in land may be executed for a period not to exceed seven (7) years from the date of issuance, and with approval, may be extended for one additional period of three (3) years.* A sample cover letter to the director, capital outlay resolution which must be adopted by the governing body, and capital outlay note are included in Appendix H.

* However, a minimum of 1/9 of the principal of regular capital outlay notes or 1/10 of capital outlay notes for land must be paid each year the notes are outstanding.

EXPENDITURES

Chart of Accounts. The following comments apply to revenues, as well as expenditures, but we have chosen expenditures to stress the benefit of a chart of accounts. Expenditure accounts are far more numerous in the usual city budget. Each city needs to determine the optimum number of line items required for financial management. Too few or too many accounts will decrease the ability of financial managers to properly analyze cost centers. For example, it is difficult to hold down electric costs if they are included in a single line item with other types of utility expenses.

The chart of accounts found in the Comptroller's "Uniform Accounting Manual" should be used in the city's budget, accounting records, and annual audit. This would apply to any other finance related activity. The benefits are: uniformity in the city's total financial picture, reduced audit costs, and simplicity if a city has or is going to have an automated accounting system.

Projections. For accounting purposes all expenses are classified first by fund (see page 8), secondly by function (i.e. general government, public safety, public works, etc.) and finally by object. The State Controller's Uniform Accounting Manual places all expenses in one of eight major object classifications.

For the purpose of making projections all expenses can be placed in one of five categories: (1) personnel services; (2) contractual services, supplies and materials; (3) fixed charges; (4) debt service and (5) capital outlay.

Personnel Services. Personnel and associated expenses are the largest or one of the largest expenditure items of any municipal operation. Projections of salary expenses for the current year can be obtained by multiplying current salaries times the number of pay periods left in the year, adjusting for any changes which will be occurring before the end of the year and adding to this the actual year to date totals. A similar system can be used to make current year projections of fringe benefit cost.

In making projections for the next fiscal year it is important that the persons preparing the budget utilize a format that clearly identifies current personnel costs and the impact of any proposed increases. Such analysis should be prepared on a departmental basis so that the current costs and increases can be directly related to municipal services. Such analysis should be prepared using the format shown in Appendix K. This format provides a salary breakdown for each authorized position and for each employee within a department. After salaries are computed and a departmental total is reached, annual costs should then be computed for fringe benefits using present rates or percentages.

The sixth column of the personnel cost worksheet is used to list projected salaries without any increases except those provided by guaranteed steps within an existing pay plan. It is also used to show increased fringe benefits based upon the percentage or fixed costs estimated for the coming year. Each city should attempt to obtain percentages for FICA (social security), retirement and unemployment compensation for the coming fiscal year from the respective offices for each item. The hospitalization insurance agent should be contacted about projected increases if the city pays any portion of such premiums. The total of the sixth column shows the governing body what personnel costs will be for the coming year if no across the board salary increases are granted.

The seventh to ninth columns are used to project across the board percentage increases and to adjust all associated costs. Before making a projection, comparisons should be made with previous years' efforts and with what surrounding cities are doing (cities can utilize the MTAS Salary Survey), and should be discussed in advance with the governing body.

Contractual Services, Supplies and Materials. The calculation process discussed in revenues is also applicable and important to these expenditures. A city should utilize two years of actual data taken from the immediate previous fiscal years audits. The city should also calculate expenses for the entire current year period. The method of making calculations was discussed in the revenue section on page 11. However, for expenditures a city should be mindful of any extraordinary expenditures for the current year that may not develop until April, May or June. When projecting expenditures, it is better to over project than under project. Expenses, especially utility costs, are largely determined by unit costs and usage. It is difficult for cities to affect unit costs except through purchasing methods that seek the lowest price and utilize bulk consumption. However, such efforts may not be successful, especially when dealing with a limited number of suppliers. The only other recourse is to reduce consumption which has proven successful in utility costs. The city should contact each utility to obtain a projection on the increases expected in the coming year. Once that percentage is obtained, it should be multiplied times the estimated current year costs to reach next year's projection. If information is not available, utilize past history to determine the trend in annual increases and apply this to the estimated current year costs.

Applying an estimated percentage of increase is about the only way to project other expenses in this category such as repair and maintenance. One should note proposed changes in present or future operations which might affect such projections. For example, adding police cars may increase repair and maintenance; however, replacing some high maintenance cars with new ones may reduce the amount of repair and maintenance needed.

Fixed Charges. Include items such as insurance, bonds, rents, data processing service, etc. These are among the easiest expenses to project since they are based on fixed costs which can be obtained from the appropriate supplier.

Debt Service. Each city with outstanding debt obligations should develop and maintain a payment schedule for each outstanding debt. Such schedule can be developed with the aid of the city's auditor and updated to reflect the principal and interest due during the coming fiscal year. The schedule should provide the necessary information on a monthly basis.

Once the schedule is prepared a cash flow plan needs to be developed so that each fund is paying an appropriate share on a monthly basis. Monthly set asides will prevent bonds or interest coming due without sufficient monies on hand to meet the obligation. This information can be used to project debt service expenses for the next fiscal year.

Capital Outlay. This category includes the purchase of land, buildings, equipment and improvements. Projections of these expenses should be based on contracts, if available; otherwise estimates obtained from suppliers or consulting engineers should be used. Use the largest or several estimates to budget for equipment purchases.

State Street Aid. Periodically, MTAS publishes articles, reports, etc. with information for local governments. One of these reports, written by W. K. Joines, Finance and Accounting Consultant, is on the proper and improper use of "State Street Aid." Additional information on these funds can be found in Appendix I and L. State Street Aid is a restricted fund and cannot be combined with any other fund.

Revenue Sharing. Revenue sharing funds may be used for any purpose which is considered a permissible use of a city's own revenues under applicable state and local law. A brief list of non-recommended uses includes: matching funds, debt retirement, loans and investment. A prohibition exists from the standpoint that no city may use its funds for lobbying or other activities which may influence legislation regarding this act. Dues paid to state or national government associations are considered an exception.

Recipient governments must spend, obligate or appropriate revenue sharing funds within 24 months of the end of the entitlement period for which funds were received.

These funds can be used with other city funds with minimal difficulties. We urge caution in using these funds for operational expenditures. In the past cities have used their funds for equipment purchases or other capital, one-time items. Recently, these funds have been used for operational expenditures; i.e. salaries. In the event the appropriations for revenue sharing were cut or eliminated, cities would be in a precarious position, fiscally, having to raise taxes or decrease services in order to make up the loss of revenue. One-time capital projects would seem to be the best use for these funds, but costs are increased by application of the Davis-Bacon Act requiring national prevailing wages be paid by the city or contractor.

Enterprise Funds. Budgeting expenditures for enterprise funds such as water or sewer do not differ from what has been discussed for other funds except for two important points. Fund balances which are referred to in enterprise funds as retained earnings are not supposed to be used to fund coming year operational expenditures except to assist in cash flow shortages during the year or for additions to plant. Also, an item called depreciation which does not normally appear in other funds is a required item in an enterprise fund based upon the amount of undepreciated plant value. Depreciation is not an actual cash payment item but should be budgeted after consultation with the auditor on the proper amount to schedule for the coming year. The auditor will then charge out such depreciation at the end of the fiscal year. The reason for budgeting depreciation is to assure that money is set aside for replacement of plant when it wears out and to end the year with a positive retained earnings.

Fund Balances. Once the current year estimates for all expenditures have been completed and balanced against estimated revenues, the resulting fund balance can be utilized in meeting projected operational needs for the coming year in all funds except enterprise funds.

BUDGET ADOPTION

Budget Document. The final budget document should contain as a minimum a separate section for each fund with a separate listing for revenues and expenditures showing prior year experience, current year budget, current year estimates and proposed amounts for next fiscal year. There should also be a summary page showing all funds with a summary of revenue and expenditures.

Public Hearing Requirements. State law requires that public hearings must be held regarding the budget in council-manager cities. Federal law requires a public hearing for Federal Revenue Sharing Funds. Until recently two hearings were required; however, due to a recent change only a single hearing is now mandated. Appendix C provides a sample of the type of notice that must be published for this hearing. This notice lists by major functions the amounts of revenue sharing funds proposed to be spent during the coming fiscal year, along with the amount of funds from other sources. Once this hearing is completed, the adoption of the budget may occur.

Budget Ordinance. Appendix D and E contain sample adoption ordinances which should be used in finalizing the budget process. State law as it applied to general law cities requires three (3) separate readings for budget ordinances, except for cities which operate under the modified manager plan where only two readings are required. Private act charter cities are governed by the requirements of their charter. We would recommend, however, that even if your charter does not require the adoption of your budget by ordinance that some formal action be taken by your governing body to approve the budget, tax levy and appropriations.

A property tax rate can be established in the same ordinance used to adopt the budget. The sample ordinance in Appendix E uses this method.

Federal law required that within thirty (30) days after adoption of a budget providing for the use of Federal Sharing Funds that a notice be published stating when and where the budget is available for public inspection. A sample notice is contained in Appendix F.

BUDGET MANAGEMENT

Monitoring. After adoption of a budget, the most important aspect of the budget process follows: monitoring revenues and expenditures for the budget year. A few basic steps will help to adequately monitor the income and expenditures of your city. First, devise a monthly report in order to give officers and department heads a current picture of the city's finances. See Appendix M for an example.

Secondly, during the course of the fiscal year prepare a quarterly or mid-year budget review. This will assist in the third most important aspect of the monitoring process - budget amendments. Even the best budget will miss a line item or several line items. The law allows for amendments to the budget in order to bring actual expenditures in line with the budget.

It is impossible to overemphasize the need for budget monitoring. Without it, the budgetary process is incomplete and may place the city in a tenuous financial position. Audit reports should be used to streamline accounting operations.

Revenue Sharing Amendments. The budget may be amended to move revenue sharing funds from one function to another, if the need arises. Any change involving less than 25% and $2,000 of the entitlement can be handled through normal amendment process. Another public hearing will be required if the amendment exceeds 25% and $2,000 of the total entitlement amount.

For example, if there is an unexpected need to spend $5,000.00 for a piece of equipment in the police department, assuming no funds were appropriated for this purpose, an appropriation is necessary. If the amount is less than 25% of total revenue sharing appropriations, no public hearing is necessary. If the amount is greater than 25%, the hearing must be held. If a hearing is required, a ten (10) day notice will be required before holding the hearing to amend the revenue sharing budget.

It is good practice to note major revenue sharing expenditures in the minutes of the council meetings, even when spending money previously budgeted. It will help in completing the necessary audit to have the minutes serve as an additional audit trail.

APPENDIX A

SUGGESTED BUDGET CALENDAR FOR SMALL/MEDIUM-SIZED CITIES

By William Bailey, Municipal Consultant[1]

The fiscal year of most Tennessee cities ends on June 30, and it is, therefore, highly desirable to have a budget adopted for the following fiscal year by June 30, or ready for adoption at the first council meeting in July. It appears, however, that more and more cities are failing to meet the deadline for adopting a new budget. While it is sometimes necessary to work on the budget beyond the established deadline, city officials usually could meet the deadline without problems if they would do a little pre-planning and establish a Budget Calendar. While the budget calendar of a large city could be more lengthy and detailed, that of a small or medium-sized municipality could be somewhat along the lines of the following:

BUDGETARY SCHEDULE

On or before March 15	Finance Officer prepares previous and current year financial data on estimate forms.
March 15	Estimate forms are forwarded to Mayor, Finance Committee, or Chief Administrative Officer.
March 20	Copies of estimate forms are forwarded by Mayor, Finance Committee, or Chief Administrative Officer to Department Heads with instructions.
By April 15	Finance Officer prepares revenue estimates.
By May 1	Department Heads prepare estimates and forward to Mayor, Finance Committee, or Chief Administrative Officer.
By May 15	Review of estimates by Mayor, Finance Committee, or Chief Administrative Officer; determination made of recommendations to be made to legislative body.
By May 15	Submit proposed budget or budget requests to legislative body.
By June 30	Legislative body finalizes budget, holds necessary public hearings, and adopts same. Federal revenue sharing regulations require a notice in a newspaper at least 10 days prior to the budget hearing by the legislative body and a proposed budget summary must be included in the advertisement.
No more than 30 after budget adoption	Notice of availability of Adopted Budget as required for revenue sharing.

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[1] Retyped, MTAS Technical Bulletin, April 3, 1981.

APPENDIX B

HOW TO PREPARE A BUDGET

1. Gather the following information:
   (a) Audit reports for past two fiscal years
   (b) Copy of current year's budget
   (c) A list of all expenses for current year up to date
   (d) A list of all revenue for current year up to date
   (e) List of present salaries
   (f) Cost of fringe benefits

2. Make a budget calendar (see Appendix A)

3. Fill in information on budget worksheet (see Appendix J) for past two fiscal years, current budget, and year to date totals.

4. Fill out a Personnel Cost Worksheet (see Appendix K) for each Department.

5. Project revenues and expenses for balance of current year, add year to date totals and place results on budget worksheets.

6. Project revenues and expenses for next fiscal year and place results on budget worksheets.

7. Transfer necessary information from worksheets to final budget forms.

8. Submit budget to governing body.

9. Advertise and hold budget hearing (see Appendix C).

10. Make final changes and adopt budget.

11. Publish notice of adopted budget (see Appendix F).

APPENDIX C

PUBLIC NOTICE

(NOTICE MUST BE RUN 10 DAYS PRIOR TO BUDGET HEARING.)

CITY OF ________________
PROPOSED BUDGET HEARING

The City of ________________ will hold a public hearing at City Hall on ______(date)______ at ____(time)____ p.m. for the purpose of reviewing the 198__-___ budget. The Budget may be examined at City Hall between ____(times)____ on weekdays. All interested citizens are encouraged to give written and oral comments. Senior citizens are encouraged to attend and participate.

Estimated Revenues:

General Fund	$
Street Aid	$
Revenue Sharing	$
Water & Sewer	$
Gas Department	$
Total	$______________

Estimated Expenditures:	General Funds	Revenue Sharing	Total
General Government	$	$	$
Public Safety	$	$	$
Public Works	$	$	$
Street Aid	$	$	$
Water & Sewer	$	$	$
Gas Department	$	$	$
Total	$______________	______________	__________

APPENDIX D

ORDINANCE NO. ________

AN ORDINANCE OF THE CITY OF _______________ APPROPRIATING FUNDS FOR THE FISCAL YEAR JULY 1, 198__, THROUGH JUNE 30, 198__.

Be it ordained by the City of _______________, as follows:

SECTION

1. Total revenues and available funds and total expenditures.
2. Appropriation not to be exceeded.
3. Line-item financial plan required.

Section 1. (A) TOTAL REVENUES & AVAILABLE FUNDS

General Fund	$
State Street Aid Fund	
Revenue Sharing Fund	
Water & Sewer Fund	
Gas Department	
TOTAL	$

(B) EXPENDITURES

General Fund	$
State Street Aid	
Revenue Sharing Fund	
Water & Sewer Fund	
Gas Department	
TOTAL	$

Section 2. Appropriations not to be exceeded. No expenditure listed above may be exceeded without appropriate ordinance action amending this ordinance. Such action shall fully describe all changes proposed to the budget and shall include the sources of revenue to finance the proposed expenditures.

Section 3. The (City Official) is required to prepare and maintain a detailed financial plan to implement this appropriation ordinance, and to make regular (monthly) reports to this governing body.

This ordinance shall take effect immediately upon final passage, the public welfare requiring it.

1st Reading:__________
2nd Reading:__________
3rd Reading:__________

Mayor:______________________________

City Recorder:______________________

APPENDIX E

ORDINANCE NO. ___________

AN ORDINANCE OF THE CITY OF _________________ APPROPRIATING FUNDS AND ESTABLISHING A PROPERTY TAX RATE FOR THE FISCAL YEAR JULY 1, 198__, THROUGH JUNE 30, 198__.

Be it ordained by the City of ________________, as follows:

SECTION

1. Total revenues and available funds and total expenditures.
2. Appropriation not to be exceeded.
3. Line-item financial plan required.
4. Tax rate.

Section 1. (A) TOTAL REVENUES & AVAILABLE FUNDS

General Fund	$
State Street Aid Fund	
Revenue Sharing Fund	
Water & Sewer Fund	
Gas Department	
TOTAL	$

(B) EXPENDITURES

General Fund	$
State Street Aid Fund	
Revenue Sharing Fund	
Water & Sewer Fund	
Gas Department	
TOTAL	$

Section 2. Appropriations not to be exceeded. No expenditure listed above may be exceeded without appropriate ordinance action to the budget and shall include the sources of revenue to finance the proposed expenditures.

Section 3. The (City Official) is required to prepare and maintain a detailed financial plan to implement this appropriation ordinance, and to make regular (monthly) reports to this governing body.

Section 4. There is hereby levied a property tax of $__________ per $100.00 assessment for the purpose of funding municipal services.

This ordinance shall take effect immediately upon final passage, the public welfare requiring it.

1st Reading:_____________
2nd Reading:_____________
3rd Reading:_____________

Mayor:_________________________________

City Recorder:__________________________

APPENDIX F

PUBLIC NOTICE
(MUST BE RUN IN THE PAPER WITHIN THIRTY (30) DAYS AFTER ADOPTION OF APPROPRIATIONS ORDINANCE)

CITY OF ________________

The adopted budget for the City of ________________'s 198__-____ fiscal year is available for public inspection on weekdays at City Hall between the hours of ______ a.m. and ______ p.m.

APPENDIX G

RESOLUTION OF THE (TOWN/CITY)
OF ________________, TENNESSEE,
AUTHORIZING THE ISSUANCE
OF INTEREST BEARING TAX
ANTICIPATION NOTES

WHEREAS, Under the provisions of Section 7-36-103 (18) the governing body of a municipality may issue interest bearing tax anticipation notes provided such notes shall first be approved by the State Director of Local Finance:

NOW, THEREFORE, BE IT RESOLVED BY THE (governing body) of the (Town/City) of ________________, Tennessee, that the Mayor and City Recorder are hereby authorized to borrow money on tax anticipation notes, provided such notes are first approved by the Director of Local Finance, to pay for the expenses herein authorized until the taxes and other revenues for the fiscal year ______, have been collected, not exceeding 60% of the appropriations of each individual fund. The proceeds of loans for each individual fund shall be used only to pay the expenses and other requirements of the fund for which money is borrowed. The notes evidencing the loans authorized under this section shall be issued under the authority of Section 7-36-103 (18) Tennessee Code Annotated. Said Notes shall be signed by the Mayor and counter-signed by the City Recorder and shall mature and be paid in full without renewal not later than June 30, ______.

Duly passed and approved this ____ day of ____________, ______.

____
(Mayor)

____
(City Recorder)

APPENDIX H

RESOLUTION OF THE ____________
OF ____________, TENNESSEE AUTHORIZING
THE ISSUANCE OF INTEREST BEARING ____________
____________ CAPITAL OUTLAY
NOTES NOT TO EXCEED $ ____________
AND PROVIDING FOR THE PAYMENT OF SAID NOTES

WHEREAS, it has been determined by the ____________ that it is necessary and desirable to ____________ in and for said municipality; and

WHEREAS, sufficient funds are not now available for this purpose and it will be necessary for the ____________ to authorize the issuance of notes to finance this transaction; and

WHEREAS, under the provisions of Section 7-36-103 (18), Tennessee Code Annotated, municipalities in Tennessee are authorized through their respective ____________, upon approval by the State Director of Local Finance, to issue interest bearing capital outlay notes to finance the cost thereof; and

WHEREAS, it appears advantageous to said municipality at this particular time to issue capital outlay notes to finance the cost thereof:

NOW, THEREFORE, BE IT RESOLVED BY THE ____________ of the ____________ of ____________, Tennessee:

SECTION I. That, for the purpose of providing funds to finance the cost of ____________ in and for said municipality, there shall be issued its negotiable interest bearing capital outlay notes in a principal amount not to exceed $____________. That, said notes shall be designated "____________ Capital Outlay Notes" and shall be numbered serially beginning with the Number 1. Each of said notes shall be dated as of the date of issuance thereof, shall be of such denomination as agreed upon by the _____________ and the purchaser of said notes, and shall mature not later than three (3) years after the date of issuance, provided, that not less than one-ninth (1/9) of the original amount of the notes issued hereunder shall mature, without renewal but subject to prior redemption, each year that any of the notes issued hereunder are outstanding.

SECTION 2. That, said notes shall bear interest at a rate not to exceed ________% per annum, payable in such manner as shall be determined by the ____________________________ and the purchaser of said notes. Both principal and interest on said notes shall be payable in lawful money of the United States of America at the office of the Treasurer of _______________, Tennessee.

SECTION 3. That, said notes shall be subject to redemption at the option of the municipality, in whole or in part, at any time at the principal amount thereof and accrued interest to the date of redemption.

SECTION 4. That, said notes shall be executed in the name of the ________ of _______________, Tennessee, signed by the ____________________________, and attested by the _____________________, with the seal of the municipality attached thereto.

SECTION 5. That, said notes shall be in substantially the form attached hereto.

SECTION 6. That, for the purpose of providing funds with which to pay the principal of and interest accruing on said notes at maturity, there shall be levied upon all taxable property lying within the corporate limits of ________ _______________, Tennessee, a direct annual tax for each of the years while said notes, or any of them, are outstanding, in amounts sufficient for that purpose.

SECTION 7. That, said notes shall not be issued until approval by the State Director of Local Finance shall have been obtained as required by Section 7-36-103 (18), Tennessee Code Annotated.

SECTION 8. That, said notes shall not be sold for less than par and accrued interest.

SECTION 9. That, the proceeds of said notes shall be turned over to the Treasurer of the said municipality and shall be paid out for the purposes and in the manner required by law and this resolution.

SECTION 10. That, if any of said capital outlay notes shall remain unpaid at the end of three (3) years from the date of issuance of same, the balance of said note or notes shall be converted to bonds as provided by Sections 9-11-101 to 9-11-109, inclusive, Tennessee Code Annotated, or otherwise liquidated in such manner as approved by the State Director of Local Finance in compliance with statutes relating to the issuance and redemption of bonds and notes.

SECTION 11. That, all orders or resolutions in conflict herewith be and the same are hereby repealed insofar as such conflict exists and this resolution shall become effective immediately upon its passage.

Duly passed and approved this ________ day of ____________, 19___.

____
Title: ______________________________

(Seal)

Attested:

____
Title: ______________________________

(FORM OF NOTE)
STATE OF TENNESSEE
________ OF ________

________________ CAPITAL OUTLAY NOTE

$________ No.____

KNOW ALL MEN BY THESE PRESENTS: That the municipality of __________ in the State of Tennessee, hereby acknowledges itself to owe and for value received hereby promises to pay to bearer the sum of $______ on or before __________, 19__, together with interest thereon from the date hereof until paid at the rate of ________ percent (___%) per annum, payable on ________, 19__, and ______________ thereafter. Both principal and interest are payable in lawful money of the United States of America at the Office of the Treasurer of ____________, Tennessee.

For the prompt payment of this obligation, both principal and interest, the full faith, credit and other resources of said municipality are hereby irrevocably pledged.

This note is issued for the purpose of providing funds to finance the cost of ____________________________ in and for said municipality and is in all respects in compliance with and under authority of Section 7-36-103 (18), Tennessee Code Annotated, and a resolution duly adopted by the __________ __________ of ____________, Tennessee, on the ____ day of __________, 19__.

It is hereby certified and recited that all acts, conditions and things required by the Constitution and laws of the State of Tennessee to exist, or to be done precedent to and in the issuance of this obligation, do exist, and have been properly done, happened, and been performed in regular and due form and time as required by law; and that provision has been made to pay the principal and interest thereon as same falls due.

Section 7-36-103 (18), Tennessee Code Annotated, provides that neither the principal nor the interest of notes issued pursuant to the provisions of said Section shall be taxed by the State of Tennessee, or by any county, or by any municipality therein.

This note is subject to redemption at any time at the option of the municipality in whole or in part, at the principal amount thereof and accrued interest to date of redemption.

IN WITNESS WHEREOF, the municipality of ________________, through its ______________________ has caused this capital outlay note to be signed by its ______________________ under the seal of his office on this _______ day of ______________, 19___.

____
Title:____________________________

(Seal)

Attested:

____
Title:____________________________

DRAFT DRAFT DRAFT

Mr. H. Wayne Williams, Director
State of Tennessee
Office of State Comptroller
Division of Local Finance
1513 Andrew Jackson State Office Building
Nashville, Tennessee 37219

RE: Town of ________________, Capital Outlay Note

Dear Mr. Williams:

In the last meeting of the ___________ Board of Mayor and Aldermen, held ____________________, 198__, the Board approved a resolution authorizing the issuance of capital outlay notes. The principal amount of the notes will be $__________ for the purpose of ______________________. Funds with which to pay the principal and interest on said notes will be budgeted through the Town's General Fund.

With the authorization of the Board of Mayor and Aldermen, I would like to formally request approval of the $_____________ capital outlay note for the Town of _________________.

Enclosed is a copy of the resolution as adopted by the Board. If you require any further information concerning the approval of this action, please notify me.

Thank you for your attention to this matter.

Very truly yours,

Mayor

Enclosure

APPENDIX I

Estimates and Explanation of 1981-82[1]
State Shared Funds for Cities

General Fund	Per Capita* Amount
Sales Tax	$23.33
Beer Tax	.43
Gasoline Tax	2.80
Gross Receipts Tax (TVA in-lieu taxes)	1.92
Income Tax	N/A
Mixed Drink Tax	N/A
Alcoholic Beverage Tax	N/A
State Street Aid Fund	
Gasoline and Motor Fuel Tax	$12.18

To provide some background to municipal officials regarding state shared taxes, a brief summary of each shared tax revenue source is provided along with the permitted use of each revenue and schedule of payments to cities.

Sales Tax - The 4 1/2% state sales tax is levied on the retail sale or use of tangible personal property, rental or lease of tangible personal property, twelve and one-half percent (12 1/2%) of four-ninths (4/9) of the four and one-half percent (4 1/2%) state sales tax are to be allocated to the incorporated municipalities of the state. Distribution of these revenues to individual cities is based on the proportion of the city's population to the aggregate population of all municipalities in the state according to the latest federal census or other census provided by state law.

Sales tax distribution can be used by cities for any lawful expenditure. Checks are forwarded to cities on a monthly basis.

Beer Tax - TCA 57-5-201 provides for a special privilege tax of $3.40 per thirty-one (31) gallon barrel to be paid by persons manufacturing or

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[1] Retyped, MTAS Technical Bulletin, June 1, 1981.

distributing beer in the state. Cities receive two-seventeenths (2/17) of ninety-six percent (96%) of revenue collected less two percent (2%) distributed to the Department of Mental Health and Mental Retardation to assist municipalities in carrying out the provisions of the "Comprehensive Alcohol and Drug Treatment Act of 1973" (TCA 57-5-205). These revenues are to be considered as general fund revenues. Checks are forwarded to cities semi-annually.

TVA Gross Receipts Tax - TCA 67-2401 through 67-2403 provide that forty-eight and one half percent (48 1/2%) of any increase in TVA in-lieu-of-tax payments paid to the state, as compared to payments received by the state in fiscal year 1977-78, shall be distributed to the cities and counties. An additional three percent (3%) of the forty-eight and one half percent (48 1/2%) distribution based on the proportion of an individual city's population to the population of all incorporated municipalities in Tennessee. These revenues are to be used for general fund purposes.

Many cities received TVA in-lieu-of-tax payments from the state prior to the implementation of this per capita distribution. Therefore, it is possible that a city could be receiving funds from this source based on one or more of three circumstances:

1. The city receives funds based on the per capita distribution;
2. The city was receiving TVA in-lieu-of-tax funds from the state prior to implementation of the per capita distribution and, as a result, continues to receive funds on a per capita basis at a level not less than that being received in fiscal year 1977-78; and/or
3. A city is receiving "impact funds" as a result of TVA construction. These revenue sources should not be confused with in-lieu-of-tax revenues received from an electric system owned by a city.

Income Tax - A state income tax (TCA 67-2601 et seq.) at a rate of six percent (6%) is levied on income derived from dividends from stocks or interest on certain bonds. Distribution of state income tax revenues to cities is based on the residence of taxpayers paying at the six percent (6%) rate. Where a six percent (6%) taxpayer lives in an incorporated municipality, three-eights (3/8) of that six percent (6%) is returned to the city. These revenues are for general fund purposes. Checks are forwarded once a year, generally in August.

Mixed Drink Tax - TCA 57-4-301 through 57-4-308 provides for license fees and a fifteen percent (15%) privilege tax for businesses providing on-premises alcoholic beverage service. Fifty percent of the privilege tax is allocated to cities and counties. One half (1/2) of this fifty percent (50%) shall be expended and distributed. The other one half (1/2) shall be distributed as follows: (1) collections of gross receipts collected in unincorporated areas to the county general fund; (2) collections of gross receipts in incorporated cities, towns, to the city or town wherein said tax is collected.

Alcoholic Beverage Tax - TCA 57-9-115 provides that cities will receive ninety percent (90%) of the proceeds from the sale of liquor confiscated in accordance with the provisions of TCA 57-9-101 through 57-9-206. Additionally, in accordance with TCA 57-9-201, cities receive 50% of the proceeds from the sale of vehicles, aircrafts or boats confiscated as a result of actions taken pursuant to the previously mentioned code sections.

These revenues are to be used for general fund purposes.

Gasoline Inspection Fee - Gasoline and several other petroleum products sold, used or stored in the state are taxed at a rate of 1¢ per gallon under the provisions of "The Special Tax on Petroleum Products Law". Of the revenue collected, TCA 67-3805 provides for the annual distribution of $7,438,000.00 to city governments on a basis of population.

This revenue is a <u>general fund</u> revenue to be used for street maintenance, construction and public transportation purposes. Checks are forwarded monthly.

<u>Gasoline and Motor Fuel Tax (State Street Aid Revenues)</u> - A portion of revenues produced by the nine cent (9¢) per gallon tax on gasoline and the twelve cent (12¢) motor fuel tax are distributed to cities on the basis of population. Together these sources produce revenue commonly called "state street aid funds". State street aid checks are forwarded monthly.

These funds must be accounted for in a separate State Street Aid Fund and can only be used for street maintenance and/or construction purposes. An MTAS Technical Report is available which describes all permitted uses.

BUDGET WORKSHEET

APPENDIX J

1984 - 1985

Fund: Page:

DESCRIPTION	ACTUAL 1981-82	ACTUAL 1982-83	BUDGET 1983-84	YEAR TO DATE	ESTIMATED ENTIRE YEAR	PROPOSED 1984-85

PERSONNEL COST WORKSHEET

APPENDIX-K

FUND________________

DEPARTMENT______________________________

Position	Employee	Current Salary Hourly	Monthly	Annual	Without Increases Annual	With ___% Increase Hourly	Monthly	Annual
Police Chief	John Doe	-	$1,000	$12,000	$12,000			
Sargeant	Vacant	-	833	10,000	10,000			
Patrolman	John Smith	$4.00	693	8,320	8,320			

(Positions should be listed in order of rank or by using alphabetical order using employee's last name)

Total Salary	$30,320		$30,320	
*Total OASI		**OASI		***OASI
*Total Retirement		**Retirement		***Retirement
*Total Hospitalization		**Hospitalization		***Hospitalization
*Total Unemployment		**Unemployment		***Unemployment
Total Current Costs		Total		Total Increase

*Reflect current percentages or fixed amounts.
**Reflect percentages or fixed amounts for coming fiscal year.
***Include any certain step increases with the appropriate position and in the overall total.

APPENDIX L

USE OF STATE STREET AID

Tennessee Code Annotated:

1. Street Improvement in accordance with TCA.

   a. Construction
   b. Reconstruction
   c. Improvement
   d. Maintenance of Streets:

      (1) Paving/Repaving
      (2) Repairs/Acquisitions
      (3) Eliminate Railroad Crossings
      (4) Extension-widen existing streets
      (5) Grading and Drainage
      (6) Acquisition of trucks and equipment necessary

   e. Payment - principal/interest
   f. City's right-of-way share
   g. City's grade elimination share
   h. City's right-or-way State/Federal

2. Legal Uses.

   a. Sidewalks
   b. Right-of-way acquisition
   c. Administrative expense-bond issue
   d. Principal and Interest, past 2-19-53
   e. Supervisor
   f. Install/maintain traffic lights
   g. Mowing machines
   h. Rental on garage
   i. Street light bill
   j. Remove dead trees/limbs

3. Illegal Use.

   a. Pay auto expense of City Recorder
   b. Construct parking lot
   c. Supplement Superintendent salary
   d. Extend sewer lines
   e. Temporary borrow money
   f. Maintain county roads
   g. Audit fees
   h. Property damage
   i. Wearing apparel
   j. Office assistance

4. Street and Transportation Funds not combined with Street Aid.

5. Allocations based on Tennessee State Planning Office Certified Population/ 1980 Census.

FORMAT FOR MONTHLY FINANCIAL REPORT

APPENDIX M

ANYTOWN, TN

GENERAL FUND

11100	Cash on Hand ----------------------	$ 100.00
11211	Cash in City Bank -----------------	6,500.00
11212	Cash in County Bank ---------------	3,500.00
12111	Certificate of Deposit ------------	20,000.00

Revenues

		Budget	Y.T.D	Budget Balance
31000	Taxes	$ 80,000.00	$ 76,500.00	$ 3,500.00
32000	License & Permits	15,000.00	13,400.00	2,600.00
34000	Charges for Services	8,000.00	7,000.00	1,000.00
35000	Fines & Penalties	1,000.00	1,200.00	(200.00)
36000	Other Revenue	1,000.00	500.00	500.00
	Total	$105,000.00	$97,600.00	$ 7,400.00

Expenditures

		Budget	Y.T.D	Budget Balance
41000	General Government	$ 15,000.00	$ 14,000.00	$ 1,000.00
42000	Public Safety	25,000.00	21,000.00	4,000.00
43000	Public Works	30,000.00	33,000.00	(3,000.00)*
49000	Debt Service	30,000.00	30,000.00	-0-
	Total	$100,000.00	$ 98,000.00	($2,000.00)

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* Ordinance needs to be amended by adding unappropriated revenue to Public Works appropriation.