



STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
OFFICE OF STATE AND LOCAL FINANCE
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ANNUAL BUDGET MEMO

To: Budget Contact
From: Sandra Thompson, Director of the Office of State and Local Finance
Date: March 26, 2015
Re: Fiscal Year 2016 Annual Budget Memo

Municipalities in Tennessee must adopt a budget ordinance by the beginning of each fiscal year, and file it with the Office of State and Local Finance ("OSLF"). Municipalities with debt outstanding issued pursuant to Title 9, Chapter 21 or loan agreements with a public building authority approved by OSLF issued pursuant to Title 12, Chapter 10 of the Tennessee Code Annotated must submit a budget to OSLF for approval, (T.C.A. §§ 9-21-403(c) and 12-10-109(c)). Please submit the budget with the required supporting documents to OSLF within 15 days of adoption.

It is the responsibility of the municipality and its officials to ensure compliance with specific program statutes or guidelines, and with any financing requirements prescribed by any state or federal agency as well as to meet any other financial compliance requirements established by federal, state, or local statutes or regulations. The municipality and its officials, by submission of their budget to OSLF, represent that their annual operating and capital budget as adopted is realistic and in compliance with all federal, state or local statutes for specific programs. **A municipality that submits a budget with misstated revenues, expenditures or beginning cash balances may be required to submit monthly reports to OSLF.** Budgets submitted with incomplete or missing information will not be considered as received by this Office.

A municipality should submit its adopted budget for approval by OSLF in a timely manner so that it may amend its tax levy or appropriations if necessary to balance their budgets.

The Budget and Property Tax Levy

State law requires municipalities to adopt the tax levy ordinance at the same time or after a budget ordinance is adopted. The property tax levy or an amended property tax levy must be adopted in sufficient time so that property tax notices can be sent prior to the first Monday in October (T.C.A. § 67-1-701).

Purpose for Budget Review

The purpose of our review is to determine that the budget is balanced on a cash basis, sufficient monies are appropriated to pay all annual debt service, and enterprise funds are financially sound (T.C.A. §§ 4-3-305 and 9-21-403). See Attachment A for the list of items required to be submitted.

Utility Budgets

A utility budget is reviewed to determine whether there are sufficient cash receipts to meet all cash costs of the system, including debt service (principal and interest payments). A municipality with a water or sewer fund is required to provide a projected cash flow analysis statement and complete the Water and Wastewater Financing Board (“WWFB”) Worksheet for each utility fund. We have provided a sample cash flow analysis statement and the WWFB Worksheet for your convenience (see Attachments E and F). The Division of Local Government Audit will refer a municipality to the WWFB if it reports two consecutive years of negative change in net position, defaults on its debt payments, or posts a negative net position for its water or sewer fund.

Tennessee Department of Education School Budget Reporting

The Tennessee Department of Education (the “TDE”) requires a municipality with a school system to submit a complete and certified copy of the entire school budget to them within 30 days of the beginning of fiscal year 2015 (T.C.A. § 49-3-316(a)(2)). If the school budget is not submitted by October 1, TDE may withhold state funds (T.C.A. § 49-3-316(d)(3)). Please contact TDE for more information.

Closing Notes

A municipality that submits a complete budget that meets the statutory requirements for approval will receive an approval letter from OSLF.

Prior to submitting the budget information package to OSLF, the municipality should confirm that the information in the detailed budget matches the ordinance adopted by the legislative body and that the package contains physical copies of all documents along with all relevant attachments with a *signed and certified* original copy of the budget and tax levy ordinance.

Submit debt approval or report requests separately from the budget submission to avoid delay in the review of the debt request.

Please send the complete budget submission package to Sandra Thompson, Director of the Office of State and Local Finance at the address on this letterhead.

If you need any assistance, you may contact the Municipal Technical Advisory Service (MTAS), the State Department of Education-Section of Local Finance, or any member of our staff:

Office of State and Local Finance staff members:

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Enclosures: **Attachment A – Checklists for Budgets**
 Attachment B – Budget Summary
 Attachment C – Schedule of Outstanding Debt
 Attachment D – Schedule of Debt Payments
 Attachment E – Cash Flow Statement
 Attachment F – WWFB Worksheet
 Tax and Revenue Anticipation Notes Memorandum
 FAQs – Compliance Considerations for Municipal Budgets

ATTACHMENT A

Checklist for Budgets Requiring Approval from OSLF

1. Cover letter on the municipality's letterhead. (Complete contact information should be included.)
2. Signed and certified original copy of budget ordinance and tax levy ordinance, if separate.
3. Detailed budgets for all funds including enterprise funds and school funds (if applicable). Please include estimated beginning fund balances and cash balances for each fund at July 1.
4. Revenue forecasts for property and sales tax.
5. Budget summary schedule (Attachment B).
6. Schedule of Outstanding Debt (Attachment C).
7. Schedule of Budgeted Debt Payments (Attachment D).
8. Cash flow analysis for each enterprise fund, the general fund, and the general purpose school fund (Attachment E). [Include a cash flow analysis for any fund that has less than one month's average expenditures except capital projects funds.]
9. Water and Wastewater Financing Board worksheet (Attachment F).

Checklist for Budgets Required to be Filed with OSLF

1. Cover letter on the municipality's letterhead. (Complete contact information should be included.)
2. Signed and certified original copy of budget ordinance and tax levy ordinance, if separate.
3. Budget summary schedule (Attachment B).
4. Schedule of Outstanding Debt (Attachment C).

An Excel spreadsheet including Attachments B through F is available on request from OSLF staff.

Budget Summary:

This schedule shows the government's projected cash receipts and appropriations with beginning and ending fund and cash balances. See Note below for reference when calculating beginning cash and fund balances.

Statement of Outstanding Debt :

This schedule shows the government's current year debt (notes, loan agreements, bonds, and capital leases). Information (outstanding as of the upcoming fiscal year) from lenders' payment schedules and is the same information necessary to complete the section of the budget ordinance that identifies outstanding debt and required debt service payments for the upcoming fiscal year.

Schedule of Budgeted Debt Payments:

This schedule lists all principal and interest payments to be appropriated by fund and department.

Forecasted Cash Flow Statement:

This schedule projects monthly cash flows for the general fund, general purpose school fund, enterprise funds and any fund (except capital projects funds) that has a budgeted ending cash balance of less than one month's average expenditures. Identifies cash flow needs for any funds that may have a mismatch between cash inflows and outflows.

We recommend that an actual monthly cash flow statement be performed for fiscal year 2014 using you bank reconciliations and other documents and a cash flow also be performed for fiscal year 2015 forecasting the last months of the year. Use these cash flow statements to forecast the monthly cash flows for fiscal year 2016 based on the monthly cash receipts and payments of fiscal 2014 and 2015 to project the timing of the forecast total cash receipts and cash payments for fiscal year 2016.

Water and Wastewater Financing Board Worksheet :

Demonstrates the local governments' compliance with the financial stability requirements of the WWFB and the SRF Loan covenants.

NOTE:

Beginning Cash

How much cash is available on July 1, 2016 after the payment of all fiscal year 2015 obligations.

Estimated Fund Balance

Beginning Fund Balance July 1, 2014	\$
Plus: Estimated Revenues FY 2015	
Less: Estimated Appropriations FY 2015	
Estimated Ending Fund Balance June 30, 2015	\$ _____

ATTACHMENT C
Name of Municipality
Schedule of Outstanding Debt (Amounts below are for example only)
Fiscal Year 2016

FY 2016 Debt Service Payments

	Authorized and Unissued	Outstanding at 06/30/15	Payment Fund	Principal	Interest	Service	Total Debt
Notes							
Land Purchase Notes Series 2010	\$	\$ 100,000	General Fund	\$ 10,000	\$ 5,000	\$ 15,000	
Fire Truck Notes Series 2008		50,000	General Fund	10,000	2,000	12,000	
Road Improvement Notes Series 2011		50,000	General Fund	10,000	2,000	12,000	
School Improvement Notes Series 2012		100,000	General Purpose School Fund	20,000	4,000	24,000	
	TOTAL NOTES:	\$ 2,090,000		\$ 50,000	\$ 13,000	\$ 63,000	
Loan Agreements							
School Construction Loan Agreement TN Loans Series 2013	\$	\$ 2,250,000	General Purpose School Fund	\$ 150,000	\$ 90,000	\$ 240,000	
	TOTAL LOAN AGREEMENTS:	\$ 2,250,000		\$ 500,000	\$ 90,000	\$ 240,000	
GO Bonds							
GO Refunding Bonds Series 2002	\$	\$ 750,000	General Fund	\$ 150,000	\$ 30,000	\$ 180,000	
	TOTAL GO BONDS:	\$ 750,000		\$ 150,000	\$ 30,000	\$ 180,000	
Tax and Revenue Bonds							
Sewer Tax and Revenue Bonds Series 2010	\$	\$ 3,000,000	Water & Sewer	\$ 200,000	\$ 120,000	\$ 320,000	
	TOTAL TAX AND REVENUE BONDS:	\$ 3,000,000		\$ 200,000	\$ 120,000	\$ 320,000	
Revenue Bonds							
Electric System Revenue Bonds, Series 2015	\$	\$ 1,000,000	Electric Fund	\$ 50,000	\$ 40,000	\$ 90,000	
	TOTAL REVENUE BONDS:	\$ 1,000,000		\$ 50,000	\$ 40,000	\$ 90,000	
Capital Leases							
Primary Government		\$ 2,500	General Fund	\$ 2,500	\$ 250	\$ 2,750	
School		10,000		\$ 10,000	\$ 500	\$ 10,500	
Enterprise Funds (Electric)		12,500	Electric Fund	\$ 12,500	\$ 750	\$ 13,250	
	TOTAL CAPITAL LEASES:	\$ 25,000		\$ 25,000	\$ 1,250	\$ 26,250	
Debt Service By Fund		Total		Principal	Interest	Service	Total
		Debt					Debt
General Fund	\$	\$ 221,750	Debt Management	\$ 160,000	\$ 35,000	\$ 195,000	
General Purpose School Fund	170,000	94,000	Fire Department	10,000	2,000	12,000	
Water & Sewer Fund	200,000	120,000	Public Works Department	12,500	2,250	14,750	
Electric System Fund	60,000	40,500	School Department	170,000	94,000	264,000	
Total	\$ 612,500	\$ 293,750	Water & Sewer Department	200,000	120,000	320,000	
			Electric Department	60,000	40,500	100,500	
			Total	\$ 612,500	\$ 293,750	\$ 906,250	
Debt Service By Organization		Total					Debt

ATTACHMENT D
Name of Municipality
Schedule of Budgeted Debt Payments
FY 2016

Fund	Principal	Interest
General Fund		
Fire Department		
Note Principal	10,000	
Note Interest		2,000
Subtotal	10,000	2,000
Public Works Department		
Note Principal	10,000	
Note Interest		2,000
Capital Lease Principal	2,500	
Capital Lease Interest		250
Subtotal	12,500	2,250
Debt Management		
Note Principal	10,000	
Note Interest		5,000
Series 2002 Refunding Bonds Principal	150,000	
Series 2002 Refunding Bonds Interest		30,000
Subtotal	160,000	35,000
General Fund Total	182,500	39,250
General Purpose School Fund		
School Department		
Note Principal	20,000	
Note Interest		4,000
Loan Agreement TN Loans 2010 Principal	150,000	
Loan Agreement TN Loans 2010 Interest		90,000
Gen Purpose School Fund Total	170,000	94,000
Water & Sewer Fund		
Water & Sewer Department		
Tax and Revenue Bonds 2010 Principal	200,000	
Tax and Revenue Bonds 2010 Interest		120,000
Water & Sewer Fund Total	200,000	120,000
Electric Fund		
Electric Department		
Revenue Bonds 2010 Principal	50,000	
Refund Bonds 2008 Interest		40,000
Capital Lease Principal	10,000	
Capital Lease Interest		500
Electric Fund Total	60,000	40,500

Attachment F

FY 2016

City Name: _____

Water and Wastewater Financing Board Work Sheet

Circle Yes or No

1. Has the municipality defaulted on any loan payments?
If yes, please detail on a separate sheet of paper.

Yes No

2. Has the municipality violated any loan covenants?
If yes, please detail on a separate sheet of paper.

Yes No

3. Change in Net Position

	Actual FY 2014	Estimated FY 2015	Projected FY2016
Operating Revenues			
Operating Expenses excluding Depreciation			
Operating Income Before Depreciation	\$ -	\$ -	\$ -
Less: Depreciation			
Operating Income	\$ -	\$ -	\$ -
Nonoperating Income			
Nonoperating (Expense)			
Income before Contributions	\$ -	\$ -	\$ -
Contributions			
Change in Net Position	\$ -	\$ -	\$ -
Beginning Net Position			
Ending Net Position	\$ -	\$ -	\$ -

A utility with a negative change in net position for two consecutive years will fall under the authority of the WWFB.

Does the FY 2016 budget produce a negative change in Net Position? Yes No

Do you project a negative change in Net Position for FY 2015? Yes No

Was there a negative change in Net Position in FY 2014? Yes No

Is Net Position negative? Yes No

4. SRF Loan Sufficient Revenue Analysis (to be completed by municipalities with outstanding SRF loans)

	Actual FY 2014	Estimated FY 2015	Projected FY2016
Operating Revenues			
Nonoperating Income			
Revenues	\$ -	\$ -	\$ -
Less: Operating Expenses inc. Depreciation			
Income before Nonoperating Expenses	\$ -	\$ -	\$ -
Less: Annual Debt Service			
This should be greater than or equal \$0.	\$ -	\$ -	\$ -



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TRAN MEMO

To: Chief Financial Officer
From: Sandra Thompson, Director,
Date: March 26, 2015
Re: **TAX AND REVENUE ANTICIPATION NOTES**

Tax and Revenue Anticipation Notes (TRANS) are a form of debt used to provide cash to pay for operating expenses of the current fiscal year until revenues are received. TRANS must be repaid by June 30 of the fiscal year in which the borrowing was executed. The lender of TRANS may be a bank, a security sold in the capital markets, a private placement, or an interfund loan.

Municipalities seeking approval to issue TRANS should submit:

- a letter requesting approval, signed by the Chief Executive Officer;
- an adopted signed and certified tax anticipation note resolution with the note form;
- a monthly cash flow forecast for fiscal year 2016 for each fund requesting TRANS; and
- an adopted fiscal year 2016 budget with the required supporting schedules for budget approval or the ordinance authorizing a continuation budget and a statement from its Chief Executive Officer certifying the municipality met the cash-basis balanced budget requirement during fiscal year 2015.

If the Municipality wants the TRAN to be an interfund loan, a cash flow analysis for the lending fund is needed to demonstrate that the lending fund has sufficient cash to make the loan without creating a cash deficit for itself.

Please contact OSLF to obtain an Excel template for cash flow analysis and a model TRAN resolution and form in Word format.

Office of State and Local Finance staff members:

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Steve Osborne, Senior Financial Analyst
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The maximum amount OSLF can approve is equal to the largest monthly fund cash deficit plus 5% of total annual cash payments from the fund. If there is no monthly fund cash deficit the greatest amount that can be approved is an amount equal to 5% of total annual cash payments less the lowest monthly fund cash balance.



FAQS – COMPLIANCE CONSIDERATIONS IN MUNICIPAL BUDGETING

GENERAL

1. Must a municipality adopt a budget to appropriate monies before spending them?

All municipalities must appropriate monies before they may be spent. All municipalities must adopt an annual budget ordinance to appropriate monies. Any increases or new spending after the adoption of the original operating and capital budget ordinance must be by amending that ordinance with a budget amendment ordinance.

Tennessee Constitution Art. 2 § 24, T.C.A. § 9-1-116, Municipal Budget Law of 1982 (T.C.A. §§ 6-56-203 & 6-56-208), General Law City Manager-Commission Charter (T.C.A. § 6-22-124), and General Law Modified City Manager-Council Charter (T.C.A. § 6-35-308)

2. Are budgets on the accrual, modified accrual, or cash basis of accounting?

By State statutes municipal budgets are on a cash-basis.

Tennessee Constitution Art. 2 § 24, T.C.A. § 9-1-116, T.C.A. § 9-21-403, Municipal Budget Law of 1982 (T.C.A. §§ 6-56-203 & 6-56-208), General Law City Manager-Commission Charter (T.C.A. § 6-22-124), and General Law Modified City Manager-Council Charter (T.C.A. § 6-35-308)

3. What is the classification level for municipal appropriations?

Appropriations within a fund are made at the organizational unit level (department, office, agency, etc.) by all municipalities except for the Modified City Manager-Council General Law Charter. Some examples are police department, fire department, public works department, debt management, department of administration, and office of the mayor.

Municipal Budget Law of 1982 (T.C.A. § 6-56-203(1)) and the General Law City Manager-Commission Charter (T.C.A. § 6-22-122)

4. Do transfers between funds need to be appropriated?

All monies transferred between funds must be appropriated either in the original budget ordinance or by a budget amendment ordinance. (See references for item 1)

5. Do transfers between appropriations in a fund need to be by ordinance?

Yes, all municipalities, except that those municipalities budgeting pursuant to the Municipal Budget Law of 1982 may authorize the budget officer to transfer moneys from one appropriation to another within the same fund, subject to such limitations and procedures as it may prescribe. Transfers between appropriations in a fund must be reported to the governing body at its next regular meeting and be entered in the minutes.

T.C.A. § 6-56-209

6. Can expenditures that have been appropriated be made if there are no monies to support them?

No, expenditures cannot be made unless monies are available to support them.

Tennessee Constitution Art. 2 § 24, T.C.A. § 9-1-116, and § 9-21-403(c)

7. Is the requirement for a balanced budget only for the original legal budget?

No, budgets must be monitored and amended throughout the fiscal year to ensure they remain balanced on a cash basis.

Tennessee Constitution Art. 2 § 24, T.C.A. § 9-1-116

8. Must the municipality file its budget with the Comptroller's Office of State and Local Finance?

Yes, all municipalities must file their annual budgets with the Office of State and Local Finance.

T.C.A. § 4-3-305

BUDGETARY REVENUES

Property Tax Levy

1. When are property taxes due and payable?

Property taxes are due and collectible on the second Monday in October.

T.C.A. § 67-1-701



2. When must a municipality adopt its tax ordinance?

- Municipal Budget Law of 1982

Municipalities must adopt their tax levy by ordinance at the same time or after the adoption of the annual operating and capital budget ordinance.

T.C.A. § 6-53-207

- City Manager-Commissioner General Law Charter

A tax levy ordinance is adopted at time the finance director submits a certified statement of the total amount of the assessment of the taxable property for the year within the city limits, and a certified statement of the revenue derived by the city from other sources.

T.C.A. § 6-22-107

3. Can a municipality amend its tax levy ordinance?

Yes, the property tax levy ordinance can be amended if the amendment ordinance can be adopted before the taxes become due on the first Monday in October.

T.C.A. § 67-1-702(a), Office of the Attorney General Opinion 04-149

Restricted Revenues

4. What are restricted revenues?

Restricted revenues can only be spent on the specific purposes authorized by law or third party agreement. Some examples would be grant revenues, gasoline and motor fuel taxes, solid waste collections fees, and drug fines and forfeitures.

5. Can restricted revenues be transferred from one fund to another for purposes not specifically authorized by law or third party agreement?

No, monies cannot be transferred from one fund to another if they are from restricted revenues. Restricted revenues that are improperly transferred must be repaid

Transfers/Contributions

What is a transfer?

A transfer is not a loan. It represents an expenditure or expense for budgetary purposes.



A transfer or contribution is a budgetary action where money is appropriated as a transfer or contribution from one fund to another fund where the money becomes revenue.

SPECIFIC GENERAL LAW REQUIREMENTS

What budget requirements are specific to City Manager-Commissioner General Law Charter municipalities?

The appropriation ordinance must be adopted before July 1 of the fiscal year.

T.C.A. § 6-22-124(b)

There is no statutory authority for City Manager-Commissioner General Law Charter to adopt or operate under a continuation budget.

Budget amendments for increased appropriation may only be made after the city manager certifies in writing to the commissioners that sufficient unappropriated revenue is available.

T.C.A. § 6-22-124(c)

MUNICIPAL UTILITIES

Revenues

1. What are the requirements concerning municipal utility revenues and operations?

All municipal utility systems must be operated on sound business principles as self-sufficient entities.

- User charges, rates, and fees must be sufficient to meet the actual cost of providing the services rendered by a utility system.
- Actual costs of providing services include:
 - Payment of all operating expenses which include depreciation
 - Principal and interest on debt
 - Acquisition and improvement of the utility system
 - Other obligations incurred the operation and maintenance of the system and furnishing of services
 - Contingencies
 - Extinguishment of debt
 - Creation and maintenance of a cash working fund
 - Payment-in-Lieu of Taxes
 - Pension costs
- Any surplus after the establishment of proper reserves must be used to reduce rates.

- The various departments of a municipality must be charged the same rate as other customers for the use of a system's services.
- Please note that no public works can operate for gain or profit or as a source of revenue to a governmental entity, but shall operate for the use and benefit of the consumers served by such public works and for the improvement of the health and safety of the inhabitants of the area served.

Reference: TCA §§ 7-34-108, 114, & 115

2. **Does the Sufficient Rate Requirement of TCA §§ 7-34-114, & 115 require a utility's budget to be performed on a modified cash basis?**

Yes, because a utility's rate is supposed to be sufficient to cover total costs of the utility which include depreciation, a non-cash cost.

3. **Can the general fund or another fund's monies be used to subsidize the operations of a municipal utility?**

No, statutory changes in the Municipal Revenue Law (T.C.A. § 7-34-115) require that all municipal utilities operate as self-sufficient entities that account and report their operations as enterprise funds. Language permitting subsidy or contribution from governmental funds has been removed from the Municipal Revenue Law. The Municipal Revenue Law prohibits one utility from subsidizing or contributing money to another utility.

4. **Must a municipality's utilities charge the municipality (including other utilities) for services at the same rate as other customers?**

Yes, State statutes require that a municipality's utility charge it the same rate for service as any other customer.

T.C.A. §§ 7-34-108 & 7-52-116

5. **Can a municipality charge for operating expenses incurred by it on behalf of a utility?**

Yes, municipality may charge a utility the direct and properly allocated and disclosed indirect operating expenses of the utility incurred on its behalf.

6. **Can a municipality charge itself property tax on its utilities?**

No, but it can charge a payment-in-lieu of taxes not to exceed taxes payable on similar private property or in accordance with the Municipal Electric System Tax Equivalent Law.

T.C.A. § 7-34-115(a)(9) & Title 7 Chapter 52 Part 3 of the Tennessee Code Annotated



7. What happens if a municipality illegally transfers money from a utility to any other fund or utility?

A municipality would be in violation of the Municipal Utility Revenue Law and must immediately repay any monies illegally transferred or if it does not have sufficient monies to repay the transfer it must submit a corrective action plan to the Office of the Comptroller to repay and correct conditions leading to the illegal transfer. Any official in violation of this section is subject to ouster under Title 8 Chapter 47 of the Tennessee Code Annotated.

T.C.A. § 7-34-115(f)