



JASON E. MUMPOWER
Comptroller

TENNESSEE STATE FUNDING BOARD
JUNE 22, 2026
AGENDA

1. Call meeting to order, establish that there is a physical quorum, and receive public comment on actionable items in accordance with Tenn. Code Ann. § 8-44-112 and Board guidelines
2. Approval of minutes from May 20, 2026, meeting
3. Consideration and approval of Tennessee Housing Development Agency's Schedule of Financing, Fiscal Year 2026-2027
4. Consideration and approval of a Resolution Allocating from the Debt Service Fund to the Capital Projects Fund \$132,575.50 and Canceling Authorized Bonds
5. Consideration and approval of a resolution certifying Special Revenues as required by Tenn. Code Ann. § 9-9-104(b)
6. Consideration and acceptance of Tennessee Consolidated Retirement System affirmation of Standby Commercial Paper Purchase Agreement
7. Consideration and approval of a Resolution Certifying and Authorizing the Allocation of Funds to the Debt Service Fund for the 2026-2027 Fiscal Year
8. Consideration and approval of a Resolution Allocating Funds to Defray a Portion of the Cost of Highway Construction Projects and Canceling Authorized Bonds
9. Consideration and approval of a Resolution Authorizing the Issuance of General Obligation Bonds of the State of Tennessee
10. Consideration and approval of update to Tennessee Budget Manual for Local Governments
11. Consideration and approval of update to Tennessee Debt Manual for Local Governments
12. Notice and acknowledgement of approval of Federal Emergency Management Agency Note
13. Adjourn

The Board meeting will be held in the Volunteer Conference Center, 2nd Floor, Cordell Hull Building, 425 Rep. John Lewis Way N., Nashville, TN. Board members are allowed to participate by electronic means. The public may attend in person or virtually by using the following link: <https://www.comptroller.tn.gov/office-functions/sgf/sgf-calendar/2026/6/22/state-funding-board-meeting.html>

TENNESSEE STATE FUNDING BOARD

May 20, 2026

The Tennessee State Funding Board (the “Board”) met on Wednesday, May 20, 2026, at 2:00 p.m., in the Volunteer Conference Center, 2nd Floor, Cordell Hull Building, Nashville, Tennessee. The Honorable Jason E. Mumpower, Comptroller of the Treasury, participated electronically and presided over the meeting.

Members Physically Present

The Honorable David H. Lillard Jr., State Treasurer
Commissioner Jim Bryson, Department of Finance and Administration

Absent Members

The Honorable Bill Lee, Governor
The Honorable Tre Hargett, Secretary of State

Quorum Establishment & Requests for Public Comment

Having established a quorum, Comptroller Mumpower called the meeting to order. Due to electronic participation, Comptroller Mumpower requested that Ms. Kayla Carr, Director of the Division of State Government Finance (SGF) and Assistant Secretary to the Board, conduct a roll call. Ms. Carr then called the roll:

Comptroller Mumpower – Present
Treasurer Lillard – Present
Commissioner Bryson - Present

Comptroller Mumpower, in accordance with Tenn. Code Ann. § 8-44-112 and Board guidelines, asked Ms. Carr if any requests for public comment had been received. Ms. Carr responded that one request had been received in opposition to the Starbucks FastTrack project that was on the agenda.

Comptroller Mumpower then recognized Ms. Pamela Furr, Grassroots Director for Americans for Prosperity – Tennessee to address the Board for two minutes. Ms. Furr stated that Tennessee’s success was due to embracing freedom, opportunity, and economic growth, rather than government efforts to pick winners and losers. Ms. Furr noted that the state’s business climate is strengthened by the absence of a state income tax, a low tax burden, and support for hard work and entrepreneurship. Ms. Furr stated that for these reasons her organization opposed the proposed \$30 million FastTrack incentive package for the Starbucks Corporation. Ms. Furr questioned why taxpayers should subsidize one of the largest corporations in the world if Tennessee is already one of the best places in the country to do business. Ms. Furr further added that providing incentives to one company can disadvantage others. Ms. Furr concluded by acknowledging that state law authorizes officials to negotiate FastTrack grants but suggested that the broader use of such grants should be reconsidered.

Approval of Minutes

Comptroller Mumpower then presented the minutes from the meeting held on April 20, 2026, for consideration and approval. Comptroller Mumpower made a motion to approve the minutes, and Commissioner Bryson seconded the motion. Hearing no further discussion, Comptroller Mumpower called for a vote, and Ms. Carr performed a roll-call vote:

Comptroller Mumpower – Aye
Treasurer Lillard – Aye
Commissioner Bryson – Aye

All members responded affirmatively, and the minutes were unanimously approved.

FastTrack Financial Report and Project Approval Requests from the Department of Economic and Community Development

Comptroller Mumpower next recognized Mr. Stuart McWhorter, Commissioner of the Department of Economic and Community Development (ECD), to present FastTrack projects for consideration, and Ms. Jessica Johnson, Assistant Commissioner of Administration and Operations, ECD, to present the “FastTrack Report to State Funding Board” (the “Report”). Ms. Johnson reported that, as of the April 20, 2026, Board meeting, the FastTrack balance was \$688,972,726.37. Ms. Johnson further reported the following changes since that date:

- \$6,963,435.24 in new appropriations
- \$550,000.00 in deobligated funds
- \$13,740,000.00 in new grants/loans greater than \$750,000.00
- \$3,211,600.00 in new grants/loans less than \$750,000.00
- \$371,126.89 in FastTrack administrative expenses

These transactions resulted in an available FastTrack balance of \$679,163,434.72 as of the Report date. Ms. Johnson further reported that total commitments had been made in the amount of \$535,305,291.51, representing 78.8% of the FastTrack balance, leaving \$143,858,143.21 in uncommitted funds. Ms. Johnson noted that proposed grants for the projects to be considered at this meeting totaled \$31,008,000.00. If approved, the uncommitted balance would be \$112,850,143.21, with a total committed balance of \$566,313,291.51, which represented 83.4% of the FastTrack balance. Comptroller Mumpower then asked Commissioner McWhorter to present the following FastTrack projects:

Company	Location	FastTrack Grant Type	Amount
Starbucks Corporation and TT Proserv Co.	Nashville (Davidson County)	Economic Development	\$30,000,000.00
LEV Manufacturing, Inc.	Algood (Putnam County)	Job Training Assistance	\$ 1,008,000.00

Comptroller Mumpower made a motion to approve the projects and Commissioner Bryson seconded the motion. The Board member packets included letters and FastTrack checklists signed by Commissioner

McWhorter, and incentive acceptance forms signed by company representatives. Comptroller Mumpower then inquired if the companies that had signed the incentive acceptance forms fully understood the agreements, and Commissioner McWhorter responded affirmatively. Comptroller Mumpower then inquired if the checklists had been completed for the projects, and Commissioner McWhorter responded affirmatively. Comptroller Mumpower then inquired if the projects included accountability agreements which would provide protection for the state in the event the entities could not fulfill the agreements. Commissioner McWhorter responded affirmatively. Hearing no further discussion, Comptroller Mumpower called for a vote, and Ms. Carr performed a roll-call vote:

Comptroller Mumpower – Aye
Treasurer Lillard – Aye
Commissioner Bryson – Aye

All members responded affirmatively, and the projects were unanimously approved.

Consideration for approval of a Resolution Authorizing an Amended and Restated Standby Commercial Paper Purchase Agreement

Comptroller Mumpower next recognized Ms. Carr to present a resolution authorizing an amended and restated Standby Commercial Paper Purchase Agreement (the “Agreement”). The current Agreement expires on July 1, 2026. Ms. Carr stated that the resolution, as presented to the Board, authorized the amended and restated Agreement which was revised to reflect the following:

- The dated date of the new agreement is May 26, 2026*
- Termination date of the commitment to be July 1, 2031
- Commitment amount of \$350,000,000 remains the same
- The Issuing Paying Agent is Zions Bank
- Commitment fees of 35 bps annually remain the same
- Updates to the notice section to reflect appropriate contact names/addresses

Comptroller Mumpower made a motion to approve the resolution, and Treasurer Lillard seconded the motion. Hearing no further discussion, Comptroller Mumpower called for a vote, and Ms. Carr performed a roll-call vote:

Comptroller Mumpower – Aye
Treasurer Lillard – Aye
Commissioner Bryson – Aye

All members responded affirmatively, and the resolution was unanimously approved.

*Ms. Carr stated a different date of May 20, 2026, during the meeting, but the final agreement was revised and executed on May 26, 2026.

Adjournment

There being no further business to come before the Board, Comptroller Mumpower made a motion to adjourn, and Commissioner Bryson seconded the motion. Comptroller Mumpower called for a vote, and Ms. Carr performed a roll-call vote:

Comptroller Mumpower – Aye
Treasurer Lillard – Aye
Commissioner Bryson – Aye

All members responded affirmatively and the meeting was adjourned.

Approved on this 22nd day of June 2026.

Respectfully submitted,

Kayla Carr,
Assistant Secretary



Tennessee Housing Development Agency

Andrew Jackson Building Third Floor
502 Deaderick St., Nashville, TN 37243

Bill Lee
Governor

Ralph Perrey
Executive Director

To: State Funding Board
From: Mitchell Bosch, Chief Financial Officer
Date: June 1, 2026
Subject: Tennessee Housing Development Agency Schedule of Financing for Fiscal Year 2026-2027

Recommendations:

- Approve the Tennessee Housing Development Agency (THDA) Schedule of Financing for Fiscal Year 2026-2027.

Key Points:

- The Schedule of Financing is required by Tennessee Code Annotated Section 13-23-120(e)(1).
- Approval will allow THDA to undertake financing activities for the upcoming fiscal year.

Background:

On May 12, 2026, the THDA Bond Finance Committee and the THDA Board of Directors approved the attached Schedule of Financing as a good-faith estimate of THDA's financing activities.



TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULE OF FINANCING
FISCAL YEAR 2026-2027
SUMMARY

The Tennessee Housing Development Agency (“THDA”) is required, under Tennessee Code Annotated Section 13-23-120(e)(1), to submit a schedule to the State Funding Board showing financings proposed for the fiscal year. The proposed schedule for fiscal year 2026-2027 is attached.

Total amount of bonds or notes reflected on Schedule of Financing for Fiscal Year 2026-2027:	\$405,000,000
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TENNESSEE HOUSING DEVELOPMENT AGENCY
SCHEDULE OF FINANCING
FISCAL YEAR 2026-2027

ISSUE 2026-2 - RESIDENTIAL FINANCE PROGRAM BONDS –NEW VOLUME CAP
September 2026

Sources of Funds

Proceeds of the Issue	\$150,000,000
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Uses of Funds

To Purchase Mortgage Loans or Refund Outstanding Bonds	\$150,000,000
Bond Reserve Funds)
Underwriting Fee/Bond Discount)
of	\$ THDA contribution, or no more than 1%
Capitalized Interest)
Cost of Issuance)
	bond proceeds, or a combination thereof

ISSUE 2026-3 - RESIDENTIAL FINANCE PROGRAM BONDS –NEW VOLUME CAP
November 2026*

Sources of Funds

Proceeds of the Issue	\$105,000,000
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Uses of Funds

To Purchase Mortgage Loans or Refund Outstanding Bonds	\$105,000,000
Bond Reserve Funds)
Underwriting Fee/Bond Discount)
of	\$ THDA contribution, or no more than 1%
Capitalized Interest)
Cost of Issuance)
	bond proceeds, or a combination thereof

*This Issue will be a Convertible Option Bond to preserve expiring volume cap for use in the first half of 2027.

**ISSUE 2027-1 - RESIDENTIAL FINANCE PROGRAM BONDS –NEW VOLUME CAP/REFUNDING OR
REMARKETING OF ISSUE 2026-3**

March 2027

Sources of Funds

Proceeds of the Issue \$150,000,000

Uses of Funds

To Purchase Mortgage Loans or Refund Outstanding Bonds \$150,000,000

Bond Reserve Funds)

Underwriting Fee/Bond Discount)

of

Capitalized Interest)

Cost of Issuance)

\$ THDA contribution, or no more than 1%

bond proceeds, or a combination thereof

Single Family Bonds Sold in FY 2025-2026

\$160,000,000* Issue 2025-2 Residential Finance Program
Bonds,
Dated September 18, 2025

\$104,000,000* Issue 2025-3 Residential Finance Program
Bonds,
Dated December 17, 2025

104,000,000* Issue 2026-1 Residential Finance Program
Bonds,
Dated April 28, 2026

TOTAL \$368,000,000

*Issue 2025-2 included a taxable amount of \$45,990,000. Issue 2025-3 was a convertible option bond private placed with RBC. Issue 2026-1 refunded Issue 2025-3 and does not use new volume cap or add to THDA's debt.

Multifamily Bonds Sold in FY 2025-2026 \$ 0

**Volume Cap Used by Local Issuers
For Multi-Family Housing in 2025** \$751,095,434

**Volume Cap Available to Local Issuers
For Multi-Family Housing in 2026*** \$487,873,000

*This number represents current commitments of volume cap for 2026. There may be additional volume cap committed for multi-family housing in 2026 depending upon availability.

ASSUMPTIONS

1. A bond issue may include any structure authorized by the Board and approved by the Bond Finance Committee, including, without limitation, convertible option bonds, short term notes, variable rate debt, taxable debt, and planned amortization class bonds.
2. Dates of bond issues are based on estimated absorption of available funds and expected need for additional funds for three to four months, subject to the actual rate at which mortgage loans are currently being purchased.
3. THDA anticipates taking the maximum spread allowed under federal law for each bond issue, which is 112 basis points ($1\frac{1}{8}\%$). The maximum spread could, however, be reduced based on program requirements at the time of sale. Interest rates for THDA loans could be further subsidized.
4. THDA anticipates future bonds will be issued under the 2013 General Resolution to avoid triggering the state's moral obligation for THDA bonds.
5. The volume cap assumption is that 50% of the annual total tax-exempt bond authority amount available in Tennessee is made available to THDA at the beginning of each calendar year. This is the allocation to THDA for all tax-exempt housing bond issuance in the state in the current Department of Economic and Community Development plan. For bond issues in calendar year 2026, volume cap carried forward from 2023 will be used. For bond issues in calendar year 2027, volume cap THDA carried forward from 2024 will be used.
6. A THDA contribution may be made with each bond issue as needed to over-collateralize the bond issue for the benefit of THDA borrowers, to fund required reserves, to pay cost of issuance and to ensure that the maximum amount of bond proceeds is used to fund mortgage loans. The amount and source of the THDA contribution is determined at the time it is needed. The amount of the contribution, if needed, is based on the structure of the bond issues, an analysis of debt service requirements of the general resolution under which the bonds are issued, the fee paid to underwriters and an estimate of other costs of issuance expected to be incurred. The source of such THDA contribution is assets available, from the maximum spread, for such purpose under the 2013 General Resolution, 1985 General Resolution or the 2009 General Resolution.

**RESOLUTION ALLOCATING FROM THE DEBT SERVICE FUND
TO THE CAPITAL PROJECTS FUND \$132,575.50 AND
CANCELING AUTHORIZED BONDS**

Recitals

The State of Tennessee, acting by resolution of its State Funding Board (the “Board”), is authorized pursuant to Chapter 591, Public Acts of Tennessee, 2007 (the “2007 Act”), to issue and sell its general obligation bonds in an amount not to exceed Two Hundred Ninety-Five Million Dollars and Zero Cents (\$295,000,000.00) of which Seven Million Dollars and Zero Cents (\$7,000,000.00) is allocated pursuant to Section 4(3) of the 2007 Act (the “Item 3 Bonds”) to the Department of Finance and Administration, to provide funds for acquisition of sites and existing structures for expansion purposes for the Tennessee Board of Regents on behalf of the University of Memphis (“UM”).

The Board has canceled Five Million, Nine Hundred Twenty-Eight Thousand, Sixty-Six Dollars and Three Cents (\$5,928,066.03) of the Item 3 Bonds. None of the remaining One Million, Seventy-One Thousand, Nine Hundred Thirty-Three Dollars and Ninety-Seven Cents (\$1,071,933.97) principal amount of the Item 3 Bonds has been issued as 2007 Act Bonds, but cash has been expended from the Capital Projects Fund.

By memorandum dated June 2, 2026, the Commissioner of Finance and Administration notified the Board that UM has paid One Hundred Thirty-Two Thousand, Five Hundred Seventy-Five Dollars and Fifty Cents (\$132,575.50) into the Debt Service Fund in accordance with an agreement between UM and the Board and recommended that: (1) a like amount should be allocated to the Capital Projects Fund and (2) a like amount of general obligation bonds effective in the fiscal year ending June 30, 2026 be canceled.

Be It Resolved by the Funding Board of the State of Tennessee:

1. The project authorized to be financed by the 2007 Act, Item 3 Bonds has been financed in part with current funds and One Hundred Thirty-Two Thousand, Five Hundred Seventy-Five Dollars and Fifty Cents (\$132,575.50) is no longer needed to fund such authorized project.
2. One Hundred Thirty-Two Thousand, Five Hundred Seventy-Five Dollars and Fifty Cents (\$132,575.50) in accordance with the authority provided by Tenn. Code Ann. § 9-9-205, is allocated from the Debt Service Fund to the Capital Projects Fund to defray the cost of a portion of the Item 3 Bonds.
3. In accordance with the authority provided by Tenn. Code Ann. § 9-9-208, and the memorandum from the Commissioner of Finance and Administration dated June 2, 2026, the Board hereby cancels One Hundred Thirty-Two Thousand, Five Hundred Seventy-Five Dollars and Fifty Cents (\$132,575.50) of the principal amount authorized by the 2007 Act for the Item 3 Bonds.
4. This resolution shall be effective as of June 22, 2026, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 22, 2026.

JASON E. MUMPOWER, SECRETARY
TENNESSEE STATE FUNDING BOARD

**RESOLUTION MAKING FINDINGS
FOR DECREASE IN SPECIAL REVENUES**

WHEREAS, Section 9-9-104(a), Tennessee Code Annotated (“Section 9-9-104(a)”), pledges, inter alia, for the payment of the principal of and interest on the bonds of the State of Tennessee (the “State”) issued under Title 9, Chapter 9, Tennessee Code Annotated, outstanding as of July 1, 2013, the entire annual proceeds (the “Franchise Tax Proceeds”) of franchise taxes imposed by the franchise tax law compiled in Title 67, Chapter 4, Part 21, Tennessee Code Annotated; and

WHEREAS, the State has covenanted with the holders of such bonds that it will not decrease by legislative action any of the fees or taxes pledged pursuant to Section 9-9-104(a), including, without limitation, the Franchise Tax Proceeds, or eliminate from the requirement to pay such fees or taxes any substance, motor vehicle or corporation on account of which the payment of such fees or taxes is required, unless the Funding Board of the State of Tennessee (the “State Funding Board”) shall certify as required by Section 9-9-104(b), Tennessee Code Annotated (“Section 9-9-104(b)”); and

WHEREAS, the method of apportionment of net worth contained in Section 67-4-2111(l), Tennessee Code Annotated (the “Subsection”), which method applies to tax years beginning on or after January 1, 2017, is expected by the Department of Finance and Administration to result in a decrease in the Franchise Tax Proceeds for the fiscal year 2026-2027; and

WHEREAS, part (5) of the Subsection provides that the Subsection shall be operative only for such fiscal years as to which the State Funding Board shall have made a certification pursuant to Section 9-9-104(b).

NOW, THEREFORE, BE IT RESOLVED by the State Funding Board, and the State Funding Board hereby certifies, pursuant to Section 9-9-104(b), as follows:

1. All payments due to the State Funding Board under Title 9, Chapter 9, Tennessee Code Annotated, have been made in full;
2. The State is not in default in the payment of any outstanding debt or in the payment of interest thereon; and
3. The fees and taxes pledged pursuant to Section 9-9-104(a), including, without limitation, the Franchise Tax Proceeds, calculated as required by the Subsection, for the fiscal year 2026-2027 will be sufficient to provide funds adequate to meet all payments required to be made by the State Funding Board in such fiscal year, as well as to provide for the other obligations and expenses of the State for such fiscal year to be defrayed therefrom.

BE IT FURTHER RESOLVED by the State Funding Board that this Resolution shall take effect immediately upon its adoption.

**TENNESSEE CONSOLIDATED RETIREMENT SYSTEM
STATE OF TENNESSEE**



DAVID H. LILLARD, JR.
STATE TREASURER

TREASURY DEPARTMENT
STATE CAPITOL
NASHVILLE, TENNESSEE 37243-0225

MARY JO PRICE
CHIEF OPERATING OFFICER

MICHAEL BRAKEBILL
CHIEF INVESTMENT OFFICER

JAMIE WAYMAN
DIRECTOR OF TCRS

June 8, 2026

The Honorable Jason Mumpower
Secretary of the Funding Board
Comptroller of the Treasury
State Capitol, 1st Floor
Nashville, TN 37243

Dear Comptroller Mumpower:

The Tennessee Consolidated Retirement System ("TCRS") has entered into an amended and restated contract (the "Contract") with the State of Tennessee (the "State"), acting by and through the State Funding Board, whereby TCRS serves as a standby purchaser under the State's commercial paper program. The Contract was effective as of July 1, 2026, and expires on July 1, 2031.

Either party may terminate the Contract by giving notice to the other party at least the longer of (i) ninety (90) calendar days or (ii) the remaining number of calendar days to maturity of any then-outstanding commercial paper plus one (1) calendar day. TCRS does not presently plan to terminate the Contract at any time prior to July 1, 2027.

Tennessee Code Annotated, Section 8-37-104(a)(8) authorizes TCRS to serve as a standby note purchaser. The Board of Trustees (the "Board") of TCRS has adopted a provision in the investment policy of TCRS (the "Policy") authorizing TCRS to enter into such contracts.

Pursuant to the powers accorded it in Tennessee Code Annotated, Section 8-37-110 and in the Policy, the Board has delegated implementation of the Policy to the Treasurer. The Policy further provides that the Treasurer has delegated certain responsibilities to the Chief Investment Officer of TCRS, including the power to invest and reinvest the assets of TCRS.

Accordingly, I have the authority to issue this letter on behalf of TCRS.

Sincerely,

A handwritten signature in blue ink, appearing to read "Michael Brakebill".

Michael Brakebill, CFA, CAIA
Chief Investment Officer

June 8, 2026



JASON E. MUMPOWER
Comptroller

June 22, 2026

Mr. Michael Brakebill
Chief Investment Officer
Tennessee Consolidated Retirement System
Nashville, TN 37243

Dear Mr. Brakebill:

The Tennessee Consolidated Retirement System (“TCRS”) has entered into an amended and restated contract (the “Contract”) with the State of Tennessee (the “State”), acting by and through the State Funding Board, whereby TCRS serves as a standby purchaser under the State’s commercial paper program. The Contract was effective as of May 26, 2026, and expires on July 1, 2031.

Either party may terminate the Contract by giving notice to the other party of at least the longer of (i) ninety (90) calendar days or (ii) the remaining number of calendar days to maturity of any then-outstanding commercial paper plus one (1) calendar day. You have informed me that TCRS does not presently plan to terminate the Contract at any time prior to July 1, 2027.

In consideration of, and in response to, your advance notification that TCRS will not cancel during the upcoming fiscal year, I am authorized to inform you that the State Funding Board also does not plan to terminate the Contract at any time prior to July 1, 2027.

Sincerely,

Jason E. Mumpower
Secretary, Tennessee State Funding Board

**RESOLUTION CERTIFYING AND AUTHORIZING THE
ALLOCATION OF FUNDS TO THE DEBT SERVICE FUND FOR
THE 2026-2027 FISCAL YEAR**

Recitals

Pursuant to Chapter 176, Public Acts of Tennessee, 2013 (the “Act”), effective July 1, 2013, the State of Tennessee has pledged in Tenn. Code Ann. Section 9-9-104 for the payment of debt service on a pro rata basis on its general obligation bonds issued on or before June 30, 2013, the following:

- Annual proceeds of a tax to five cents (\$.05) per gallon upon gasoline;
- Annual proceeds of the special tax on petroleum products imposed by Tenn. Code Ann. Section 67-3-203 (formerly Tenn. Code Ann. Section 67-3-1303);
- One half (1/2) of the annual proceeds of motor vehicle registration fees; and
- Entire annual proceeds of franchise taxes imposed by the franchise tax law in Title 67, Chapter 4, Part 21 (formerly Title 67, Chapter 4, Part 9).

Pursuant to the Act, the State Funding Board is authorized by Tenn. Code Ann. Section 9-9-106 to certify the amount necessary to provide for the payment of debt service from the fees, taxes and other revenues and funds available for such purposes.

Section 1, Title III-30, Public Chapter 1142, Public Acts of Tennessee, 2026, (the “2026 Appropriations Act”) appropriates the aggregate sum of Four Hundred Sixty-Two Million, Seven Hundred Ninety-Two Thousand Dollars and Zero Cents (\$462,792,000.00) for debt service expenses and amortization of authorized and unissued bonds for the 2026-2027 fiscal year. Section 1, Title III-32 of the 2026 Appropriations Act, appropriates to the Sinking Fund such amount of the excise tax receipts as determined by the State Funding Board.

The Commissioner of Finance and Administration recommended by a memorandum dated June 2, 2026, that the State Funding Board allocate Four Hundred Fifty-Nine Million, Two Hundred Thousand Dollars and Zero Cents (\$459,200,000.00) in pledged tax revenues. Further, he recommended the following specific dollar allocation of taxes for the payment of debt service on general obligation debt of the State of Tennessee:

<u>TAX OR FEE</u>	<u>AMOUNT</u>	<u>BASIS OF ALLOCATION</u>
Franchise Tax	\$ 18,000,000	Equal monthly
Excise Tax	\$204,000,000	Equal monthly
Gasoline Tax	\$127,000,000	Equal monthly
Motor Vehicle Title Fees	\$ 2,700,000	Equal monthly

Further, he recommended a monthly allocation totaling One Hundred Seven Million, Five Hundred Thousand Dollars and Zero Cents (\$107,500,000.00) of Sales Tax revenues [which is the estimated allocation of the net receipts of State Sales Tax pursuant to Tenn. Code Ann. Section 67-6-103]. These recommendations assume (i) utilization of Sports Authority Revenue in the amount of Three Million, Two Hundred Sixty-Two Thousand Dollars and Zero Cents (\$3,262,000.00) and Other Revenues (College and Universities and State Veterans’ Homes) in the amount of Four Hundred Nine Thousand Dollars and Zero Cents (\$409,000.00), and (ii) and adjusted balance at

June 30, 2026 of negative Seventy-Nine Thousand Dollars and Zero (\$-79,000.00), for an aggregate sum of Four Hundred Sixty-Two Million, Seven Hundred Ninety-Two Thousand Dollars and Zero Cents (\$462,792,000.00).

Be It Resolved by The Funding Board of the State of Tennessee:

1. It is hereby certified to the Commissioner of Finance and Administration that the following sums shall be allocated to the Sinking Fund for debt retirement for the 2026-2027 fiscal year:

<u>SOURCE, TAX OR FEE</u>	<u>AMOUNT</u>	<u>BASIS OF ALLOCATION</u>
Franchise Tax	\$ 18,000,000	Equal Monthly
Excise Tax	\$ 204,000,000	Equal Monthly
Gasoline Tax	\$ 127,000,000	Equal Monthly
Motor Vehicle Title Fees	\$ 2,700,000	Equal Monthly
Sales Tax (estimated Tenn. Code Ann. Allocation)	\$107,500,000	Monthly

2. This resolution shall be effective as of July 1, 2026, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 22, 2026.

JASON E. MUMPOWER, SECRETARY
TENNESSEE STATE FUNDING BOARD

**RESOLUTION ALLOCATING FUNDS TO DEFRAY A PORTION OF
THE COST OF HIGHWAY CONSTRUCTION PROJECTS AND
CANCELING AUTHORIZED BONDS**

Recitals

The State of Tennessee, acting by resolution of its Funding Board, is authorized pursuant to Chapter 1062, Public Acts 2018 (the “2018 Act”), to issue and sell its general obligation bonds in an amount not to exceed Two Hundred Fifteen Million, Two Hundred Ninety-Five Thousand Dollars and Zero Cents (\$215,295,000.00) of which One Hundred Twenty-Seven Million Dollars and Zero Cents (\$127,000,000.00) is allocated pursuant to Section 4(3) of the 2018 Act (the “2018 TDOT Bonds”) for the Department of Transportation for the purpose of providing funds to be spent for the construction of highways and for the purpose of acquisition of equipment and sites, and erection, construction, and equipment of sites and buildings, expressly including the acquisition of existing structures for expansion, improvements, betterments, and extraordinary repairs to existing structures, and repair, replacement, or rehabilitation of bridges.

None of the 2018 TDOT Bonds principal amount authorized has been issued.

Section 6, Item 1, Chapter 1142, Public Acts 2026, (the “2026 Appropriations Act”) appropriates to the Funding Board the sum of One Hundred Twenty-Seven Million Dollars (\$127,000,000) to cancel a like amount of unissued 2018 TDOT Bonds.

The Commissioner of Finance and Administration by memorandum dated June 2, 2026, recommended that the Funding Board proceed with canceling One Hundred Twenty-Seven Million Dollars and Zero Cents (\$127,000,000.00) of the unissued 2018 TDOT Bonds.

Be It Resolved by The Funding Board of The State of Tennessee:

1. The projects authorized to be financed by the 2018 TDOT Bonds have been financed in whole or in part with current funds and a total of One Hundred Twenty-Seven Million Dollars and Zero Cents (\$127,000,000.00) is no longer needed to fund such authorized projects.
2. One Hundred Twenty-Seven Million Dollars and Zero Cents (\$127,000,000.00) of the unissued 2018 TDOT Bonds are hereby canceled.
3. This resolution shall be effective as of July 1, 2026, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 22, 2026.

JASON E. MUMPOWER, SECRETARY
TENNESSEE STATE FUNDING BOARD

**A RESOLUTION AUTHORIZING THE ISSUANCE OF
GENERAL OBLIGATION BONDS OF THE STATE OF TENNESSEE**

Be It Resolved by the Funding Board of the State of Tennessee:

1. The Funding Board of the State of Tennessee (the “Funding Board”) hereby finds and determines that the Funding Board is authorized to provide for the issuance of general obligation bonds of the State of Tennessee (the “State”) under the provisions of Sections 1 and 4 of Chapter 989, Public Acts of Tennessee, 2026, to be allocated as follows:

Item 1. Three Hundred Eleven Million Dollars and Zero Cents (\$311,000,000.00) to the Department of Finance and Administration to be expended for the purposes of acquisition of equipment and sites, and erection, construction and equipment of sites and buildings, expressly including the acquisition of existing structures for expansion, improvements, betterments, and extraordinary repairs to existing structures, and for the purpose of making grants to any county, metropolitan government, incorporated town, city, special district of the state, or any governmental agency or instrumentality of any of them, if such project grant is approved by the State Building Commission.

Item 2. One Hundred Twenty-Seven Million Dollars and Zero Cents (\$127,000,000.00) to the Department of Transportation to be expended for construction of highways and for the purpose of acquisition of equipment and sites, and erection, construction, and equipment of sites and buildings, expressly including the acquisition of existing structures for expansion, improvements, betterments, and extraordinary repairs to existing structures, and repair, replacement, or rehabilitation of bridges.

Further, the Funding Board is authorized to sell bonds in amounts not to exceed 2.5% of all the amounts stated above, the proceeds of which are to be allocated to the Funding Board and expended for the purpose of funding discounts and the costs of issuance.

2. The Funding Board hereby finds and determines that no bonds or bond anticipation notes have been issued pursuant to the Public Acts referred to in Section 1 hereof, and that such authorization has not been cancelled or rescinded.

3. The Funding Board hereby authorizes the issuance of general obligation bonds of the State in the respective maximum principal amounts and for the respective purposes set forth in Section 1 hereof (the

“Bonds”). The sale and issuance of the Bonds shall be provided for by subsequent resolution of the Funding Board. Pending the issuance of Bonds, bond anticipation notes may be issued from time to time under and pursuant to the resolution adopted by the Funding Board on March 6, 2000, entitled “RESOLUTION AUTHORIZING AND PROVIDING FOR THE ISSUANCE AND SALE OF COMMERCIAL PAPER; AUTHORIZING AND PROVIDING FOR A STANDBY COMMERCIAL PAPER PURCHASE AGREEMENT; AND PROVIDING FOR CERTAIN OTHER MATTERS RELATED THERETO”, as amended or restated, or under and pursuant to other resolutions hereafter adopted by the Funding Board.

4. The Funding Board reserves the right to rescind the authorization of any Bonds authorized hereunder to the extent (i) general obligation bonds have not been issued against such Bond authorization or (ii) general obligation bond anticipation notes have not been issued in anticipation of the issuance of Bonds to be issued against such Bond authorization.

5. Available State funds may be expended for any or all the purposes specified in Section 1 hereof, in anticipation of reimbursement from the proceeds of Bonds or bond anticipation notes issued under and pursuant to the respective authorizations specified in Section 1 hereof. The Funding Board hereby authorizes the Commissioner of Finance and Administration or the Secretary or Assistant Secretary of the Board to evidence an official intent to this effect, and otherwise execute, file and publish such documents or take such other action, as may be necessary to permit reimbursement from the proceeds of Bonds or bond anticipation notes, the interest on which shall be excluded from gross income for federal income tax purposes.

6. If any provisions of this resolution or the application thereof to any person or circumstance is held invalid, such invalidity shall not affect other provisions or applications of the resolution which can be given effect without the invalid provision or application, and to that end the provision of this resolution is declared to be severable.

7. This resolution shall be effective as of July 1, 2026, and all resolutions in conflict herewith are hereby repealed.

Adopted by the Funding Board at its meeting on June 22, 2026.

JASON E. MUMPOWER, SECRETARY
TENNESSEE STATE FUNDING BOARD



JASON E. MUMPOWER
Comptroller

Date: June 22, 2026
To: Members of the State Funding Board
From: Mr. Steve Osborne, Assistant Director, Division of Local Government Finance
CC: Ms. Sheila Reed, Director, Division of Local Government Finance
Subject: Update to the *Tennessee Budget Manual for Local Governments*

The Comptroller's Division of Local Government Finance (LGF) presents the following changes to the *Tennessee Budget Manual for Local Governments* for approval by the Tennessee State Funding Board:

Page(s)	Description
9	Clarifies criteria for the Comptroller Budget's Certificate
20	This change limits municipal budget continuation authority to 2 months from the close of the fiscal year. This is a change resulting from legislation that passed during the 114th General Assembly (2026).
22	Adds the requirement that if the school budget for a city school system is not adopted by August 31 of any fiscal year then the prior year budget becomes the current year budget. This is a change resulting from legislation that passed during the 114th General Assembly (2026).
31-32	Adds a new financial health metric for municipalities with debt that do not levy a property tax and modify the cash to liability ratio metric to bring more in line with industry standards.
46-47	Updates the continuation budget guidance to reflect change that limits municipal budget continuation authority to 2 months from the close of the fiscal year. This is a change resulting from legislation that passed during the 114th General Assembly (2026).
Various	Replaces, removes, and corrects different wording throughout the manual as part of our normal editing process.



**TENNESSEE BUDGET MANUAL
FOR LOCAL GOVERNMENTS**



Approved by the State Funding Board

June 2025

Jason E. Mumpower
Comptroller of the Treasury



**DIVISION OF
LOCAL GOVERNMENT FINANCE**

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Purpose

The purpose of the Tennessee Budget Manual for Local Governments (the “Manual”) is to provide uniform guidance for the annual budget process in Tennessee’s local governments. The Manual is not designed to be all-inclusive but to provide guidance and requirements related to specific budget issues with an emphasis on areas of oversight by the Comptroller of the Treasury.

The Manual is divided into the following areas:

- State Oversight and Support – Sections 2 and 3
- Budget Basics – Sections 4 and 5
- The Budget Process – Section 6
- Best Practices – Section 7

The Manual, as approved by the State Funding Board on June ~~2322~~, ~~2025~~2026, is the ~~fourth~~-~~fifth~~ edition issued pursuant to Tenn. Code Ann. §§ 4-3-305 and 9-21-403.

Applicability

Any reference to the term “local government” applies to the following entities:

- Counties
- Municipalities
- Metropolitan Governments
- Utility Districts
- Municipal Energy Authorities
- Water and Wastewater Treatment Authorities
- Other entities that have a financial relationship to a county, municipality, metropolitan government, utility district, municipal energy authority, or water and wastewater authority, such as joint ventures created by an interlocal agreement.



Section 2 – Comptroller Oversight and Support

State legislators recognize the importance of financial stability and resilience for Tennessee’s local governments and have passed laws that strengthen financial accountability for public dollars. Some of those laws specifically address budgetary oversight and support from the Comptroller of the Treasury.

Forms, Procedures, and Manuals

The Comptroller’s Office has authority to prescribe forms and procedures and provide guidance manuals for the preparation of annual budgets by local governments (Tenn. Code Ann. § 4-3-305).

The Comptroller’s Office is also responsible for providing guidance on the form of the budget, including supplemental schedules, as necessary, to demonstrate local governments have adequate cash to meet their current obligations, including principal and interest, as applicable. See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-403, 68-221-611, and 68-221-1306.

Balanced Budget Oversight for Local Governments

Adopting a balanced budget is the responsibility of the governing body; however, if the governing body fails to fulfill this responsibility, our Office has the authority to take measures to ensure a local government pays its obligations, including principal and interest requirements. Pursuant to Tenn. Code Ann. § 9-21-403, the Comptroller has the authority to direct a local government to balance its budget by adjusting estimates to reduce spending or by raising property taxes to increase available cash to meet its obligations.

A local government may be subject to other requirements of the Comptroller as part of this oversight, including, but not limited to, the following:

- implementation of a corrective action plan;
- requesting approval from the Comptroller prior to disbursement of funds;
- building and maintaining cash balances sufficient for operations and contingencies;
- additional reviews, audits, and inquiries; and
- additional periodic reporting requirements.

Annual Budget Oversight

Pursuant to state law, local officials are required to adopt a balanced annual budget and submit the budget to our Office for approval. The annual budget review and approval process can be divided into three basic steps:

✓ STEP ONE – Submission Requirements for Approval

Due Date

Prior to the beginning of each fiscal year, a local government should adopt a budget that meets all legal and program requirements. The budget, along with the other required documents described below, should be electronically submitted to the Division of Local Government Finance within 15 calendar days after adoption. A budget calendar should be followed during the planning and adoption process.

If a budget is not submitted to our Office within 2 months of the beginning of the fiscal year, the budget cannot be approved and your local government may not issue debt or financing obligations. In the case of an emergency, our Office may waive the requirement of budget approval to allow your local government to enter into emergency financial transactions. See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-404, 68-221-611, 68-221-1306.

Required Submission Information – Municipalities, Counties, and Metropolitan Governments

1. Comptroller's budget submission-worksheet.
2. Signed/certified and dated copy of the appropriation act and tax levy (ordinance or resolution).
3. Separate resolution(s) for non-appropriated proprietary/enterprise funds, when applicable.
4. Detailed budgets for all funds, including proprietary/enterprise funds and school funds, as applicable. The detailed budget must be presented in a three-column format that includes audited prior-year amounts, estimated current-year amounts, and proposed budget amounts. Beginning and ending balances for each year must be presented.
5. Copy of the annual adopted budget for any entity that results in a financial benefit or financial burden to your local government. Refer to Section 6 for guidance in making this determination.
6. Documentation to support the Tennessee Investment in Student Achievement (TISA) Act local contribution, when applicable for local governments with a school system.
7. Cash Flow Forecast Schedules for:
 - a. Operating governmental funds with a budgeted ending cash balance of less than 15% of annual expenditures or propriety funds with a budgeted ending cash balance of than 15% of its annual cash outflows.
 - b. Operating governmental funds that reflected an ending cash balance of less than 15% of annual expenditures in the prior year's audit or propriety funds with an ending cash balance of than 15% of its annual cash outflows.

~~b.c.~~ Any fund that received proceeds from a tax and revenue anticipation note (TRAN) for the past two consecutive years.

~~e.d.~~ Any fund as requested by our Office during our review of the annual budget.

~~d.e.~~ All operating funds if the prior year's audit has not been issued and is late.

Operating Funds are defined as funds that account for expenditures/expenses that are recurring or day-to-day, such as salaries, benefits, utilities, etc. The General Fund and General Purpose School Fund will always meet the definition of an operating fund. Special Revenue Funds that meet the definition of an operating fund but nonetheless maintain a low cash balance due to the nature of the fund are excluded. For example, a special revenue sanitation fund that receives General Fund transfers to subsidize the fund. In that situation, the cash flow will be addressed in the analysis for the General Fund.

8. When applicable, other supporting budget schedules and information. For example, schedules to support budget information, narratives explaining specific issues that impact the current year budget that you would like to highlight, policies that support the budget, and other relevant information.

Example templates for the required submission items referred to above are available on the Comptroller of the Treasury's website at: tncot.cc/budget.

Required Submission Information – Utility Districts, Municipal Energy Authorities, Water and Wastewater Treatment Authorities, and Other Water and Wastewater Treatment Entities Created by Interlocal Agreement.

Each year your local government is required to submit the following information electronically to the Division of Local Government Finance:

1. Comptroller's budget ~~submission~~-worksheet.
2. Resolution adopting the budget.
 - a. The governing board must take official action by resolution to adopt its annual budget. ~~An example~~ resolution template may be found on our website. Note: The budget must be adopted by resolution, and minutes will not be accepted by our office in lieu of a resolution.
3. Detailed ~~b~~Budget document that identifies all anticipated revenues by source and all anticipated expenses by type of expense. If the local government has multiple funds (or systems), a budget for each fund (or system) must be submitted. The detailed budget must be presented in a three-column format that includes audited prior-year amounts, estimated current-year amounts, and proposed budget amounts. Beginning and ending balances for each year must be presented.

4. When applicable, other supporting budget schedules and information. For example, schedules to support budget information, narratives explaining specific issues that impact the current year budget that you would like to highlight, policies that support the budget, and other relevant information.

Further information concerning budgeting requirements, a budget submission checklist, and a model budget resolution may be found on the Comptroller of the Treasury's website at tncot.cc/budget.

✓ **STEP TWO – Approval by the Comptroller's Office**

1. The budget will be reviewed within 30 calendar days of receipt by the Division of Local Government Finance. If the budget submission is incomplete, the 30-day review period will not begin until the needed information is received.
2. With regard to programs included in the budget, such as education, roads, and corrections, we our Office does not make any attempt to determine that whether the local government has complied with specific program statutes or guidelines or with any financing requirements prescribed by any state or federal agency. Additionally, local officials are required to responsible for ensuring that the budget remains balanced throughout the fiscal year and that all maintenance of effort requirements are met. —Our Office does not review or approve any maintenance of effort programs.
3. Once the review process is complete, the Division of Local Government Finance will notify your local government will receive a letter viaby email from the Division of Local Government Finance indicating of the results of our review. The budget will be classified -as one of the followingeither: approved, conditionally approved, or not approved.

Approved: An approved budget means that, based upon our review, it was determined that projected revenues and other available funds are sufficient to meet anticipated expenditures (or expenses). An approved budget may still result in include recommendations intended to strengthen to your local government's financial management practices. An For example, our Office may recommendation includes developing a process to monitor the budget throughout the fiscal year.

Conditionally Approved: A conditional approval is issued results when the there is some required action by your governing body must take additional action that must be fulfilled before the budget can be approved receive final approval. Examples conditional approvals include when our Office requires adopting a budget amendment; to legally appropriate principal and interest payments that were inadvertently omitted from the budget ordinance or resolution;; to correct an unbalanced budget;; to eliminate a financial distress concern;; and/or to reflect reasonable estimates. Your Local officials government will have 45 calendar days from the date of after our letter is issued to satisfy all meet the condition(s). If the required actions any condition for approval is are not met completed within that timeframe, the budget will not be approved.

For Cities: Pursuant to Tenn. Code Ann. § 9-21-108, budget amendments required by the Comptroller's Office as a condition for budget approval may be passed adopted by resolution instead of rather than ordinance (See the sample resolution in Appendix 9).

Not Approved: A budget ~~may that is not~~ be approved for several reasons, including ~~may be the result of~~ a delinquent budget, a delinquent audit, continued noncompliance issues while under the oversight of the Tennessee Board of Utility Regulation, noncompliance with the Certified Municipal Finance Officer Act, noncompliance with ~~legally-statutorily~~ required utility training, or failure to meet conditions for approval.

~~State legislators have~~ The Tennessee General Assembly has recognized the importance of ~~having an obtaining budget approved~~ budget by ~~passing enacting~~ legislation that specifying ~~that if your budget is not approved, your prohibits~~ local governments from ~~may not issue~~ issuing debt or financing obligations when their budgets have not been approved. In ~~the case of an~~ emergency situations, however, our Office may waive the requirement of budget approval to allow ~~your a~~ local government to enter into emergency financial transactions.

See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-404, 68-221-611, and 68-221-1306.

✓ **STEP THREE – Requirements after Approval**

1. The budget is based upon estimates, and local officials ~~it may become apparent~~ determine during ~~the budget~~ monitoring of the budget that an amendment is necessary. Budget amendments must be ~~sents~~ submitted to our Office for acknowledgement after they are approved by the local governing body. Our Office only requires ~~your~~ local governments to ~~submit~~ send budget amendments that ~~impact~~ affect total appropriations for an organizational unit (or department). Refer to [Section 6](#) for a description of the legal level of budgetary control and a discussion on budget amendments.
2. If there are conditions for approval, those will have to be met. If we make recommendations, those should be followed. If you have any questions related to the items addressed in the review letter, please contact your Analyst in the Comptroller's Division of Local Government Finance responsible for your region. A contact list is available at tncot.cc/lgf-contacts. If our review of the budget ~~results in~~ identifies concerns about the local government's financial health, we may continue to work closely with local officials to help ~~them~~ restore financial stability ~~to their finances~~ and develop policies and procedures ~~to that~~ support a strong financial future.

Annual Budget Certificate

Local officials that adopt budgets meeting the following specific criteria are awarded an annual certificate from the Comptroller of the Treasury:

- The budget was adopted on or before the fiscal year end;
- The budget was filed with the Division of Local Government Finance within 15 calendar days of adoption;
- No issues of concern were raised during our review of the budget*²; and
- The local government is not currently under the oversight of the Tennessee Board of Utility Regulation.

*To be effective, a budget should be adopted prior to the beginning of the fiscal year. The budget should also be based on reliable estimates, be structurally balanced, provide for cash liquidity, allow

for adequate reserves, be monitored throughout the year, and be amended, as necessary. If concerns are identified in these areas, it ~~will~~may impact your local government's eligibility to receive a certificate. ~~Monitoring is fundamental to the budget process. Accordingly, as part of our review, we look to see if your local government received a finding for failure to amend its budget at the legal level of spending throughout the year, as evidenced by your most recent audit. Likewise, concerns related to the other areas listed above will impact your local government's eligibility to receive a certificate.~~

We congratulate local officials who have been awarded a budget certificate for a job well done. The names of the most recent recipients of the Annual Budget Certificate are posted on our website at: tncot.cc/budgetcertificates.

Online Resources

~~To help support your local government in the budget preparation and monitoring process, as well as the financial health of your local government,~~ The Comptroller's Office has developed multiple tools and resources to support local officials in the budget preparation and monitoring process, as well as in maintaining the financial health of local governments. ~~These resources including,~~ but are not limited to, sample budget ordinance and resolution templates, revenue and expenditure/expense forecasting tools, best practices, and instructional videos. ~~These~~ Resources are available at: tncot.cc/budget and will continue to be expanded.

If you have ~~any~~ questions ~~regarding~~related to our online resources, please contact ~~the~~your Analyst in the Comptroller's Division of Local Government Finance who serves ~~responsible for~~ your region. A ~~contact~~ list of analyst contacts is available at tncot.cc/lgf-contacts.



Section 3 – Oversight and Support from Other State Agencies and Boards

Tennessee Board of Utility Regulation

The Comptroller's Division of Local Government Finance serves as staff to the Tennessee Board of Utility Regulation (TBOUR). Information about TBOUR is available on the Comptroller's website: www.comptroller.tn.gov.

TBOUR supports municipalities, counties, districts, and authorities that operate water, sewer, and natural gas enterprises by ensuring that they are financially self-supporting. The Board also establishes the parameters for water accountability.

The Board addresses certain complaints by utility customers, approves or disapproves the creation of new utility districts, approves or disapproves the purchase, development, acquisition, or construction of a new water or wastewater system by a city or county, requires mergers and consolidations subject to statutory limitations, and conducts ouster proceedings for utility district commissioners related to misconduct, neglect, or training. The Board also establishes the parameters for water accountability.

Tennessee Department of Education

The Tennessee Department of Education's Office of Local Finance works directly with local school systems. The Office of Local Finance provides budgetary oversight and guidance, and local governments with school systems are responsible for complying with those requirements. More information is available at: www.tn.gov/education.

Tennessee Department of Treasury

The Tennessee Department of Treasury provides oversight to local governments that participate in the Tennessee Consolidated Retirement System (TCRS) as well as those that have defined benefit pension plans outside of TCRS. The State Treasurer also operates the Local Government Investment Pool (LGIP) and has certain administrative responsibility for the Collateral Pool for Public Deposits. More information is available at <https://treasury.tn.gov>.

County Technical Assistance Service (CTAS)

CTAS is an agency of the University of Tennessee Institute of Public Service and provides technical, training, consulting, and field services to elected and appointed county and metropolitan officials and finance directors. CTAS assists county governments with the budget process in the areas of budget preparation, policy, training, and guidance. CTAS partners with the Comptroller's Office to provide

the training and testing program for the Certified County Finance Officer (CCFO) designation. Resource information is available at: www.ctas.tennessee.edu.

Municipal Technical Advisory Service (MTAS)

MTAS is an agency of the University of Tennessee Institute of Public Service and provides technical, training, consulting, and field services to elected and appointed municipal and metropolitan government officials and finance directors. MTAS assists with the budget process in the areas of budget preparation, policy, training, and guidance. MTAS provides the training and testing program for the Certified Municipal Finance Officer (CMFO) designation. Resource information is available at: www.mtas.tennessee.edu.

Tennessee Association of Utility Districts (TAUD)

TAUD provides Tennessee utility systems with training, industry information and publications, and legislative updates. TAUD's commissioner manual has budget guidance, and they also teach classes on the budget process. Information and resources regarding TAUD is available at: www.taud.org.

Tennessee Emergency Communications Board (TECB)

The TECB is a statutorily created board that assists emergency communication districts, also known as E-911 districts, in the areas of management, operations, and accountability. The TECB ensures emergency communication districts are financially self-supporting pursuant to specific criteria defined by state law. Information about the TECB is available on the Tennessee Department of Commerce and Insurance's website: <https://www.tn.gov/commerce/emergency-communications.html>



Section 4 – Budget Terminology, Definitions, and Concepts

Budget

The budget is an annually adopted document that outlines the expected revenues and expenditures (or expenses) for each fund. Budgets should be structurally balanced, realistic, and ~~contain~~include all debt service payments for governmental funds, ~~as well as and~~ interest expense and depreciation expense for proprietary funds. ~~All~~Revenue estimates should be ~~based on~~ meaningfully forecasted ~~and reasonable assumptions~~. The budget ~~should be is followed and reviewed~~monitored throughout the fiscal year and amended when necessary.

A budget does the following:

- establishes policies;
- identifies revenues and other resources to support planned spending;
- appropriates monies, thus authorizing spending (expenditures);
- provides accountability to citizens or customers; and
- provides a means of control.

Appropriated Budget vs. Non-appropriated Budget

Appropriated budgets are governed by state and local laws and create spending authority limits that are legally binding. An appropriation bill, ordinance, or resolution is signed into law.

Non-appropriated budgets are approved in a manner authorized by state or local laws and not subject to appropriation. For example, utility funds budgeted pursuant to the 1982 Budget Law. In this situation, we recommend the use of the budget resolution template available on our website: tncot.cc/budget.

Municipalities, Counties, and Metropolitan Governments

State laws require appropriated budgets for the general fund, special revenue fund(s), and debt service fund(s).

State laws differ for proprietary funds. Municipalities that have adopted the General Law Modified City Manager – Council Charter pursuant to Tenn. Code Ann. § 6-35-304(a) are legally required to include proprietary funds as part of the appropriation ordinance. Other municipal forms of government, county governments, and metro governments have no general law requirement to legally appropriate the operations of a proprietary fund. Budget policies and procedures should address how budgets for proprietary funds will be approved and monitored for municipalities, counties, and metro

governments that have no legal requirement to adopt a proprietary fund budget as part of its appropriation ordinance or resolution. In this situation, we recommend the use of the budget resolution template available on our website: tncot.cc/budget.

Utility Districts, Municipal Energy Authorities, and Water and Wastewater Authorities

Utility districts, municipal energy authorities, and water and wastewater treatment authorities follow proprietary fund accounting and are required by state law to adopt an annual budget.

Balanced Budget Requirements

The following statutes require local governments to adopt balanced budgets:

- Tenn. Code Ann. § 5-12-110(b)&(c) – 1957 Act Counties
- § 5-12-210(d) – 1993 Act Counties
- § 5-21-110(d)(5) and 112 – 1981 Act Counties
- § 6-22-124 – City Manager-Commission Charter
- § 6-56-205 – Municipal Budget Law of 1982
- § 7-2-108(a)(15) – Metropolitan Governments – Urban Services District
- § 7-2-108(c)(2) – Metropolitan Governments – Each Special Service District
- § 7-36-113 (i)(1) – Municipal Energy Authorities
- § 7-82-501 – Utility Districts
- § 9-21-403 – Local Governments
- § 68-221-611 – Water and Wastewater Treatment Authority
- § 68-221-1306 – Regional Water and Wastewater Treatment Authority

Chart of Accounts

A standardized chart of accounts should be used for the budget, accounting records, and financial statements. The Division of Local Government Audit within the Comptroller's Office maintains a uniform chart of accounts for counties and municipalities: www.tncot.cc/chart. All counties must use this uniform chart of accounts except for the Metropolitan Government of Nashville and Davidson County, Knox County, Hamilton County, and Shelby County. Municipalities are encouraged, but not required to use the uniform chart of accounts.

Fund Types and Budget Requirements

Certain fund types are legally required to be appropriated, such as the general fund, debt service funds, and special revenue funds. However, other fund types, such as proprietary funds, fiduciary funds, or trust funds, may not be subject to appropriation, depending upon the laws that apply to your local government.

Legal Authority

When determining what legal authority governs your local government's budget document, the general principle of law that will apply is: if your unique general, private act, or home rule charter is less restrictive than a general law governing budgetary practices, the more restrictive law applies.

This section addresses laws that govern the general budget process for your local government. For a discussion of laws regarding budgetary oversight by the Comptroller of the Treasury, refer to [Section 2](#).

Municipalities

When determining what laws govern the budget process for your municipality, you should begin with referencing the Municipal Budget Law of 1982 (Tenn. Code Ann. § 6-56-201 et seq.).

Next, you will need to understand the requirements of your municipality’s form of government and how it relates to the Municipal Budget Law of 1982.

There are five different forms of government for municipalities in the state of Tennessee. Three of these are general law as authorized by the following state statutes:

- General Law Mayor Aldermanic Charter (Tenn. Code Ann. § 6-1-101 et seq.)
- General Law City Manager Commission Charter (Tenn. Code Ann. § 6-18-101 et seq.)
- General Law Modified City Manager Council Charter (Tenn. Code Ann. § 6-30-101 et seq.)
- Home Rule Charter
- Private Act Charter

If your charter does not mandate expenditure and revenue information in the annual budget ordinance that is at least as detailed as that required by the Municipal Budget Law of 1982, the 1982 budget law will apply.

Last, municipalities should also be aware of separate ordinances that have been adopted that will govern the annual budget process.

As a general principle of law, if your municipality’s general, private act, or home rule charter is less restrictive than a general law governing budgetary practices, the more restrictive law applies. Advice from legal counsel may be necessary to determine which specific budget laws apply for your municipality.

Counties

When determining what laws govern the budget process for your county, first you will need to identify the law(s) adopted by your county's governing body that are specific to the budget process. There are basically six laws, and four of these laws are found in state general law statutes. A county is authorized to perform its budgeting function under the following:

- General Law (Tenn. Code Ann. § 5-9-401, et seq.)
- Local Option Law 1957 Fiscal Control Act (Tenn. Code Ann. § 5-12-101 et seq.)
- Local Option Law 1981 Financial Management Act (Tenn. Code Ann. § 5-21-101 et seq.)
- Local Option Law 1993 Budget Law (Tenn. Code Ann. § 5-12-201 et seq.)
- Home Rule (Charter Government)
- Private Act

Next, you will need to determine if your county has enacted private acts that are more stringent than the basic requirements of the general or local option budget laws adopted by your county. In this situation, the more stringent law will apply. Likewise, there may be requirements under the general law that exceed specific home rule and private act requirements for a respective county. In this case, the general law requirement should be followed. Advice from legal counsel may be necessary to determine which specific budget laws apply for your county.

Metropolitan Governments

Budgetary requirements for metropolitan governments are governed by general state law, private act, and/or local ordinance or resolution. Because the general laws for metropolitan governments do not address some of the basic budget requirements, such as adoption date, continuation authority, amendments, etc., local officials should ensure key budget policies are clarified in the charter or ordinance. Advice from legal counsel may be necessary to determine the specific budget laws that apply for your government.

Utility Districts, Municipal Energy Authorities, & Water and Wastewater Treatment Authorities

When determining what laws govern the budget process for utility districts and authorities, local officials should begin with how your local government was originally created. General state law provides authority for the incorporation of utility districts, municipal energy authorities, and water and wastewater authorities. The incorporation of utility districts is subject to approval by the Tennessee Board of Utility Regulation. The different charter forms in the state of Tennessee are:

- General Utility District Law of 1937 (Tenn. Code Ann. § 7-82-101 et seq.)
- Municipal Energy Authority Act (Tenn. Code Ann. § 7-36-101 et seq.)
- Water and Wastewater Treatment Authority Act (Tenn. Code Ann. § 68-221-601 et seq.)
- Regional Water and Wastewater Treatment Authority Act (Tenn. Code Ann. § 68-221-1301 et seq.)
- Private Act Charter

The budget process will be governed by the state general laws referred to above as well as any private act. As a general principle of law, utility districts and authorities created by private act will need to follow any general law budget requirements that exceed the private act requirements. Advice from legal counsel may be necessary to determine which specific budget laws apply for your government.

Other Entities

Other entities that have a financial relationship to a county, municipality, metropolitan government, utility district, municipal energy authority, or water and wastewater authority, such as joint ventures created by an interlocal agreement, should follow budget requirements pursuant to their creation authority. If creation documents do not address budget policy, the entity should follow the budget requirements of the creating entity or entities.

Section 6 – The Budget Process

Budgeting is a broadly defined process that has political, planning, financial, communication, and managerial dimensions.

There are four basic phases to the budget cycle:

- Preparation
- Adoption
- Execution
- Oversight

This Section highlights some of the aspects related to the different elements in the budget process, from initial planning to adoption, execution, and managing the budget throughout the fiscal year. It is not intended to be comprehensive. If a local government has not developed policies and procedures to support the budget cycle for your local government, we recommend municipalities, counties, and metropolitan governments work with their MTAS or CTAS representative for assistance. Additionally, we recommend utility districts and authorities work with TAUD for assistance.

Preparation

Budget preparation begins months before the budget is adopted and approved. Preparation involves a review of policy and benchmarks established by your local government, collaboration with other departments, budget committee meetings, publication requirements, and other actions. Preparation is essential to the budget process because it lays the groundwork. [Appendix 1](#) includes an outline of key budget issues that may assist your local government in developing or updating budget policies and procedures. This outline is included as a resource and not a mandate.

Policies and Procedures

The governing body serves in a fiduciary capacity as they manage the finances and assets of the local government they serve. When preparing the budget, local officials are governed by internal and external laws and regulations that help ensure the responsible management of public dollars. Before the budget process begins, local officials should already have in place foundational policies to ensure the budget supports both the short-term and long-term financial health of their local government.

As you begin to prepare your budget, one of the first steps will be to review established policies that define the budget process. Such policies should include the following:

- Budget calendar;
- Cash flow management;
- Revenue forecasting and expenditure/expense estimation;
- Minimum fund balance levels;
- Contingency spending plan;
- Long-term capital planning;
- Program and service goals (public safety, sanitation, utilities, streets, schools);
- Legal spending requirements, such as maintenance of effort;
- Department head responsibilities in the budget process;
- Rainy day fund levels; and
- Structurally balanced budgeting.

Refer to [Section 7](#) for recommended best practices.

Component Units, Joint Ventures, and Similar Entities

As part of the budget preparation process, you should identify entities that have been created by your local government that function to support the local government and its citizens. For example, two neighboring municipalities may create a joint venture to provide water service to its citizens. The key issue is whether there is a financial benefit or burden that exists between your local government and the other entity that could have an impact on your budget.

STEP ONE Identify the entities. One source for this information is the notes to the financial statements in your annual financial audit report.

STEP TWO For each identified entity, determine the nature of the financial relationship to your local government, if any. Is your local government:

- Responsible for providing ongoing financial assistance;
- Contingently responsible for paying debt in the case of default or has guaranteed the entity's debt in some other manner;
- Required to fund any deficits;
- Responsible for the review and approval of the entity's budget;
- Reliant on revenue from the entity; or
- Responsible for the financial oversight or governance of the entity such that local officials should have a process of intentional review of certain financial information of the entity?

STEP THREE If an entity meets any of the above criteria, develop a process to receive and review their budget as part of your annual budget process.

STEP FOUR Send a copy of the respective budget with your annual budget submission to the Division of Local Government Finance.

Revenue Forecasting and Expenditure Estimating

Forecasting revenues and estimating expenditures (or expenses) is integral to budget preparation. Estimates should be both reliable and realistic. Our Office has developed an instructional video related to estimating that is available on our website: tncot.cc/budget. Municipalities, counties, and metropolitan governments can also receive assistance from their respective MTAS or CTAS consultant.

Local governments should not delay the budget process during a reappraisal year (see Appendix 8 for tips on adopting the budget during a reappraisal year). The budget is based on estimates and the expectation of our Office is for the certified property tax rate and annual budget to be adopted simultaneously and timely during a reappraisal year. If the certified property tax rate is not available at the time of budget adoption, local officials should follow the guidance in Appendix 8. If there are special circumstances, local officials should reach out to our Office and we will work with the local government and State Board of Equalization to address the situation.

Adoption

The budget adoption and approval process may result in changes to the proposed budget. Several key areas related to the adoption process are discussed below.

Timely Adoption – Budget Calendar

Timely budget adoption is foundational to the budget process and ensures your local government begins the fiscal year with a sound financial spending plan. Accordingly, your local government should have a formal timeline for the budget process. We have developed [a](#) budget calendar that includes key dates in [Appendix 2](#). We recommend that you add to the budget calendar any specific needs related to the size and structure of your local government. Both state and local laws govern the budget calendar.

Continuation/Extension

For your budget document to be relevant, timely adoption is essential; however, state law recognizes there ~~will~~may be circumstances ~~that prevent when~~ the governing body ~~is not able to~~from adopting the budget prior to the beginning of the fiscal year. Nevertheless, if the annual adopted budget is not submitted to our Office within two months of the beginning of the fiscal year, the budget cannot be approved, and your local government may not issue debt or financing obligations. In the case of an emergency, our Office may waive the requirement of budget approval to allow your local government to enter into emergency financial transactions. See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-404, 68-221-611, 68-221-1306.

Counties

Tennessee law ~~gives authority for~~authorizes certain counties to operate on ~~a~~ continuation budget authority until August 31; or, under extraordinary circumstances and with approval from the Comptroller of the Treasury, a continuation budget extension until September 30. ~~A September 30 continuation budget extension is allowed under extraordinary circumstances and must be approved by the Comptroller of the Treasury.~~ For more information ~~regarding a request for approval~~, refer to [Appendix 3](#).

Municipalities

~~Tennessee law authorizes for cities municipalities to operate or under a continuation budget authority until August 31 or, under extraordinary circumstances and with approval from the Comptroller of the Treasury, until September 30. continuation budget extension is allowed under extraordinary circumstances and must be approved by the Comptroller of the Treasury. For more information regarding a request for approval, refer to Appendix 3. Pursuant to the Municipal Budget Law of 1982, if a budget ordinance is not adopted prior to the beginning of the fiscal year, the appropriations for the last fiscal year become the appropriations for the next fiscal year, until the adoption of a new budget ordinance (Tenn. Code Ann. § 6-56-210). If your municipality's general law, home rule, or private act charter is more restrictive, you must follow the requirements of your charter.~~

Metropolitan Governments

General laws for metropolitan governments do not specifically address budget continuations and/or extensions. You should ensure that you have adopted a private act to address the legal budget process, including, but not limited to, budget continuations and extensions.

Utility Districts, Municipal Energy Authorities, and Water and Wastewater Authorities

State law does not ~~provide for authorize an extension or continuation for~~ utility districts, municipal energy authorities, or water and wastewater authorities to operate under a continuation budget authority.

Legal Form of the Annual Budget Document

A budget resolution or ordinance is the budget document used by local governments. A legally-adopted budget provides spending authority for the general operations of counties, municipalities, and metropolitan governments. When a local government expends more than legally appropriated, they are in noncompliance with state law. For utility districts and authorities, the budget is legally required to be adopted, but it is not a legal document in the sense of an appropriated budget. Refer to [Section 4](#) for an explanation of the difference between appropriated and non-appropriated budgets. Our website has example budget documents for use by your local government: tncot.cc/budget.

Balanced Budget

Budgets must be balanced when adopted, remain balanced throughout the fiscal year, and be sustainable going forward. Estimated expenditures and other financing uses (or expenses) should not exceed estimated revenue, other financing sources, and beginning unrestricted fund balance (or net position). A process should be in place to actively monitor the budget throughout the budget year and to make any necessary budget amendments to maintain a balanced budget, including paying all debt service. [Section 4](#) includes a listing of state laws that require a balanced budget.

A budget is structurally balanced when recurring revenues are budgeted to pay for recurring expenditures (or expenses). A structurally unbalanced budget is often a sign of financial distress. If your local government plans to adopt a structurally unbalanced budget, you should contact the Analyst in the Comptroller's Division of Local Government Finance who is responsible for your region. A contact list is available at tncot.cc/lgf-contacts.

Legal Level of Budgetary Control/Spending Authority

The legal level of budgetary control refers to the level of detail at which the governing body appropriates resources. Management can reassign expenditures or expenses without approval of the governing body for items below the legal level of budgetary control. For example, when the budgetary control is at the organizational or department level, any increase in appropriations for the police department will require a budget amendment by the governing body; however, changes between object level expenditures, such as salaries, supplies, or utilities that are within the organizational or department level, do not require legal action by the governing body. Requirements of state law vary depending upon your form of government. Utility districts, municipal energy authorities, and water and wastewater authorities are required to identify anticipated revenues by source and anticipated expenses by type of expense.

Budgetary Basis (Legal Basis of Accounting)

The budgetary basis is the method used to determine when revenues and expenditures (expenses) are recognized for budgetary purposes. The annual budget is required to be on the same basis of accounting as required by generally accepted accounting principles (Tenn. Code Ann. §§ 9-21-403, 7-36-113, 7-82-501, 68-221-611, 68-221-1306). For smaller governments that maintain their accounting records on the cash basis, a budgetary cash basis is acceptable, for governmental funds, when the cash basis does not materially differ from the budget on the modified-accrual basis. Local governments may also utilize the method of reconciling between two different bases of accounting in the budget document. Having the same budgetary basis used for accounting and reporting purposes helps the governing body, investors, the public, and other stakeholders better understand and analyze budget to actual results.

Capital Budgets

The capital budget provides the basis for control of capital expenditures. This budget should correspond with the capital improvement plan. The capital budget is related to long-term nonrecurring spending.

The capital improvement program presents estimates of revenue and capital outlay expenditures for a period of several years—five years is recommended. The proposed means to finance capital projects should be clearly identified in the capital improvement program.

Both MTAS and CTAS have online resources and can assist municipalities, counties, and metropolitan governments in the preparation of a capital budget and capital improvement program.

School Budgets

County, municipal, and metropolitan governments with school systems are required to follow the requirements of the Tennessee Department of Education when preparing their budget. Both MTAS and CTAS also have information available on their websites regarding requirements for school budgets. Some of the key issues for school budgets involve the following:

- The budget must be balanced.
- The budget must agree with the budget ordinance or resolution adopted by the governing body.
- The budget must include beginning and ending un~~restricted~~~~assigned~~ fund balance information.
- Both summary and detailed budget information should be prepared.
- Annual principal and interest information should be clearly identified in the budget, as applicable.
- Pursuant to state law, the governing body's authority is limited to modifying the total amount of the school budget. The governing body has no other authority to modify or delete any item of the school budget. The governing body must still approve the school budget in total (Tenn. Code Ann. Title 49, Chapter 2).

If the legislative body of a municipality or county and the governing body of the local education authority (LEA) fail to agree upon the LEA budget by August 31 of any budget year, then, by operation of law, the LEA budget is deemed to be the minimum amount necessary to comply with the local match and maintenance of effort requirements of the Tennessee Investment in Student Achievement (TISA) Act, as defined in Tenn. Code Ann. § 49-3-104.

However, state law provides that if the municipal or county legislative body and the governing body of the LEA fail to agree upon a budget for three consecutive fiscal years and the LEA receives only the minimum required funding under this statutory provision during each of those years, then the LEA budget for the third fiscal year must include a mandatory increase that is equivalent to three percent (3%) of the required local funding for schools.

This mandatory increase does not apply if, during any of the three consecutive fiscal years, the governing body of the LEA failed to submit its budget proposal to the municipal or county legislative body by May 1 for municipalities and in accordance with the statutorily required budget calendar for counties.

Utility Systems

Self-Supporting Requirement

Pursuant to Tenn. Code Ann. § 7-34-115, municipal utilities are required to be self-supporting and utility revenue cannot be used to subsidize other operations of the local government. Any unlawful use of utility revenue is subject either to immediate repayment or the submission of a corrective action plan not to exceed five years as approved by, and overseen by, the State Comptroller. Elected and appointed local officials are subject to ouster for failure to repay. County, municipal, and metropolitan governments that have issued revenue debt pursuant to Tenn. Code Ann. Title 9, Chapter 21, Part 3 are subject to the same statutory requirements.

Oversight by Tennessee Board of Utility Regulation

Water, wastewater, and natural gas systems of municipalities, counties, metropolitan governments, authorities, and utility districts are subject to the jurisdiction of the Tennessee Board of Utility Regulation (TBOUR).

Statutes require the State Comptroller to refer governmental water, sewer, and natural gas systems that are in financial distress to the TBOUR, for oversight and corrective action (Tenn. Code Ann. § 7-82-

703). The State Comptroller is also required to refer a utility system to TBOUR for excessive water loss, failure to file audited financial statements for two consecutive years, and the unlawful use of utility funds.

TBOUR exercises oversight by ensuring the financial sustainability of Tennessee’s utility systems. The board has specific statutory criteria to identify financially distressed systems. The budget should be designed to (1) result in a statutory increase in net position, which is defined as:

Change in Net Position (GAAP Basis)	\$ _____
Less:	
Grants – Capital	\$ _____
Grants – Operating	_____
Capital Contributions	_____
Interfund Transfers from Other Funds	_____
Statutory Change in Net Position	\$ _____

(2) pay all debt service as it becomes due, and (3) generate sufficient revenue to sustain a positive unrestricted net position and a positive total net position.

Pensions – Defined Benefit Plans

Local governments are eligible to participate in the Tennessee Consolidated Retirement System (TCRS). TCRS is a statewide pension system that is administered by the Tennessee Department of Treasury. The annual actuarially determined contribution for TCRS defined benefit pension plans must be 100% funded in TCRS’s annual budget [Tenn. Code Ann. § 8-37-310]. Local governments that have defined benefit pension plans that are not part of TCRS are subject the Public Employee Defined Benefit Financial Security Act of 2014 (the “Act”) which requires local governments to annually fund at least 100% of the actuarially determined contribution. Pursuant to the Act, local governments are also required to adopt a funding policy and file it with the state Comptroller who serves as the depository for policies that are reviewed and maintained by the state Treasurer. [Tenn. Code Ann. § 9-3-501 et seq.]

State Street Aid Fund

Pursuant to Tenn. Code Ann. § 54-4-204, upon written request from a municipality, the Comptroller of the Treasury may authorize that state street aid funds be kept and accounted for in the general fund instead of a special revenue fund. Approval is conditioned upon the requirement that the state street aid revenues and expenditures be accounted for separately in the general fund in a manner that allows identification of the source of revenue and the expenditures related to the revenue. If you are not sure if your municipality has received approval, you may contact the Division of Local Government Audit within the Comptroller’s Office.

School Federal Projects Fund

Budget Resolution/ Ordinance and the Detailed Budget

The State Department of Education provides both guidance and oversight related to federal grants administered by the local board of education. Accordingly, there are two acceptable practices for appropriating expenditures accounted for in the School Federal Projects Fund (SFPF):

1. Expenditures may be appropriated in the annual budget resolution or ordinance in the same manner as other special revenue funds.
2. Language may be included within the appropriation section of the annual budget resolution or ordinance stating, “the budget for the School Federal Projects Fund shall be the budget and all amendments approved by the Tennessee Department of Education and the local Board of Education.”

The format of the detailed budget for the SFPF should follow the budget policies of the local government. The detailed budget for the SFPF is not required to be included in the annual budget submission to the Comptroller’s Office; however, a cash flow analysis will be requested from the local government when its most recent audit identifies a cash overdraft or interfund balance in the SFPF. Refer to the next section on the importance of funding the grant reimbursement cycle.

School Federal Projects Fund – Funding the Grant Reimbursement Cycle

Cash flow shortages can occur in the School Federal Projects Fund because of the grant reimbursement cycle. This can result in an audit finding if there is a cash overdraft at June 30. In order to provide operating funds until federal reimbursement of grant expenditures is received by a school system, it may become necessary for local officials to authorize the transfer of available unassigned fund balance from the General Purpose School Fund to the School Federal Projects Fund. This transfer should be a sufficient amount for the stated purpose. The resolution should specify the amount of the transfer and indicate that the transfer is restricted for the purpose of providing operating funds for federal reimbursement of grant expenditures. An example resolution may be found in [Appendix 4](#). These transferred funds would remain in the School Federal Projects Fund indefinitely or until the School Board and/or Funding Body (county commission or city governing body) act to transfer the funds back to the General Purpose School Fund.

The transfer from the General Purpose School Fund would be accounted for as an Operating Transfer Out and a reduction of Cash, which reduces the unassigned fund balance of the General Purpose School Fund. The transfer into the School Federal Projects Fund would be accounted for as an Operating Transfer In and an increase to Cash which would become part of fund equity as Restricted Fund Balance in the School Federal Projects Fund. The local Board of Education should not transfer excessive funds from the General Purpose School Fund to the School Federal Projects Fund to intentionally reduce the fund balance of the General Purpose School Fund to manipulate the budgetary process. The amount needed will depend upon the timing of cash inflows and outflows of the School Federal Projects Fund. If you need assistance in determining an appropriate amount, please contact your Analyst in the Comptroller’s Division of Local Government Finance.

Execution

Execution involves assigning responsibility to administration and department heads, including the school system, for executing the budget adopted by the governing body. Monitoring the budget is important to the execution process to ensure actual spending agrees with what the governing body approved in the budget and that projected revenues are realized. There should be a process in place to monitor budget spending levels and the need for a budget amendment to increase the spending authority. Because a government has a specific amount of resources available to spend, systematic review of budget variations is an important part of the budget process. Monitoring establishes an expectation of accountability related to spending. It also enables the finance department and the governing body to respond quickly to financial distress identified as part of the monitoring process.

Budget Amendments

Counties

The amendment process varies based on the budget law that applies to your county; please refer to [Appendix 5](#) for applicable guidance.

Municipalities

Pursuant to the Municipal Budget Law of 1982, the governing body may amend the budget ordinance in the same manner as any other ordinance may be amended. We have included a list of frequently asked questions for municipal budget amendments in Appendix 6. Additionally, pursuant to Tenn. Code Ann. § 9-21-108, amendments required by the Comptroller's Office as a condition for budget approval may be passed by resolution instead of ordinance (See sample resolution in Appendix 9).

Metropolitan Governments

General laws for metropolitan governments do not specifically address budget amendments. You should ensure that your government has legal authority to amend its budget through a charter provision, private act, or public ordinance.

Utility Districts, Municipal Energy Authorities, and Water and Wastewater Authorities

General laws for utility districts, municipal energy authorities, and water and wastewater authorities do not specifically address budget amendments. We recommend that the governing body take the same action to amend the budget as taken to adopt the budget. Amendments should be approved by the governing body for increases and decreases to revenues and/or expenses that impact the change in net position.

Allotments and Impoundments

Counties and metropolitan governments may have impoundment authority. The governing body of a county that operates under the Acts of 1957, 1981, and some private acts can place departments on quarter allotments or impound funds in case of a financial crisis. There is no provision for such allotments or impoundments under the general law for counties or municipalities. Metropolitan governments should ensure they have legal authority to enforce allotments and impoundments.

Oversight

State legislators have passed laws that directly impact budgetary oversight for Tennessee's local governments. The Comptroller's Office plays an integral role in that oversight through:

- Approvals;
- Audits; and
- Tennessee Board of Utility Regulation.

Approvals

As fully discussed in Section 2, our Office, the Division of Local Government Finance, has a comprehensive review and approval process for the annual budget. The Office of Local Finance with the Tennessee Department of Education provides specific budgetary oversight for school systems.

Audits

The Comptroller's Division of Local Government Audit is responsible for the annual audit of Tennessee's local governments. Each financial and compliance audit is conducted in accordance with the requirements of *Government Auditing Standards*. Compliance with budgetary laws, including appropriated spending levels, is audited, and any resulting findings requires action by the local governing body to correct those findings.

Tennessee Board of Utility Regulation

Water, wastewater, and gas systems of municipalities, counties, metropolitan governments, authorities, and utility districts ("utility systems") are subject to the jurisdiction of the Tennessee Board of Utility Regulation (TBOUR)

Statutes require that the Comptroller's Office refer utility systems that are in financial distress to the TBOUR for oversight and corrective action (Tenn. Code Ann. § 7-82-703).

A system is in financial distress pursuant to state law if any of the following conditions are demonstrated in their annual financial audit report:

- Statutory negative change in net position for two consecutive years
- Deficit unrestricted net position balance
- Deficit total net position balance
- Default on debt

Local officials are statutorily required to comply with the directives of the TBOUR to restore the fiscal health of the utility system. Utility systems may also be referred to TBOUR for other reasons, including, but not limited to, excessive water loss, failure to receive required board member training, failure to file audited financial statements for two consecutive years, and the unlawful use of utility funds.

Various resources are available to local government entities to assist with the budget process. The resources referenced in this Section will be helpful to local officials as they manage and exercise oversight over the finances of their local government.

Seven Keys to a Fiscally Well-Managed Government

The Seven Keys to a Fiscally Well-Managed Government is a document produced by the Comptroller's Office that outlines various characteristics present in financially well-managed governments. Follow this link for a printable copy for your board and for related videos: tncot.cc/7keys

Keys 1-3 – Building a Strong Budget for a Resilient Government

1. *Structurally Balanced Budget*

A budget is structurally balanced when recurring revenues are sufficient to pay recurring expenditures. Recurring revenues can be relied on every year (property taxes, sales taxes, wheel taxes). Recurring expenditures are those required for normal governmental operations (debt payments, salaries, pension payments). Using overly optimistic revenue projections or underestimating expenditures, as well as relying on one-time revenue from selling assets, restructuring debt, spending savings, or deferring maintenance, indicate the budget is not structurally balanced. [Tenn. Code Ann. § 9-21-403]

2. *Cash Flow Management*

A local government's ability to track how much revenue is coming into the government and how much is going out is vital to its fiscal health. Local governments that rely heavily on property taxes will need larger cash reserves to fund governmental services until tax revenue is received. Prior to its adoption, the budget must contain adequate revenues, along with cash on hand, to fund the government throughout the year. In addition, local governments need to have plans in place if additional sources of liquidity, either internally (interfund tax anticipation note "TAN") or externally (bank issued TAN), prove to be necessary. [Tenn. Code Ann. § 9-21-801]

3. *Forecasting Budgetary Amounts*

Mechanisms for forecasting revenues and expenditures that consider economic trends and growth rates provide reliable revenue estimates. Local governments that do not routinely forecast budgetary amounts may find revenues overstated and expenditures understated. [Tenn. Code Ann. § 9-21-403]

Keys 4-5 – Planning for Unknowns

4. *Rainy Day Reserve*

Beyond liquidity management, local governments need to have reserves for unforeseen events like natural disasters or economic downturns. A government that creates a rainy day fund should, at times, expect to use the reserves but also have a policy for replacing the funds.

5. *Contingency Spending Plans*

Knowledge of what part of a budget is discretionary and can be legally and practically cut is necessary for dealing with unforeseen circumstances. If an event decreases a significant revenue source or increases spending during a year, and revenues cannot be adjusted quickly, then cuts to expenditures are necessary. Prior planning as to what cuts will be made will expedite the recovery.

Keys 6-7 – Planning for Tomorrow

6. *Long-Term Liability Planning*

Debt, pension, and OPEB payments are set amounts in the annual budget. The larger these payments are, the less ability the governing body has to make changes to the budget. Ongoing decisions of whether to issue additional debt or to make changes to benefits have a direct budgetary impact that must be considered. When the repayment of long-term liabilities comprises a large percentage of the budget, consistent management of the government's obligations is essential.

7. *Multi-Year Financial Planning*

Having a plan that considers the long-term affordability of programs or projects before they become an item in the annual budget is crucial. Assets will need to be replaced, maintenance performed, and programs expanded; advanced planning of these items will help ensure the funding is available in the future.

Steps To a Well-Managed Budget

The Steps to a Well-Managed Budget is a document produced by the Comptroller's Office that outlines various steps a local government can take to manage its budget throughout the fiscal year. Follow this link for a printable copy for your board: tncot.cc/budget

The most important action a governing body takes each year is the adoption of the annual budget. Through the budget, elected officials establish spending authority and set the priorities of the local government. One community's priority could be the reduction of crime, while another's maybe investing in better parks and sidewalks. Whatever the plan, if the budget is not monitored to ensure that public dollars are spent as intended, problems can occur.

Budget To Actual Monitoring

After the governing body approves the budget, the members will need updates on how the plan is going. Reviewing budget to actual reports frequently throughout the year is the most effective way for the governing body to maintain a well-managed budget. Budget to actual comparisons show how close the budget estimates are, if changes to the budget are needed, or if everything is on course as planned. Accuracy in accounting data is essential to make useful budget to actual reports, and timeliness in reviewing the information is vital.

Revenues

Revenues are meticulously forecast during the budget preparation phase, but as the budget year progresses, revenue collection should be closely monitored for variations from original estimates. Most tax collections are cyclical. Comparing the current year's monthly collections to last year for each tax category will help a local government understand if its assumptions, such as whether its planned growth rate is holding true. Timeliness is important because if revenue collections are lower for the year, then cutting expenditures or increasing the use of fund balance may be needed to ensure the budget remains balanced.

Operating Budget

Operating expenditures tend to be less cyclical than revenues – think salaries and benefits. However, even with less variability, the level of spending should be monitored throughout the year. A local government should closely review items like overtime; fuel and commodity purchases; repair and maintenance; and any item that can quickly increase due to outside forces. If changes to the operating budget are planned for mid-year, then those changes should be forecast throughout the remainder of the fiscal year.

Capital Expenditures

Most capital expenditures tend to be planned well in advance, but cost overruns on large capital items, as well as small replacement items, can add up to an unbalanced budget. Local governments should frequently review any ongoing capital projects and ask department heads for updates on their plans to replace items so adjustments can be made if needed. It is important to know in advance what the funding source is for capital project cost overruns.

Amending The Budget

Every item in this document has led to this: It is very important to amend the budget throughout the year. When amending the budget, local governments should keep these principles in mind: the budget must be amended prior to increased spending; recurring revenues should be used to pay for recurring expenditures; cash liquidity must be considered; debt must be paid; and adequate reserves should be maintained. Amending the budget takes time, so local governments should know the process and how much lead time it takes to finalize an amendment. The budget undergirds the vision and strategy for a local government, and care must be taken to constantly monitor it.

Financial Health Metrics

Financially healthy local governments tend to have a few traits in common—they operate with balanced budgets, do not spend nonrecurring funds on recurring expenses, maintain adequate cash reserves, have a manageable debt burden, and keep liabilities in check. Local governments that do not manage these items tend to experience financial issues that show up in the following metrics that the Comptroller’s Office calculates annually:

For Governmental Operating Funds				
(General Fund, General Purpose School Fund, and Other Funds with Recurring Payroll Expenditures)				
Financial Health Metric	Description	No Concern	Concern	Distress Concern
Cash as a Percent of Expenditures	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Greater than 15%	15% to 8%	Less than 8%
Cash divided by Current Liabilities (Cash Ratio)	Do we have the ability to pay short-term obligations?	Greater than 1.2x	0.7x to 1.2x	Less than 0.7x
Change in Fund Balance as a Percent of Expenditures	How much did we overspend last year? (A concern exists when cash reserves are low.)	Positive	Decrease of 0% to 2%	Decrease greater than 2%
For General Governmental Debt				
For Counties, Metros, and Municipalities with a Property Tax - General Governmental Debt as a Percent of Assessed Value*	How burdensome is our debt load?	Less than 8%	8% to 10%	Greater than 10%
For Municipalities without a Property Tax - General Governmental Debt per households as a Percent of Median Household Income	How burdensome is our debt load?	Less than 8%	8% to 10%	Greater than 10%
For Utility Systems				
(Utility Systems Operated by a City/Town, County, Metro Govt, Utility District, Authority, or Joint Venture)				
Financial Health Metric	Description	No Concern	Concern	Distress Concern
Cash as a Percent of Cash Expenses	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Greater than 15%	15% to 8%	Less than 8%
Current Assets divided by Current Liabilities (Current Ratio)	Do we have the ability to pay short-term obligations?	Greater than 1.5x	1.25x to 1.5x	Less than 1.25x
Statutory Change in Net Position as a Percent of Operating Revenue for Systems under TBOUR Jurisdiction	Are my rates sufficient to cause a positive statutory change in net position?	Positive	N/A	Negative
Business Type Activity Debt Coverage Ratio**	Do we have revenues sufficient to cover debt service?	Greater than 1.20x	N/A	Less than 1.20x

* Debt as a Percent of Assessed Value is calculated as: total general governmental debt divided by total assessed value of property in the local government as reported by the Comptroller on the Tax Aggregate Report.

** Debt Coverage Ratio is calculated as annual operating revenues minus annual operating expenses excluding depreciation divided by annual debt service (principal and interest) payments.

Fund Balance Policy

Our Office recommends local governments adopt a fund balance policy for all fund types and include in its policy a requirement to maintain an unrestricted fund balance of not less than two months of the regular operating revenue or expenditures for operating funds. Local officials may determine more than two months is appropriate (for example, because of the timing of the receipt of major annual revenue sources and/or the timing of larger expenditures, such as insurance). The nature of each fund will determine the appropriate minimum amount of fund balance that should be maintained. When adopting a policy, please refer to GFOA's best practice on fund balance guidelines: www.gfoa.org.

Cash Management Policy

Our Office recommends local governments adopt a cash management policy that addresses areas specific to cash, including, but not limited to cash flow forecasting, minimum cash balances, short-term borrowing for operations, pooled cash accounts, investment of idle cash, banking, internal controls, collateralization requirements, and internal transfers, loans, and reimbursements, as applicable.

Budget to Actual Reports

As part of the monitoring process, we recommend local governments provide the following information at every regular meeting for each budgeted fund:

- A budget-to-actual report including both revenue and expenditures (expenses);
- An updated cash flow analysis showing actual data from the prior month and any changes to forecasted data; and
- Current cash and fund balance levels.

Best Practices from the Government Finance Officers Association (GFOA)

The following best practices published by GFOA support areas addressed in the [Seven Keys to a Fiscally Well-Managed Government](#), which is included in this Section:

- Achieving a Structurally Balanced Budget
- Financial Forecasting in the Budget Preparation Process
- Long-Term Financial Planning
- Using Cash Forecasts for Treasury and Operations Liquidity
- GFOA also has other budgetary best practices including, but not limited to:
 - Establishment of Strategic Plans
 - Multi-Year Capital Planning
 - Capital Budget Presentation
 - Working Capital Targets for Enterprise Funds
 - Public Engagement in the Budget Process

We recommend local governments review and implement best practices from GFOA as part of your budget policies and procedures, making any necessary changes to address state and local laws and regulations. Online access to GFOA's best practices is available at: www.gfoa.org.

1. Budget Preparation Outline
2. Budget Calendar Examples
3. ~~County~~ Continuation Budget Guidance
4. Resolution to Transfer Funds to the School Federal Projects Fund
5. County Budget Amendments
6. Municipality Budget Amendments – Frequently Asked Questions
7. Budget Cycle (Illustration)
8. Adopting the Budget During a Reappraisal Year
9. Budget Resolution for Cities Adopting Comptroller Required Changes

Appendix 1

Budget Preparation Outline

Preparation – The Initial Step

Preparation is the process of preparing the financial plan that is the basis of an appropriated budget, for municipalities, counties, and metro governments, and an adopted budget, for utility districts and authorities that do not have appropriated budgets. The end products of the budget preparation process are a financial plan, a legal document, and budgetary controls.

As part of the executive preparation of the annual operating and capital budget, the chief executive officer and budget officer should review the budget policy and procedures in developing the budget documents guidelines that will be provided to department heads to prepare budget information for each department, as applicable.

Budget Policy and Procedures

The following are items and areas that a local government should consider in developing a budget policy. Budget procedures should be developed and based upon the local government's budget policy. Additionally, the policy should incorporate the requirements of State statutes and the Office of the Comptroller.

A. Key Budget Items

1. Scope – the funds budgeted
2. Budget Period
3. Basis of Budgetary Accounting
4. Cost Allocation – how the direct and indirect costs of a program will be allocated

5. Basis of Control

The basis of control is the organizational unit or department level of expenditures/expenses. This classification corresponds with the governmental unit's organizational structure. A particular organizational unit may be charged with carrying out one or several activities or programs. The appropriation level is the same as the basis of control, the organizational unit. An organizational unit may be budgeted across more than one fund. Utility districts and authorities normally have one department but may have more than one, such as a water system and a gas system.

Organizational Unit Examples:

- a. Examples of an organizational unit are a: Police Department, Fire Department, Office of Building Safety, Street Department, Finance Department, Local Attorney, Council/Commission, and utility departments such as the Water & Sewer Department.

- b. Example of an organizational unit with multiple activities or programs: a Public Works Department that builds and maintains streets, roads, and bridges; collects and disposes solid waste; and maintains and oversees construction of public buildings and grounds.
- c. Example of an organizational unit budgeted across more than one fund: Public Works Department – General Fund, State Street Aid Fund, and Solid Waste Fund.

6. Balanced Budget Definition

A budget is balanced when expenditures for the year do not exceed expenditures and beginning fund balances. Sufficient cash balances should be maintained throughout the year to meet cash flow needs and contingencies. To meet this requirement, a balanced budget should also have:

- a. Sufficient recurring revenue to meet recurring expenditures (expenses) (structurally balanced).
- b. Nonrecurring expenditures met by planned, one-time uses of cash, such as
 - i. Grants or other one-time cash receipts.
 - ii. Cash-on-hand (reserves).
 - iii. Debt proceeds.
- c. Sufficient cash available to fuel the grant reimbursement cycle.
- d. All annual debt service payments are met.

7. Budget Form and Information

- a. Terminology and classification should be the same as used for reporting and accounting. (GASB Codification 1700.118)
- b. The format is typically in a Statement of Revenues, Expenditures/Expenses and Changes in Fund Balance/Net Position Format.
- c. The budget should be designed to clearly indicate recurring and non-recurring revenues and expenditures or expenses.
- d. Budget supporting schedules may be in a form, required by the Governing Body, to communicate specific information not reported in financial statements formats. At a minimum, three years of financial data must be presented: prior year audit amounts, current year estimated amounts, and budget year amounts.

8. Financial Forecasts

- a. Short-term – coming year’s budget
 - i. Cash/revenue
 - 1. Recurring – annual revenues, such as property and sales taxes
 - 2. Non-recurring – one-time sources of revenue, such as insurance recoveries, debt proceeds, and grant monies
 - ii. Spending
 - 1. Operating
 - a. Recurring – annual expenditures or expenses, such as salaries and utilities
 - b. Non-recurring – one-time expenditures
 - 2. Capital – expenditures for plant, property, and equipment
- b. Long-term – future years’ budget

- i. Multi-year Budget – Five-year budget forecasting the impact of future changes in revenue and spending, including the impact of new and current programs and payments on long-term liabilities.
- ii. Capital Improvement Plan – Five-year program of planned spending for the construction/purchase of plant, property, and equipment, including sources of financing and impact on the operating budget from new or improved facilities and equipment—not a wish list.

9. Performance Measurement

10. Transparency and Accountability

- a. Budget meetings
- b. Budget publication
 - i. Legally-required budget notice publication
 - ii. Website and other media
- c. Budget availability
 - i. Website
 - ii. On-site copies

B. Budget Principles

In Tennessee, budget principles are rooted in the requirement that budgets must be balanced and the local government should have sufficient cash to pay its obligations as they become due, including all annual debt service. This includes the idea of sustainability for activities accounted for in general funds, special revenue funds, and enterprise funds. Recurring spending should not exceed recurring receipts.

Key thought: Spend less than the amount of revenue your local government can generate.

1. Spending

- a. Spending cannot exceed what the local government’s economy, or customer base, can realistically support.
- b. Recurring spending should not exceed recurring cash receipts.
- c. Non-recurring spending should be met by debt funding, savings, or one-time cash receipts.
- d. Critically examine past spending patterns.
 - i. Could we afford what we did in the past?
 - ii. Can we afford it in the future?
 - iii. Did past spending accomplish goals?
- e. Prioritize services,
 - i. What is important?
 - ii. What meets our needs?
 - iii. What can we afford?
- f. Maintain existing spending over providing new services.
- g. Critically examine sustainability of current services and any planned new recurring spending, including those related to capital assets.
 - i. Does it meet our needs?
 - ii. Can we afford it now and in the future?

- iii. Can we afford new recurring costs related to current and planned capital assets? For example, an expansion to the fire hall will require new equipment, more utilities, and additional personnel.
 - h. Liabilities
 - i. Pay what you owe:
 - 1. Debt
 - 2. Pensions
 - 3. OPEB
 - ii. These liabilities are recurring spending (or cash) items.
 - 2. Revenues
 - a. Tax rates and fees – cash receipts
 - i. Understand and manage tax rates and their impact.
 - ii. Assign costs to users for services to develop fees sufficient to support the provision of services.
 - b. Use of one-time cash receipts:
 - i. Should not be used for recurring spending.
 - ii. Should be matched to appropriate non-recurring cash receipts or use saved monies for one-time spending and capital projects.
 - c. Use of unpredictable cash receipts:
 - i. Should not be used for recurring spending.
 - d. Forecasting cash receipts for the coming year and future
 - i. Methods and assumptions used in forecasting should be reasonable and the assumption supportable.
 - ii. Forecasts should be realistic and conservative, not leaning toward the high-end to support new or increased spending.
 - iii. Forecasts should be made beyond the fiscal year to determine if future cash receipts are trending up or down.
 - iv. Forecasts are a tool that is not an absolute but the best guess about future performance.
 - 3. Preferences for Budget Balancing
 - a. Productivity – do more with less or the same amount of resources.
 - b. Austerity – cut or eliminate services.
 - c. Revenue – find new revenues or increase current tax rates and fees.
- C. Special Situations
- 1. Vacancy savings – the difference between the full-appropriated amount and the actual cost of authorized employee positions during a budget period.
 - 2. Equipment replacement
 - 3. Year-end budget savings – money remaining from cost efficiencies in spending being less than the appropriated amounts or otherwise achieving the planned activities for less cost than the amount appropriated. Normally, this becomes available for the next year’s spending or is placed into reserves for contingencies.

- D. Budget Process
 - 1. Roles and responsibilities
 - 2. Budget calendar
 - 3. Budget document
 - 4. Budget participation
- E. Post-Adoption
 - 1. Budget controls
 - 2. Budget amendments

Related Policies

- A. Revenue Policies
- B. Expenditure (Expense) Policies
- C. Cash Management Policies
- D. Cash Balance and Rainy Day/Reserve Balance Policies
- E. Fund Balance Policies
- F. Purchasing Policies
- G. Capital Asset Management Policies
- H. Debt Management Policies
- I. Long-Term Financial Planning Policies

Budget Process

- A. Roles and Responsibilities
 - 1. Preparation
 - a. City and County Management including but not limited to the following: Chief Executive Officer (CEO), County or City Mayor, City Manager, Chief Financial Officer (CFO), and Budget Officer/Director
 - i. Prepare and distribute budget guidelines and forms for budget preparation.
 - ii. Prepare revenue forecasts and revenue estimates.
 - iii. Prepare executive budget and property tax levy from departmental budgets and revenue estimates.
 - b. Department Heads
 - i. Prepare departmental budgets in accordance with budget guidelines.
 - ii. Submit departmental budget to the CFO or Budget Officer.
 - 2. Adoption
 - a. Budget (Finance) Committee
 - i. CEO, CFO, or Budget Officer presents Executive Budget and proposed tax levy to the Budget (Finance) Committee.

- ii. Holds meetings to review budget and proposed tax levy and develop Annual Operating and Capital Budget Ordinance or Resolution with property tax levy.
- iii. May require the Department Heads and CFO or Budget Officer to make presentations or provide explanations as part of this process.
- iv. Presents original Annual Operating and Capital Budget Ordinance or Resolution with property tax levy and supporting documents to Governing Body.

(It is recommended that all members of the Governing Body attend these meeting to understand the budget.)

- b. School Board
 - i. Adopts its budget in accordance with State statute requirements and budget guidelines.
 - ii. Submits school budget to CEO/CFO or Budget (Finance) Committee.
- c. Governing Body
 - i. Holds meetings to adopt Annual Operating and Capital Budget Ordinance or Resolution, with property tax levy, as applicable.
 - ii. After making any amendments to the original budget, adopts the final Annual Operating and Capital Budget Ordinance or Resolution with property tax levy, as applicable.
- d. Execution
 - i. The CEO and Department Heads (including the School System) implement the budget adopted by the Governing Body.
 - ii. Department Heads ensure that spending stays within appropriated amounts for their organizational units by monthly monitoring of departmental budgets and not executing the purchase of good or services without following proper purchasing procedures, including letting the CFO first determine if monies are available for the expenditure.
 - iii. The CFO monitors the overall budget, taking appropriate action to ensure departments' budgets stay within the appropriated spending authority.
- e. Evaluation
 - i. CFO
 - 1. Prepares monthly budget-to-actual reports for the Budget (Finance) Committee and Governing Body.
 - 2. Updates the cash flow forecast with actual data from each completed month for the Governing Body.
 - 3. Prepares proposed budget amendments based on actual financial performance and needs.
 - ii. Governing Body, Budget (Finance) Committee, and School Board
 - 1. Monitor the local government's financial health and needs based on reports on budgetary performance and cash flows from the CFO.
 - 2. Appropriately amend budget to keep in balance.
 - 3. New or increased spending should be supported by new revenues or decreases in other appropriations.

4. Evaluate overall budget performance in achieving the Governing Body's goals throughout year on a perioding basis, such as quarterly, and specifically at year end.

B. Budget Calendar

1. As part of the preparation process, a budget calendar should be developed to ensure the budget is adopted prior to the beginning of the fiscal year.
2. The budget calendar and budget guidance should be presented to the Department Heads, Budget (Finance) Committee, and Governing Body. The calendar gives deadlines and expectations for the budget process.

C. Budget Document

The budget document is prepared by the CEO, CFO or Budget Officer, and Budget Finance Committee and contains the following parts:

1. Budget Message from the Mayor/CEO/City Manager/CFO
2. Budget Summary
3. Annual Operating and Capital Budget Ordinance or Resolution with Ad Valorem (Property) Tax Levy, as applicable
4. Separate Property Tax Levy Ordinance or Resolution (if property tax is not part of, or is adopted after, the Operating and Capital Budget Ordinance or Resolution)
5. Detailed Budget (modified accrual and/or accrual basis)
 - a. Explanation of any increases in appropriations from the current year
6. Schedules
 - a. Revenue Forecasts (including a description of methodology and assumptions)
 - i. Property tax
 - ii. Sales tax
 - iii. User fees
 - iv. Other revenues
 - b. Utility Rate Schedules
 - c. Utility Revenue Forecast
 - d. Schedule of Outstanding Debt
 - e. Wage and Salary Schedule
 - f. Capital Budget and Capital Improvement Plan
 - g. Budgets Schedules
 - i. Governmental Funds
 - ii. Enterprise Funds
 - h. Cash Flow Forecasts by Fund
 - i. Schedule of Recurring/Non-Recurring Revenue, Expenditures (Expenses), and Costs [cash-outflows that are balance sheet items or included in per unit cost of

production (i.e., per unit equipment replacement/capital maintenance cost allocated per unit of production)]

- j. Other schedules required by the Governing Body or state statutes
 - i. Consider schedules that demonstrate compliance with specific statutory or other requirements.
 - ii. Consider a schedule of grants and projects that demonstrates the availability of sufficient monies to meet grant matching requirements and to cash flow the grant reimbursement cycle.
 - iii. Consider schedules for activities that are part of the General Fund but that the Governing Body would want to see as separate funds.
 - iv. Consider a multi-year operation budget as an additional schedule.

7. Annual Operating and Capital Budget Resolution or Ordinance

Depending on a local government's charter and policies, the Budget (Finance) Committee may make changes to the Executive Budget presented to them by the CEO, CFO, or Budget Officer prior to it being placed in the Operating and Capital Budget Ordinance or Resolution. The Budget (Finance) Committee may also make changes to the proposed tax levy prior to adoption.

Because the process is often specific to the laws that apply to your local government, procedures should be developed and followed to comply with budget laws that govern your local government's budget process. If your local government does not have laws that address these, contact MTAS, CTAS, TAUD, or our Office for assistance with developing procedures to ensure your government has controls in place for adoption and subsequent amendment.

The Comptroller of the Treasury or a designee may require the Governing Body to amend the original budget or the subsequent amendment budget to reduce spending for maintenance of a balanced budget.

Unexpended and unencumbered appropriations authority authorized by the Annual Operating and Capital Budget lapses at the end of the fiscal year.

8. Property Tax Levy Ordinance or Resolution, as applicable

Property tax is the only revenue the Governing Body has direct control over. All other revenues are authorized by State statute and cannot be changed solely by the action of the Governing Body. A property tax levy must be adopted for each fiscal year to collect property tax in that fiscal year.

In a reappraisal year, local governments should not delay the budget process. The budget is based on estimates and the expectation of our Office is for the certified property tax rate and annual budget to be adopted simultaneously and timely during a reappraisal year. If the certified property tax rate is not available at the time of budget adoption, local officials should follow the guidance in Appendix 8. If there are special circumstances, local officials should reach out to our Office and we will work with the local government and the Comptroller's State Board of Equalization to address the situation.

If the certified tax rate is adopted as the property tax rate, then the amount of property tax revenue generated will be approximately the same as the current year for the upcoming budget year. For information about the reappraisal process, visit the Comptroller's State Board of Equalization website at: tncot.cc/certified-tax-rate. The certified tax rate can be adopted by resolution or ordinance, depending upon state and local laws that apply to your specific local government.

In accordance with TCA § 67-5-1702, a Governing Body electing to adopt a property tax rate exceeding the certified tax rate must:

- a. Advertise its intent to exceed the certified tax rate in a newspaper of general circulation in the county and the information regarding the public hearing at which it intends to adopt an ordinance or resolution authorizing a property tax levy exceeding the certified tax rate.
- b. Within thirty (30) days after the publication, furnish to the State Board of Equalization an affidavit of publication.
- c. After the public hearing, the Governing Body may adopt an ordinance or resolution levying a tax rate more than the certified tax rate.

If the property tax levied is not sufficient to meet the balanced budget requirements for [Tenn. Code Ann. § 9-21-403](#), the Comptroller of the Treasury or a designee may direct the Governing Body to amend its budget to ensure obligations are met for the budget year, including debt service payments.

D. Transparency

Local governments are responsible for the public finances they manage. Part of that responsibility includes transparency to the public served. Local officials are responsible for complying with public transparency requirements. State law and local policy will govern the requirements specific to your government. Requirements will often include:

1. Publication of a notice of the public hearing in the format required by statute.
2. Notification that the budget and all supporting data is available in the Office of the Chief Financial Officer and is open to public inspection.
3. A public hearing is held on the proposed budget before its final adoption by the Governing Body.

These three requirements provide transparency in the process by giving citizens notice of the public hearing on the budget, an opportunity to examine the proposed budget, and an opportunity to participate in the public hearing. A local government may elect to do more than the minimum statutory requirements. Our Office recommends that a local government publish the annual budget and any amendments on its website.

The following are some of the methods of engaging in public participation in the budget process:

1. Websites and dashboards
 - a. Online budget
 - b. Surveys

- c. Interactive tools
- 2. Citizen involvement
 - a. Citizen advisory committees
 - b. Public outreach meeting
 - c. Scheduling Budget (Finance) Committee and Governing Body meetings at times the public can easily attend.
- 3. Budget Education

Appendix 2

Budget Calendar Examples

Counties

Date	Budget Cycle Phase	Responsible Party	Procedure
January	Preparation	Budget Director	Deliver forms for all budget requests to all departments.
By March 1	Preparation	Departments	All departments except the local board of education shall deliver the appropriate estimates and budget request to the Budget Director.
By April 1	Preparation	Budget Committee and Budget Director	The county Budget Committee shall vote upon the proposed budget and the Budget Director shall notify the departments if the committee approves or rejects the proposed budget.
Immediately After Prior	Preparation	Budget Director	If approved, the Budget Director shall immediately forward the proposed budget to the county legislative body for consideration; or
Immediately After Prior	Preparation	Departments	If rejected, the department, commission, institution, board, office, or agency shall submit a revised budget proposal to the Director of Accounts and Budgets within ten (10) business days after receipt of notice that the budget proposal was rejected.
By May 1	Preparation	School Department	The Local Education Agency (LEA) shall submit a proposed budget to the Budget Director, provided that the LEA may amend the proposed budget after May 1.
By June 1	Adoption	Budget Committee and Budget Director	The county Budget Committee shall vote upon the proposed budget and the Budget Director shall notify the LEA if the Budget Committee approves or rejects the LEA budget.
Immediately After Prior	Adoption	Budget Director	If approved, the Budget Director shall immediately forward the proposed budget to the county legislative body for consideration
Immediately After Prior	Adoption	School Department	If rejected, the LEA shall submit a revised budget proposal to the Budget Director within ten (10) business days after receipt of notice that the budget proposal was rejected.
Immediately After Prior	Adoption	County Commission	If the Budget Committee rejects the first or second budget proposals of a department, then the third and subsequent proposals shall be sent directly to the County Commission which shall approve or reject it within ten (10) business days.
On or Before June 30	Adoption	County Commission	Adopt the fiscal year budget.
Within 15 days of Adoption	Oversight	Budget Director	Submit the budget to the Comptroller's Division of Local Government Finance for approval.
After Adoption	Execution	Finance Staff	Implement the budget.
July 1 through June 30	Execution	Finance Staff	The Finance Staff shall monitor the budget and make any recommended amendments to the County Commission prior to overspending an appropriation.
After the Budget Year	Oversight	County Commission	Implement policies and procedures to address audit findings related to the budget process.
After the Budget Year	Oversight	County Commission and/or Utility Board	Implement directives from the Tennessee Board of Utility Regulation.

Municipalities

Date	Budget Cycle Phase	Responsible Party	Procedure
January-February	Preparation	Finance Director	Review prior year audit and current year estimates and prepare estimate forms.
March-April	Preparation	Finance Director	Meet with departments and estimate revenue to compile budget.
By May 15	Preparation	Finance Director	Submit estimated budget to Finance Committee for review/consideration.
Immediately after Prior	Preparation	Mayor	Submit proposed budget to legislative body.
By June 1	Adoption	Legislative Body	Finalizes budget, hold public meeting to adopt the budget on first reading.
Immediately after Prior	Adoption	Finance Director	Publishes budget notice and call a public hearing for at least 10 days after publication.
On or Before June 30	Adoption	Legislative Body	Adopt the fiscal year budget (If a three reading City plan to hold third reading prior to June 30).
Within 15 days of Adoption	Oversight	Finance Director	Submit the budget to the Comptroller's Division of Local Government Finance for approval.
After Adoption	Execution	Finance Staff	Implement the budget and enter into the accounting system.
July 1 through June 30	Execution	Finance Staff	The Finance Staff shall monitor the budget and make any recommended amendments to the County Commission prior to over spending an appropriation.
As Applicable	Oversight	Legislative Body	Implement policies and procedures to address audit findings related to the budget process.
As Applicable	Oversight	Legislative Body	Implement directives from the Tennessee Board of Utility Regulation.

Utility Districts

Amount of Time Before the Start of the Fiscal Year	Budget Cycle Phase	Responsible Party	Procedure
Four Months	Preparation	Finance or General Manager	Review the prior year's audit and current year's estimates and prepare the estimated budget.
Two Months	Preparation	Finance or General Manager	Submit the proposed budget to the legislative body.
One to Two Months	Adoption	Commission	Hold a meeting of the governing body for the Utility District or Authority for consideration of the budget for adoption.
Immediately after Prior Step	Oversight	Finance Staff	Submit the budget to the Comptroller's Division of Local Government Finance for approval.
After Adoption	Execution	Finance Staff	Implement the budget.
Entire Fiscal Year	Execution	Finance Staff	Monitor the budget and make any recommended amendments to the governing body.
As Applicable	Oversight	Commission	Implement policies and procedures to address audit findings related to the budget process.
As Applicable	Oversight	Commission	Implement directives from the Tennessee Board of Utility Regulation.

Appendix 3

County Continuation Budget Guidance

Municipalities and counties in Tennessee are required to adopt their operating budget before the beginning of the fiscal year. If circumstances arise that prevent and the municipality or county cannot from adopting its budget by June 30, then Tennessee law gives authority authorizes certain local governments to operate under continuation authority. This authority applies for to municipalities; and to counties operating under the General Law, County Budgeting Law of 1957, Financial Management Act of 1981, and or Financial Management Act of 1993 to operate on a continuation budget. All other counties should consult their charters.

Counties budgeting pursuant to the General Law, County Budgeting Law of 1957, and Financial Management Act of 1981 may continue operations with the appropriations of the prior fiscal year. If the county legislative body (the “CLB”) has not adopted an appropriation resolution or budget ordinance for theirs current fiscal year by June 30, the local government may continue operations under the appropriation authority of the prior fiscal year.¹ No action is required by the CLB is required to underadopt a this continuation budget authority, provided if the current year budget is adopted on or before prior to August 31.

While operating under the continuation budget authority, A department of a municipality or an agency of a county, or other entity that receives municipal or county monies, can may not expend spend no more than the amount spent during the corresponding in the same month of the prior fiscal year, while operating under a continuation budget. While operating under a continuation budget, a municipality or a county can may amend its prior-year’s budget during the continuation period, especially to provide for the payment of debt service.

A final operating budget for each fiscal year must be adopted no later than August 31. Under extraordinary circumstances, a municipality or a county may request approval from the Comptroller’s Division of Local Government Finance (LGF) to extend its adopt a continuation budget approval resolution that extends its prior fiscal year appropriation authority through September 30.

Continuation Budget Extension

There are extraordinary circumstances that may justify an approval from LGF to extend the county’s continuation budget authority until September 30. The following circumstances would **not** meet requirements for approval of a continuation budget extension:

- Inability to reach an agreement on the budget
- School Board has not provided the final budget
- Property reassessment year
- Election year
- Financial statements not audited

If a municipality or a county wants to request an approval for an extension of theirs continuation authority, it should submit a request letter from the County Executive/Mayor, or Mayor of the municipality must submit a request letter; on or before August 15, which includes:

- A statement that the county’s current year budget is balanced and can remain balanced during

the continuation period;

- An explanation of the extraordinary circumstances that necessitated the request for an extension of their continuance authority; and
- A statement indicating wWhether these circumstances have occurred previously-before, and, if so, how often.

Additional information may be requested. LGF will respond within 7 business days of the request. If approved, the governing body must then take formal action by resolution to extend the continuation budget to the third month of the fiscal year.

~~The county should set and properly advertise a meeting at which either a continuation budget extension resolution can be adopted or the appropriation resolution for its current fiscal year can be adopted. If the local government receives approval to the extension of a its continuation authority, budget is approved, the CLB must adopt the county's budget appropriation resolution or ordinance and tax levy resolution by September 30. A county local government does will not have authority to spend money expend funds after September 30 without an adopted budget for the current fiscal year.~~

Local officials should also be aware that aAdopting a budget and tax levy in September may delay the collection of taxes until after the property taxes beyond the due and payable date of the first Monday in October.

Final Operating Budget Requirements

The county local government should consider the following when adopting its budget:

- The appropriation and tax levy resolutions or ordinances adopted by the CLB adopts, along with and all supporting -budget documentation, for the budget must be submitted to LGF for approval. State law requires a complete and proper budget be submitted immediately upon adoption.
- State law requires a county school system to submit a complete and certified copy of its entire budget to the Tennessee Department of Education (TDE) within 30 days after the beginning of the fiscal year.
- The CLB needs to adopt a budget in a timely manner to allow so that its school system may be able to report a complete and certified school budget to TDE by the October 1 final reporting deadline -of October 1 in order to and maintain its eligibility to receive state education school funding.
- Property taxes are due and payable on the first Monday in October.
- If the CLB adopts an unbalanced budget or a budget that does not one with insufficient monies appropriated sufficient funds for the payment of debt service, the Comptroller may has authority to direct local officials to that the amend the appropriation resolution or ordinance be amended to reduce expenditures, or that the tax levy resolution be amended to increase the property tax levy.
- If the CLB does not adopt a budget in a timely manner, a county the local government will lose its will not have any spending authority after the continuation budget deadline of August 31 or, if an extension has been approved, after the continuation budget authority extension deadline of September 30.

¹ T.C.A. § 6-56-1XX Municipal Budget Law, T.C.A. § 5-9-404 General Law Budgeting, T.C.A. § 5-12-109(A) County Budgeting Law of 1957, and T.C.A. § 5-21-111 Financial Management Act of 1981.

Please contact our Office at 615.401.7829 or LGF@cot.tn.gov if you need ~~further~~additional guidance. If you need assistance with any of these processes related to the adoption of the budget, we encourage ~~We ask that you~~ to contact your CTAS or MTAS financial consultant. ~~if you need assistance with any of these processes related to the Commission's adoption of an appropriation resolution and tax levy resolution.~~

Appendix 4

**Resolution to Transfer Funds to the
School Federal Projects Fund**

Resolution No. _____

RESOLUTION OF THE GOVERNING BODY OF

_____ TENNESSEE,

AUTHORIZING THE TRANSFER OF \$ _____

FROM

THE GENERAL PURPOSE SCHOOL FUND

TO

THE SCHOOL FEDERAL PROJECTS FUND

WHEREAS grants in the Federal Projects Fund are on a reimbursement basis and funds are requested from the State of Tennessee by [*Name of School System*] for expenditures on a monthly basis; and,

WHEREAS the School Federal Projects Fund operates with a cash deficit at various times throughout the fiscal year due to a slow turn-around time for reimbursements from the State of Tennessee; and,

WHEREAS a cash deficit in any fund is considered to be a significant deficiency in internal control; and,

WHEREAS [*Name of School System*] does not desire to operate any fund with a cash deficit.

NOW, THEREFORE, BE IT RESOLVED by the Board of Education of [*Name of School System*], a local education agency in Tennessee, meeting in called session on this _____ day of _____ 202_ and by the [*Name of Governing Body of the Name of City or County*], a [*Municipality/ County*] in Tennessee, meeting in called session on this _____ day of _____ 202__, that:

Section 1. The General Purpose School Fund shall transfer \$ _____ to the School Federal Projects Fund on _____ 30, 202__.

Section 2. The \$ _____ transfer shall remain in the School Federal Projects Fund as a committed fund balance from the General Purpose School Fund and may be repaid at any time as noted in a resolution passed by the Board of Education and [*Name of Governing Body of the Name of City or County*].

Section 3. This resolution will take effect upon passage. The Secretary of the Board of Education shall include this Resolution in the minutes of the [*Name of School System*]. The [*Name of City or County*] shall include this Resolution in the minutes of the [*Name of City or County*].

Adopted this _____ day of _____ 202____.

APPROVED:

APPROVED:

Chairman, Board of Education

Mayor/County Executive [Identify Type of
Governing Body]

ATTEST:

ATTEST:

Secretary, Board of Education

[Identify Title of Local Official]

NOTE: For municipalities, this legislative action should be done by ordinance.

Appendix 5

County Budget Amendments

	General Law T.C.A. § 5-9-407	1981 Financial Management System T.C.A. § 5-21-111 thru 113	1993 Local Option Budgeting Law T.C.A. § 5-12-212-213	1957 Fiscal Act	Private Act or Home Rule	Metropolitan Charter
Statutory-Required Expenditures	May not be amended to reduce any expenditure required by law. T.C.A. § 5-9-407(a)	The county legislative body may alter or revise the proposed budget; however, it may not reduce budgeted amounts for the repayment of debt principal and interest requirements or for other expenditures required by law. T.C.A. § 5-21-111(e)(1)		Follow provisions of General Law.	Refer to enabling legislation to determine requirements specific to your government. If your county's Private Act or Home Rule charter does not provide budget amendment authority, you will need to determine if the county is authorized to make amendments under the General Budgeting Law.	General laws for metro governments do not specifically address budget amendments. You should ensure that you have legal authority to amend the legal budget document.
Highway Departments		T.C.A. § 5-21-110(c)(2) includes Highway Funds in the budget.	Must first be approved by the chief administrative officer of the county highway department.			
Schools	Must be approved by the school board. T.C.A. § 5-9-407(a)	The classification of expenditures and receipts of all county school funds for any purpose, administered by the county board of education and county director of schools, shall conform to the classification of accounts as prescribed by the Commissioner of Education. T.C.A. § 5-21-110(d)(4).	Must first be approved by the school board.	Follow provisions of General Law.		
Definition of Major Budget Category	Defined as major categories or summary accounts in latest COT chart of accounts.	TCA 5-21-110(d)(3) as set by the state uniform accounting system.	Not defined in this local option law, follow provisions of General Law.	Follow provisions of General Law		
Major Budget Category Legal Action	Passage of an amendment by majority of county legislative body.	Submitted to the budget committee for its recommendation to the county legislative body.	Specific requirements apply. The county should develop policies to ensure statute is followed.	Follow provisions of General Law.		

	"General Law T.C.A. § 5-9-407"	1981 Financial Management System T.C.A. § 5-21-111 thru 113	"1993 Local Option Budgeting Law T.C.A. § 5-12-212-213"	1957 Fiscal Act	Private Act or Home Rule	Metropolitan Charter
Major Budget Category: Request by an Official or Department Head	Must be in writing to county and each member of legislative body.	A department head is entitled to a hearing before the legislative body in order to justify any proposed additional requests or budget estimates. T.C.A. § 5-21-111(f)	Must be in writing to county and each member of legislative body.	Follow provisions of General Law.	Refer to enabling legislation to determine requirements specific to your government. If your county's Private Act or Home Rule charter does not provide budget amendment authority, you will need to determine if the county is authorized to make amendments under the General Budgeting Law.	General laws for metro governments do not specifically address budget amendments. You should ensure that you have legal authority to amend the legal budget document.
Major Budget Category: Form/Content of Amendment	T.C.A. § 5-9-407(b)	T.C.A. § 5-21-113(e) - above the line item category must be sent to the commission for approval.	T.C.A. § 5-12-213(a)(3)	Follow provisions of General Law		
Line Item Within a Major Category	Cannot be previously disapproved by legislative body. Specific requirements apply. The county should develop policies to ensure statute is followed.	The budget committee, with the consent of any official, head of any department or division that may be affected, may make transfers and adjustments within the smallest budgetary itemization of any subdivision.	Specific requirements apply. The county should develop policies to ensure statute is followed.	Follow provisions of General Law T.C.A. § 5-12-110		
Amendments as a Result of Local, State, or Federal Revenues Received in Excess of Estimates Used to Adopt the Budget		Submitted to the budget committee for its recommendation to the county legislative body.	Approved by majority vote of legislative body. The requesting department must give written notice to the county mayor at least 7 days prior to consideration by legislative body. T.C.A. §5-12-212 T.C.A. § 5-12-215			
Impoundment to Prevent a Deficit		T.C.A. § 5-21-112(c)(1)				
Court Orders		The county legislative body shall adopt any budget amendment necessary to implement such court order. T.C.A. § 5-21-110(d)(5)	Amendments shall be made to comply with court orders. T.C.A. § 2-12-213(c)			

Appendix 6

Municipality Budget Amendments Frequently Asked Questions

1. When and how do municipalities amend their budgets?

Municipalities must amend their budgets prior to increasing spending for any appropriation.

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

2. Can a municipality amend its budget after the end of the fiscal year?

Monies must be appropriated prior to being spent. Budget amendments must be adopted to authorize increases in spending. No provision is made to permit the authority to spend after the fact.

Tennessee Opinion of the Attorney General No. 99-075

3. At what classification level are budget amendments made?

Municipal appropriations are made at the department, office, board, and agency level or organizational unit level unless the requirements of your municipal form of government exceed the requirements of the Municipal Budget Law of 1982.

Municipal Budget Law of 1982 (Tenn. Code Ann. §§ 6-56-202 & 6-56-203(1))

4. Do amendments need to show the source of funds (revenues, fund balance, reductions in other appropriations, or transfers) supporting any new spending?

Yes.

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

5. Can the expenditure amounts in the detailed budget or budgetary control accounts be less than the amount appropriated?

Yes, the appropriated amount is the maximum amount that may be spent for that appropriation. The amount appropriated cannot exceed available cash as estimated in the original budget ordinance and spending for appropriations cannot exceed monies available at the time of expenditure. A municipality may use control accounts which are less than the amount appropriated. A municipality cannot plan to spend more than appropriated.

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

6. How are transfers made between funds?

Transfers between funds are made by appropriating through the original budget ordinance or by a budget amendment from the sending fund to the receiving fund. Transfers are reported as other financing uses for the fund transfers are made from and as other financing sources for the receiving fund. **A transfer is not a loan between funds.** A transfer must be appropriated and included in the original budget ordinance or in a budget amendment before it can be executed.

Tenn. Code Ann. §§ 6-22-122, 6-35-308 and 6-56-203(1)

7. How are budgetary transfers made between appropriations in the same fund?

a. Municipalities Generally

Budgetary transfers between departments, offices, boards, and agencies are made by a budget amendment adopted by the governing body unless the governing body has delegated authority in the original budget ordinance for the budget officer to make transfers. When the authority is delegated by the governing body, it must set a maximum amount the budget officer may transfer. If authority has been delegated to the budget officer, the budget officer must report to the governing body the amount of any transfers between appropriations in the same fund at the next regular meeting. The report on the transfer must be entered in the minutes of that meeting. Any transfer above the amount delegated to the budget officer must be by a budget amendment adopted by the governing body.

Municipal Budget Law of 1982 (Tenn. Code Ann. § 6-56-209)

b. Municipalities with a General Law City Manager – Commission Charter

Budgetary transfers between departments, offices, boards, and agencies within the same fund are by budget amendment.

Tenn. Code Ann. § 6-22-124(c)

c. Municipalities with a General Law Modified City Manager – Council Charter

The city manager can make budgetary transfers between departments, agencies, or activities within each fund.

Tenn. Code Ann. § 6-35-310

8. Do budget amendments have to be balanced?

Budgets must remain balanced. Therefore, increases in appropriations must be accompanied by an increase in revenues, a transfer of money from another fund, a decrease in cash, a use of fund balance (or net position), or a decrease in the appropriations of another organizational unit(s) of the same fund.

Appendix 7

The Budget Cycle



Appendix 8

Adopting the Budget During a Reappraisal Year

At specified intervals, counties in Tennessee must revalue land and buildings for property tax purposes. This is referred to as a reappraisal year. In a reappraisal year, the Tennessee State Board of Equalization (SBOE) gives each taxing jurisdiction a Certified Tax Rate (CTR) as prescribed by Tenn. Code Ann. Title 67, Chapter 5, Part 17. The CTR is designed to ensure to the taxpayers that there is no tax increase hidden in the reappraisal, accordingly, the CTR will generate property tax revenue consistent with the prior year. Newly taxable real and personal property are backed out of CTR calculation but will generate additional property tax revenue. This document examines the impact of the CTR on the annual budget adoption process.

Budgets for counties and municipalities should be adopted on or before June 30 of each year. When the CTR will not be available at the time of budget adoption, local officials should proceed to adopt the budget in a timely manner and then follow the steps provided by the State Board of Equalization for adoption of the tax rate when the CTR is available.

DEFINED TERMS

County Assessor—an elected official whose role is to accurately identify, list, appraise, and classify all taxable properties in preparation of the annual assessment roll. The county assessor plays an important role in calculating the certified tax rate.

Certified Tax Rate (CTR)—the rate, as calculated by the county assessor and chief executive of the tax jurisdiction and reviewed by the Tennessee State Board of Equalization, that represents the tax rate needed to collect property tax revenues consistent with the prior year after a reappraisal of property values. The certified tax rate can only be exceeded after the notification of and the holding of a public hearing.

Certified Tax Rate (CTR) Law—requires local governments to conduct public hearings before adopting a property tax rate that generates more taxes overall in a reappraisal year than were billed the year before at the previous year's lower values. The CTR law is codified in Tenn. Code Ann. § 67-5-1701 and sometimes referred to as the truth-in-taxation law. The law requires counties and cities to determine a tax neutral rate using the new reappraisal values after adjusting for either new properties or properties removed from the tax base since the prior year. Truth-in-taxation is intended to make sure higher reappraisal values do not automatically result in a tax increase.

Once a certified rate is calculated by the assessor and chief executive of the tax jurisdiction, and reviewed by the State Board of Equalization, it is submitted to the jurisdiction's governing body for formal determination, usually for consideration with the budget. If the budget requires an increase above the certified rate, the governing body must publish notice of a public hearing on whether to exceed the certified rate and then may proceed to adopt an actual tax rate after the hearing. If the certified tax rate is exceeded, the jurisdiction must send the State Board of Equalization an affidavit of publication for the hearing notice, and a certified copy of the final tax rate ordinance or resolution. State Board of Equalization's website: <https://comptroller.tn.gov/boards/state-board-of-equalization.html>.

HOW TO ADOPT A TIMELY BUDGET WHEN THE CTR IS NOT YET AVAILABLE

Adopting the Certified Tax Rate (CTR)

Local officials adopt the CTR when they need a property tax rate that will generate revenue consistent with the prior year. Once a CTR is calculated and reviewed by the assessor and chief executive of the tax jurisdiction, and reviewed by the State Board of Equalization, it is submitted to the jurisdiction's governing body for formal determination, usually for consideration with the budget. Newly taxable real and personal property are backed out of CTR calculation but generate additional property tax revenue.

Budget Impact:

- The property tax revenue estimate will be the sum of: (1) last year's property tax revenue estimate *and* (2) estimated property tax revenue generated from new growth in the area (the county assessor will have the growth value). Contact MTAS or CTAS for assistance.
- Include the dollar amount of the estimated property tax revenue in the budget and proceed with the remainder of the budget preparation process.
- It is important not to include an estimated rate in the legal budget document or to separately adopt an estimated property tax rate. Instead, local officials should adopt the property tax rate after obtaining the CTR from the State Board of Equalization (SBOE).
- We recommend that the legal budget document include language stating that the governing body plans to adopt the CTR when it is available and a brief description of how the property tax revenue estimate was determined.
- Once the CTR is available, officials should follow the steps outlined by the SBOE and submit the tax levy adoption resolution or ordinance to the Division of Local Government Finance.

Exceeding the Certified Tax Rate (CTR)

Local officials adopt a rate that is higher than the CTR when they need a property tax rate that will generate more revenue than the prior year. Once a CTR is calculated and reviewed by the assessor and chief executive of the tax jurisdiction, and reviewed by the State Board of Equalization, it is submitted to the jurisdiction's governing body for formal determination, usually for consideration with the budget. Newly taxable real and personal property are backed out of CTR calculation but generate additional property tax revenue. State law requires a public hearing with specific public notice of intent to exceed the CTR before a rate higher than the CTR is adopted by the governing body.

Budget Impact:

- The property tax revenue estimate will be the sum of: (1) last year's revenue *and* (2) the planned increase (penny rate times the number of pennies increased) *and* (3) estimated property tax revenue generated from new growth in the area (the county assessor will have the growth value). Contact MTAS or CTAS for assistance.
- Include the dollar amount of the estimated property tax revenue in the budget and proceed with the remainder of the budget preparation process.
- It is important **not** to include an estimated **rate** in the legal budget document or to separately adopt an estimated property tax rate. Instead, local officials should adopt the property tax rate **after** obtaining the CTR from the State Board of Equalization (SBOE).
- We recommend language in the legal budget document stating that the governing body plans to adopt a rate that exceeds the CTR when it is available and a brief description of how the property tax revenue estimate was determined.

- Once the CTR is available, a public hearing must be held to notify the public of the governing body's intention to exceed the CTR.
- After the public hearing, follow the steps outlined by the SBOE and submit the tax levy adoption resolution or ordinance to both the SBOE *and* the Division of Local Government Finance.

What if the governing body fails to adopt a rate that exceeds the CTR?

After the public hearing, the governing body may ultimately decide to vote against a property tax rate that exceeds the CTR.

Budget Impact:

- The initial property tax revenue estimate will need to be decreased by budget amendment to the sum of: (1) last year's property tax revenue estimate *and* (2) estimated property tax revenue generated from new growth in the area (the county assessor will have the growth value). Contact MTAS or CTAS for assistance.
- If the tax increase that failed would have funded new spending, then expenditures must also be reduced by budget amendment, or fund balance used to balance the budget. Use of fund balance is appropriate when there are adequate reserves, and the proposed use complies with the local government's fund balance policy. See the Comptroller's publication "Seven Keys to a Fiscally Well-Managed Budget" ([7-Keys](#)).
- Once the CTR is available, follow the steps outlined by the State Board of Equalization (SBOE) and submit the tax levy resolution or ordinance to both the SBOE *and* the Division of Local Government Finance..

Municipalities Located in More Than One County

A municipality located in more than one county may have counties with different reappraisal cycles. When this happens, local officials will need to apply the steps above for the impacted tax rate.

Conclusion

Timely budget adoption is key to good financial management, and this publication is meant to facilitate timely budget adoption in reappraisal years when the CTR is delayed beyond June 30. The budget should be adopted before the start of the fiscal year and submitted to the Comptroller's Division of Local Government Finance within 15 calendar days of adoption. In a reappraisal year, the property tax **rate** should be adopted as soon as possible **after** receiving the CTR from the State Board of Equalization. This may result in local governments submitting the tax rate adoption separately from and later than the initial budget submission. Please note that this will not adversely impact local governments that pursue the Comptroller's Annual Budget Certificate.

Appendix 9

Resolution No. _____

A Resolution of

_____, Tennessee
(Name of Municipality)

Amending the Fiscal Year 20__ Budget

WHEREAS the governing body adopted the fiscal year 20__ budget by ordinance number _____ on _____, __, 20__ and submitted the budget to the Tennessee Comptroller of the Treasury, Division of Local Government Finance, for review.

WHEREAS the Tennessee Comptroller's Division of Local Government Finance has required an amendment to the budget pursuant to Tenn. Code Ann. § 9-21-403.

WHEREAS pursuant to Tenn. Code Ann. § 9-21-108, at the direction of the Tennessee Comptroller of the Treasury, or the Comptroller's designee, any budget amendment required pursuant to Tenn. Code Ann. § 9-21-403 may be made by resolution of the governing body.

WHEREAS pursuant to the Tennessee Budget Manual for Local Governments, to be eligible for approval, the budget must be amended by resolution and returned to the Tennessee Comptroller's Division of Local Government Finance within 45 calendar days of the date of the letter requiring the amendment. Should the budget not be approved, the municipality will not be able to issue debt beyond an emergency financing preapproved by the Comptroller's Division of Local Government Finance.

WHEREAS adoption of a budget amendment by resolution is permitted by state law to meet a condition for approval of the annual budget by the Tennessee Comptroller of the Treasury, or the Comptroller's designee, and all other budget amendments shall be made consistent with the public and/or private act(s) that govern the budget adoption and amendment process of the municipality.

NOW, THEREFORE, be it resolved by the governing body that it hereby adopts the following changes to the fiscal year _____ budget:

(insert amendatory language)

Duly passed and adopted by the governing body this _____ day of _____, 20____.

Signed _____

Printed Name _____

Mayor

Attested

Signed _____

Printed Name _____

City Recorder



JASON E. MUMPOWER
Comptroller

Date: June 22, 2026
To: Members of the State Funding Board
From: Mr. Steve Osborne, Assistant Director, Division of Local Government Finance
CC: Ms. Sheila Reed, Director, Division of Local Government Finance
Subject: Update to the *Tennessee Debt Manual for Local Governments*

The Comptroller's Division of Local Government Finance (LGF) presents the following changes, effective July 1, 2026, to the *Tennessee Debt Manual for Local Governments* for approval by the Tennessee State Funding Board:

Page(s)	Description
27-29	Updates the security that can be pledged on the repayment of principal on a grant anticipation note (GAN). This is a change resulting from legislation that passed during the 114 th General Assembly (2026).
40	Adds guidance for utility systems to seek Comptroller approval of interfund loans as authorized in recent legislation.
41-46	Updates the refunding plan submission section to introduce a new submission method and adds clarity to refundings for variable rate debt and refundings with low savings.
47-48	Clarifies the items required for the Comptroller's review of the issuer's financial position and forecasts in connection with a request for a report on a plan of financing. The revision also requires disclosure of whether the proposed debt issuance is part of a larger financing plan for the same project.
61	Updates the chart of financial health metrics to modify the cash to liability ratio metric to bring more inline with industry standards.
Various	Replaces, removes, and corrects different wording throughout the manual as part of our normal editing process.



TENNESSEE DEBT MANUAL FOR LOCAL GOVERNMENTS



Approved by the State Funding Board

June 2025

June 2026

Jason E. Mumpower
Comptroller of the Treasury



**DIVISION OF
LOCAL GOVERNMENT FINANCE**

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The purpose of this Tennessee Debt Manual for Local Governments (this “Manual”) is to provide general information to local government issuers in Tennessee relating to the issuance of debt. This manual also provides for specific forms and procedures, as is authorized by Tenn. Code Ann. § 4-3-305, that should be complied with by local governmental entities to which those forms and procedures are applicable.

Specifically, this Manual contains the following:

- Sections 2–5 provide general information relating to the issuance of local government debt in Tennessee.
- Section 6 provides uniform procedures for the issuance of notes by Tennessee’s counties, metropolitan governments, municipalities, and other local governments authorized to issue notes pursuant to Title 9, Chapter 21, of Tennessee Code Annotated.
- Section 7 provides refunding and state law reissuance guidance as well as brief descriptions of other reporting and approval requirements related to local government debt issuance.
- Section 8 provides a brief overview of federal oversight of local government debt.
- Section 9 provides local governments with an introduction to other resources related to best practices for the issuance of debt.

This Manual, as approved by the State Funding Board on June 22, 2025, is the ~~third~~fourth edition issued pursuant to Tenn. Code Ann. § 4-3-305 and is effective July 1, 2025.

This Manual provides general information and is not intended to offer specific financial or legal advice for local government issuers. Questions regarding matters discussed in this Manual or the application of this Manual to particular situations, should be addressed to the Division of Local Government Finance in the Comptroller’s Office and/or the issuer’s legal and financial advisors.

Section 2 – Types of Debt

In general, debt refers to borrowing money and repaying it with interest over a period of time. In Tennessee, the debt of local government entities can be issued for a very short term, such as a few months, but certain types of debt of local government entities can have a term of up to 40 years.

Local government entities typically issue long-term debt to finance capital projects, such as schools, courthouses, safety facilities, and other public assets, that will last for many years and may be too expensive to pay for at the time of construction with current funds. By repaying the debt over a longer period of time, the cost of the project is spread over its life. Local government entities often issue short-term debt to finance equipment that has a shorter life when the cost of the equipment needs to be spread over multiple fiscal years.

If authorized at all, local governments are generally allowed to borrow for the payment of operating expenses on a short-term basis, in anticipation of current year revenues and must be repaid, in most cases, within the fiscal year the funds are borrowed. Only in rare circumstances can local governments borrow funds to finance or refinance the payment of operating expenses on a long-term basis.

Like comparable provisions in many other states, Article II, Section 29 of the Tennessee Constitution prohibits cities and counties from lending their credit for the benefit of private enterprises unless an election is first held and three-fourths of the votes cast in the election are in favor of the proposal. Tennessee courts have generally interpreted this provision so that it only applies when a debt is actually incurred and only when a city or county secures the debt with its taxing power, and not with other available revenues.

In some states, a local government entity may obtain a court ruling to validate the issuance of a debt obligation. Validation proceedings are rare in Tennessee, and almost all local government debt is issued in Tennessee without validation. If a debt obligation is not legally issued by certain local government entities, the Comptroller's Office is permitted to work with the local government entity to bring the obligation into conformity with applicable laws. Sometimes compliance is accomplished through a corrective action plan, but in some cases, it is necessary for the nonconforming obligation to be retired early. See Tenn. Code Ann. § 9-21-406.

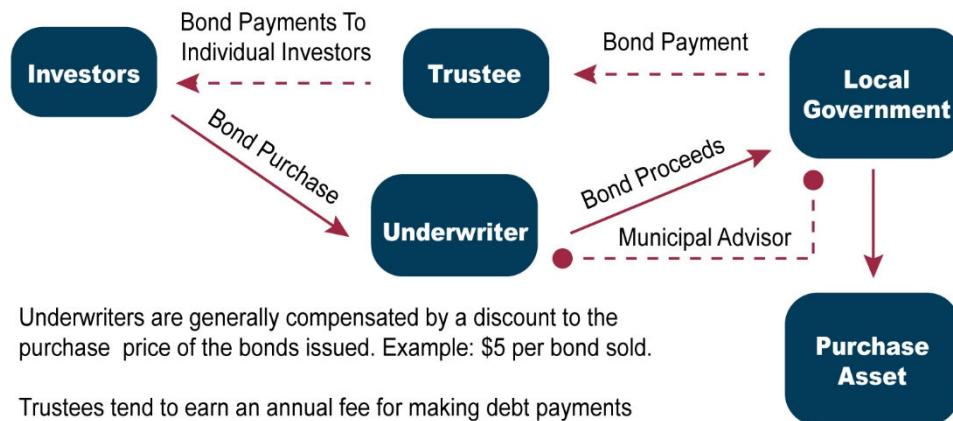
The most common types of debt instruments in Tennessee are the following:

a. Bonds

Bonds are typically long-term debt instruments, although many Tennessee statutes do not provide a clear distinction between the term of bonds and the term of other debt obligations. Like other debt obligations, a bond is the issuer’s promise to repay a set amount of money, plus periodic interest, on a specific date. When bonds are issued by cities, counties, metropolitan governments, and other local government entities that have strong credit, those bonds are often sold to the public. Typical features of municipal bonds sold to the public are as follows:

- Such bonds typically have serial maturity dates with a maturity in each year and a different interest rate for each maturity.
- Such bonds are typically sold in \$5,000 denominations so that they can be sold to many investors.
- Interest on such bonds is typically paid semi-annually.
- Such bonds often cannot be prepaid for a period of time (typically 10 years).

Flow of Funds in a Bond Transaction*



Underwriters are generally compensated by a discount to the purchase price of the bonds issued. Example: \$5 per bond sold.

Trustees tend to earn an annual fee for making debt payments to registered bond owners.

Municipal Advisors are hired by local governments to assist in the bond issuance process and are compensated per transaction.

*Please note that not all bond transactions in Tennessee involve a trustee or an underwriter.

b. Notes

Notes are typically short-term debt instruments. As with a bond, the issuer of a note promises to repay the amount of principal borrowed, plus interest, on a certain date.

Notes issued by local government issuers in Tennessee may take many forms. Types of notes issued by counties, cities, and metropolitan governments include the following:

- Bond anticipation notes, which are notes typically used to fund the construction phase of a capital project until long-term bonds are issued. Bond anticipation notes are sometimes issued in a commercial paper format.
- Grant anticipation notes, which are issued to fund initial capital spending that is later reimbursed through a grant.
- Tax and revenue anticipation notes, which are issued to provide operating funds until other taxes or other revenues are collected. Such notes generally must be repaid by the fiscal year end.
- Capital outlay notes, which are typically issued to finance the purchase of capital assets that have a shorter economic life, such as vehicles or equipment. Capital outlay notes may remain outstanding for up to 12 years, but no longer than the estimated useful life of the capital asset being financed.

Notes, as listed above, may be issued as internal loans pursuant to Tenn. Code Ann. § 9-21-408. The Division of Local Government Finance must approve the internal loans listed above (the process is described below). Electric department interdivisional loans authorized under Tenn. Code Ann. § 7-52-603, do not require Comptroller approval. [Utility systems may issue interfund loans with Comptroller approval, see Section 6 for further details.](#)

c. Financing Leases

After recent accounting rule changes, most leases will be shown as a liability and an asset on a local government entity's balance sheet. The distinction between financing leases and operating leases (or true leases) has largely been eliminated for accounting purposes.

However, the notion of a financing lease, as opposed to an operating lease, is still a relevant concept under federal tax law. Under federal tax law, a financing lease typically provides for periodic rent payments that are effectively principal and interest payments, with the interest component specifically identified, and further provides for a bargain purchase option by the lessee at the end of the lease. Financing leases are often marketed to local governments in connection with the sale of equipment, such as energy savings equipment.

Certain types of local government entities in Tennessee are authorized to enter into financing leases. A local government entity should confirm with its legal counsel whether it has the legal authority to enter into a financing lease.

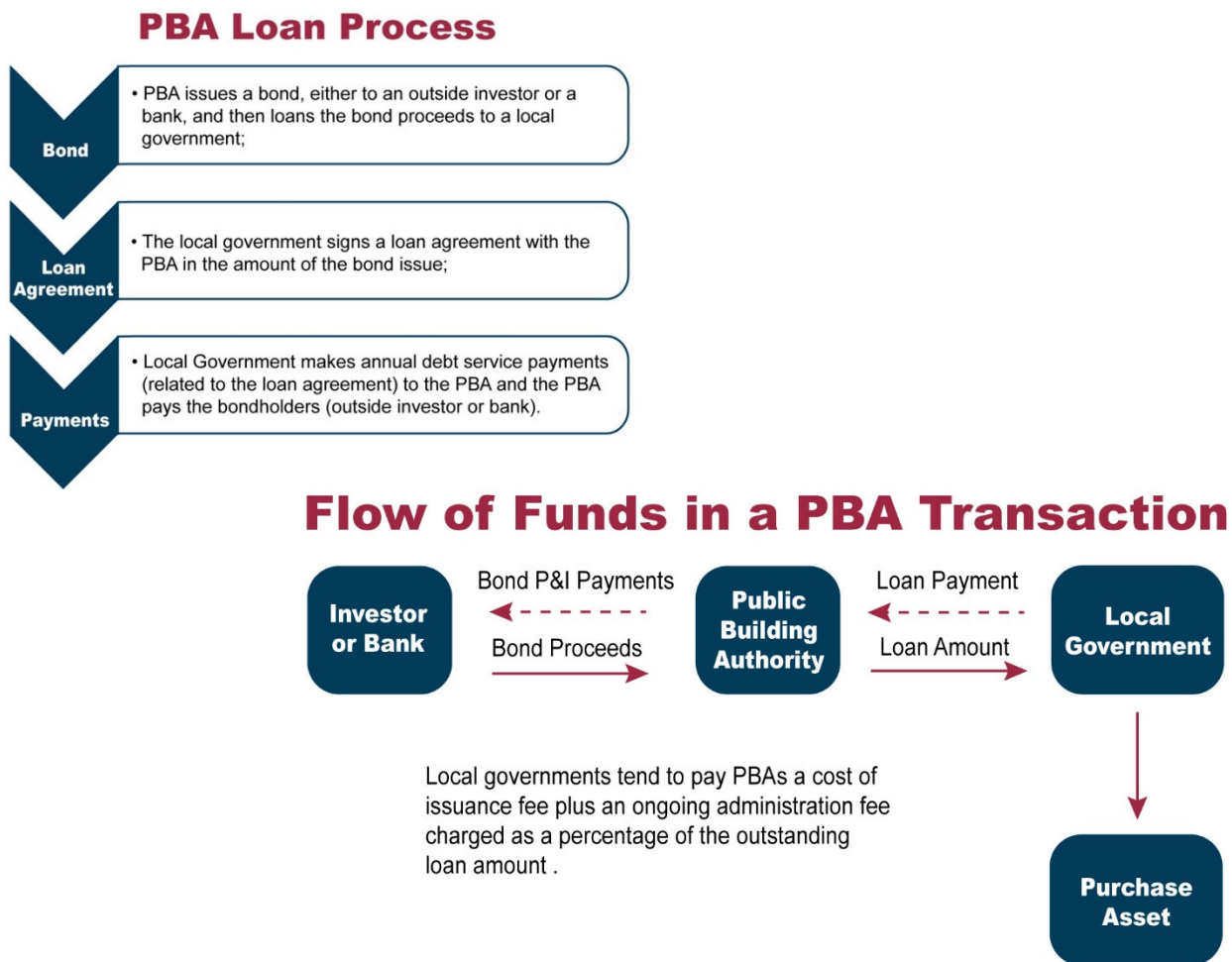
In addition, any financing leases entered into by certain local government entities that are not classified as exempt under the "Uniformity in Local Government Lease Financing Act of 2021," must be reviewed and approved by the Comptroller's Office prior to approval by the local governing body. See Section 6 for further details.

d. Loan Agreements

In Tennessee, certain local government entities are authorized to borrow funds pursuant to a loan agreement, in which case the issuance of a bond or note may not be required. As its name suggests, a loan agreement is an agreement under which an entity agrees to borrow funds from a lender.

In Tennessee, certain types of local government entities can borrow funds through a loan agreement with another type of local government entity known as a public building authority (also known as a PBA). PBAs were first authorized in state law in 1971 and were intended to help governments construct, operate, and maintain public buildings. PBAs are public corporations that are legally separate from the government or governments that create the PBA (a county or city (or both) is authorized to create a PBA).

PBAs issue debt to finance capital projects and typically loan the debt proceeds to another local government entity, such as a city or county. Although PBAs issue revenue debt, the loan agreement with a county or city may be a general obligation of the county or city. As a result, PBA debt often has the same credit quality as general obligation bonds issued by the local government borrower from the PBA.



Section 3 – Types of Issuers

Tennessee law authorizes many types of local government entities to issue debt. A list of most local government entities that have the authority to issue debt in Tennessee follows:

Types of Issuers	Creation Authority	Statutory Authority to Issue Debt	Taxing Power	Types of Debt Issued
City	Title 6/Private Act	Title 9, Chapter 21; Title 7, Chapter 34; Title 12, Chapter 10	Yes	GO and Revenue
County	Title 5	Title 9, Chapter 21; Title 7, Chapter 34; Title 12, Chapter 11; Title 49, Chapter 3, Part 10	Yes	GO and Revenue
Metropolitan Government	Title 7	Title 9, Chapter 21; Title 7, Chapter 34; Title 12, Chapter 11; Title 49, Chapter 3, Part 11	Yes	GO and Revenue
Utility District	Title 7, Chapter 82, Part 2; Private Act, Public Act	Title 7, Chapter 82, Part 5	No	Revenue
Emergency Communication District	Title 7, Chapter 86, Part 1	7-86-114	No	Revenue
Health, Education and Housing Facility Corporation (HEHFB)	Title 48, Chapter 101, Part 3	48-101-308(10)	No (TIF)	Revenue
Housing Authority	Title 13, Chapter 20	Title 13, Chapter 20, Part 6 & 7	Depends on Act	Revenue
Special School District	Private Acts	Private Acts	No	Depends on Act
Industrial Development Board	Title 7, Chapter 53, Part 2	Title 7, Chapter 53, Part 3	No	Revenue
Public Building Authority	Title 12, Chapter 10	Title 12, Chapter 10	No (Yes through city/county)	Revenue
Hospital	Various; Private Act; Title 7, Chapter 57	7-57-304(1) through 9-21; or if issued by City/County 9-21	No	Revenue (GO with city/county)
Municipal Energy Authority	Title 7, Chapter 36	Title 7, Chapter 36	No	Revenue
Water and Wastewater Treatment Authority	Title 68, Chapter 221, Part 6; Private Act, Public Act	Title 68, Chapter 221, Part 6	No	Revenue
Regional Water and Wastewater Treatment Authority	Title 68, Chapter 221, Part 7	Title 68, Chapter 221, Part 7	No	Revenue
Local Government Authorities				
Airport Authority	Title 42, Chapters 3, Part 1	Title 42, Chapter 3, Part 1, through 9-21-301	No	Revenue
Convention Center	Title 7, Chapter 89	Title 7, Chapter 89	No	Revenue
Port Authority	Title 7, Chapter 87	Title 7, Chapter 87	No	Revenue
Parking Authority	Title 7, Chapter 65	Title 7, Chapter 65	No	GO and Revenue
Sports Authority	Title 7, Chapter 67	Title 7, Chapter 67	No	Revenue
Central Business Improvement District	Title 7, Chapter 84, Part 3	Title 7, Chapter 84, Part 3	Through Municipality	Revenue
Energy Acquisition Corporation	Title 7, Chapter 39, Part 2	Title 7, Chapter 39, Part 3	No	Revenue
Border Regional Retail Tourism Development District	Title 7, Chapter 40, Part 1	*See note below.	No	Revenue
Regional Retail Tourism Development District	Title 7, Chapter 41, Part 1	*See note below.	No	Revenue
Tourism Development Authority	Title 7, Chapter 69, Part 1	7-69-111 through 9-21	No	Revenue
Medical School Authority	Title 7, Chapter 90, Part 1	7-90-112	No	Revenue
Other Local Government Instrumentalities				
Soil and Water Conservation District	Title 43, Chapter 14, Part 2	43-14-218 through 2-21	No	Revenue
Human Resource Agency	Title 13, Chapter 26, Part 1	13-26-105	No	Revenue
Development District	Title 13, Chapter 14, Part 1	13-14-107(b)	No	Revenue
Flood Control Authority	Title 64, Chapter 3	Title 64, Chapter 3	No	Revenue
Railroad Authority	Title 64, Chapter 2	Title 64, Chapter 2	No	Revenue
River Basin Development Authority	Title 64, Chapter 1	Various Parts	No	Revenue
TN River 4-County Port Authority	Title 64, Chapter 4	Title 64, Chapter 4	No	Revenue
TN Central Economic Authority	Title 64, Chapter 5	Title 64, Chapter 5	No	Revenue
TN Regional Megasite Authority	Title 64, Chapter 6	64-6-106(b)	No	Revenue
Regional Transportation Authority	Title 64, Chapter 8, Part 1	Title 64, Chapter 8, Part 1	No	Revenue
Regional Marketing Authority	Title 64, Chapter 10	Title 64, Chapter 10	No	Revenue
*Special Assessment District	Title 7, Chapters 32 and 33	*See note below.	Special Assessment	GO and Revenue

*These districts are not legal entities which are authorized to directly issue debt, but they are areas in which a special assessment or increment tax revenue stream is designated to be available for payment of debt service by a local government entity. In most cases, such debt would be issued by another local government entity, such as a city, county, PBA, or industrial development board, depending on the relevant statutes.

The following is a brief description of some of the local government entities in Tennessee that have the legal authority to issue debt. Each of these entity types have the authority to issue debt, usually to finance (either directly or through a loan to a third party) capital projects constructed to further the purpose for which the entity was formed.

- a. **Cities**—Cities can be created in Tennessee under certain general statutes or by private act. Most cities have the power to impose property taxes, although not all cities in Tennessee do impose taxes. If a city forfeits its charter and it has debt outstanding, then the county is authorized to levy a special tax for the area of the city to repay the debt (Tenn. Code Ann. § 6-52-304).
- b. **Counties**—Counties are created by the Tennessee legislature and are subdivisions of the state.
- c. **Metropolitan Governments**—Tennessee statutes allow for the merger of the city and county government function into one metropolitan government if approved at a referendum.
- d. **Health, Educational, and Housing Facility Boards (HEHFB)**—HEHFBs are created by a city and/or county to facilitate growth of health and educational facilities as well as housing.
- e. **Housing Authorities**—Housing authorities are created by cities and/or counties to facilitate the creation of housing in the area served. Housing authorities may also undertake tax increment financing (TIF) to assist redevelopment projects.
- f. **Special School Districts**—Special school districts are created by private act of the Tennessee legislature to provide education to residents of the area of incorporation.
- g. **Industrial Development Boards (IDB)**—IDBs are created by a city and/or county to provide for industrial development and other commercial and public projects in the area served by the IDB. IDBs may also undertake tax increment financing for certain economic development purposes.
- h. **Public Building Authorities (PBA)**—PBAs are created by cities and/or counties to finance, construct, and maintain public buildings. PBAs also have the legal authority to function as a lender to other local government entities.

- i. **Hospital Authorities**—Hospital authorities are created by private act or certain general statutes. Hospital authorities generally operate hospital facilities within their service area.
- j. **Municipal Energy Authorities**—Municipal energy authorities are created by cities and/or counties to operate, separate from the authorizing city or county, an electric system or other utility systems.
- k. **Water and Wastewater Treatment Authorities**—Water and wastewater treatment authorities are created by cities, counties, and/or metropolitan governments or by private act to provide water or sewer services to rate payers in the service area.
- l. **Utility Districts**—Utility districts, which are common in Tennessee, are generally created by one or more counties with new utility districts being subject to approval by the Tennessee Board of Utility Regulation (TBOUR). Utility districts generally provide water, sewer, gas, or fire protection services to the rate payers in their service area.
- m. **Emergency Communications Districts**—Emergency communications districts are created by cities and/or counties (and may be approved by voter referendum) to provide emergency communication services (911 calls and dispatch of emergency responders) in the authorized area.
- n. **Local Government Authorities**
 - i. **Airport Authorities**—Various types of airport authorities can be created by cities and/or counties to own and operate airport facilities.
 - ii. **Convention Center Authorities**—Convention center authorities can be created by a city and/or county to develop tourism, convention, and employment.
 - iii. **Port Authorities**—Port authorities can be created by cities and/or counties to develop ports and the related infrastructure to encourage commerce.
 - iv. **Parking Authorities**—Parking authorities can be created by cities and/or counties to finance, construct, and maintain parking structures and related infrastructure.
 - v. **Sports Authorities**—Sports authorities can be created by cities and/or counties to construct and maintain sports facilities.

a. General Obligation and Limited Tax Debt

In Tennessee, local government debt that is secured by a commitment to impose property taxes, to the extent necessary, to pay such debt is typically referred to as general obligation debt. Because counties, metropolitan governments, and cities are generally the only local government entities that have the legal authority to impose property taxes, essentially all general obligation debt issued by local government entities in Tennessee is issued by counties, metropolitan governments, and cities. General obligation debt is often described in Tennessee as being backed by the “full faith and credit” of the county, metropolitan government, or city that is issuing the debt.

General obligation debt is secured by the unlimited taxing power of the local government. Therefore, notwithstanding any local charter limitations to the contrary, the local government is required to impose a property tax in whatever amount is necessary to pay the debt. If the local government fails to do so, the holders of the debt can force the local government, through a court proceeding, to raise taxes in an amount sufficient to pay the debt service on the general obligation debt.

Certain special school districts in Tennessee, which have been created by private act, are allowed to collect property taxes imposed by the state legislature, but the amount of that property tax that can be imposed is typically limited. Debt issued by such special school districts is considered to be secured by a limited tax commitment because the property tax cannot be imposed in an unlimited amount if the taxes collected are not sufficient to pay debt payable from such taxes.

Another type of local government debt secured by limited taxes is special assessment debt. While commonly used in some states, special assessment debt has rarely been issued in Tennessee. However, as is noted in the Types of Issuers chart on in Section 3, a few statutes authorize the issuance of special assessment debt in Tennessee. Under those statutes, a special assessment, which is essentially a type of limited property tax, can be imposed on a specific district or area, and these assessments are typically collected by the city or county in which the special assessment district is created. The special assessments are sometimes used to pay for additional public services with the designated district or area, but such assessments can also be used to pay debt service on debt incurred to make capital improvements in the district or area. Because the amount of the special assessment is typically specified and limited, the debt payable from such special assessments is not typically a general obligation of the city or county and is more accurately characterized as a limited tax obligation.

b. Revenue Debt

Revenue debt is essentially all local government debt that is not payable from property taxes. Revenue debt can be generally subdivided into two categories—direct revenue debt and conduit revenue debt. Direct revenue debt is debt payable from revenues created by the local government entity that issues the debt. Conduit revenue debt is debt issued by a governmental entity on behalf of a third party.

The most common type of direct revenue debt in Tennessee is debt issued by local government entities that provide utilities and similar public services. Cities frequently issue debt payable from the revenues of their electric, water, sewer, stormwater, and gas systems. Utility districts and energy authorities are also frequent issuers of direct revenue debt in Tennessee. This type of direct revenue debt is usually issued under a bond resolution of the local government issuer under which the issuer pledges the revenues of the particular utility system (frequently after the payment of operating expenses) to the payment of the debt being issued to provide improvements to the utility system.

Another common type of direct revenue debt in Tennessee is tax increment debt. In Tennessee tax increment debt (which is also sometimes called tax increment financing or “TIF”) is generally issued by housing authorities, to promote redevelopment, or by industrial development boards, to promote economic development. Tax increment debt is generally payable from the incremental increase in property taxes from a base year (generally the year before the tax increment plan is approved by the local governments) and each tax year for which the calculation of the increment is made (less certain deductions required by state statutes).

The most common issuers of conduit revenue debt in Tennessee are industrial development boards; health, education, and housing facility boards; and public building authorities. Industrial development boards and health, education, and housing facility boards frequently are requested to issue bonds to finance projects for private parties, such as projects for charitable “501(c)(3)” organizations, low-income housing projects, small manufacturing projects, and solid waste projects, and to loan the proceeds of those bonds to the private party to finance the particular project. This financing method is typically used to permit the private party to realize the benefit of tax-exempt financing as is described in Section 8 of this manual. In this type of financing, the industrial development board or health, education, and housing facility board has no obligation to pay the issued bonds except from loan repayments by the private party, so the financing is non-recourse to the local government issuer.

As is discussed in Section 2d, another common type of conduit revenue debt in Tennessee is debt issued by public building authorities or PBAs. As with industrial development boards and health, education, and housing facility boards, debt issued by PBAs is generally only payable from the loan repayments made to the PBA by another party, which, in this case, would be the local government entity that borrows the proceeds of debt issued by the PBA. Therefore, the financing is typically non-recourse to the PBA. However, the underlying loan to the other local government entity may be a general obligation of the local government that borrows from the PBA, or such underlying loan may be payable only from specified revenues of that local government entity.

Section 5 – Types of Sales of Local Government Debt

There are generally two methods of sale of local government debt—competitive sale and negotiated sale. With a competitive sale, parties that are interested in purchasing a local government entity’s debt compete to offer the lowest interest rate for the debt. With a negotiated sale, a local government entity negotiates with a single purchaser in an effort to obtain the most favorable terms. General obligation debt and highly-rated direct revenue debt is usually well suited for competitive sales, while other types of debt are better suited for negotiated sales.

When a local government entity sells debt using a competitive sale method, the local government entity will typically publicly advertise the sale through a notice of sale and request bids to submit bids to purchase the debt being sold by a specified time. The notice of sale will specify the parameters for the sale, such as the maturities, maximum principal amount, and maximum interest rate. Once the bids are submitted, the local government will then award the bonds to the bidder that provides the lowest interest rate. In most cases, the bidders for the bonds are typically underwriters who resell the bonds to their customers.

For capital outlay notes (see Section 6c) issued by cities and counties that do not exceed \$5 million in principal, a modified form of competitive sale, known as the informal bid process, can be used. Under this alternative, a city or county can seek quotes from financial institutions to purchase a capital outlay note instead of selling the capital outlay note through a publicly advertised competitive sale.

Negotiated sales generally take two forms—public underwritings and private placements. With a public underwriting, a local government entity selects an underwriter and then negotiates the terms for the sale of the debt of the local government entity, such as interest rates, call provisions, and purchase price, among other things, with the underwriter. The local government entity and the underwriter enter into a bond purchase agreement or similar agreement to memorialize these terms and to provide for the sale of the debt. The underwriter will then typically reoffer the debt, which is usually in the form of bonds, to its customers.

With a private placement (also sometimes called a direct placement), the purchaser of the debt of the local government entity is typically a bank or other financial institution, and the debt of the local government entity is not reoffered to the public but is held by the purchaser of the debt as a loan or investment. In some cases, the purchaser of the debt may be required to hold the debt until it matures or may be subject to other restrictions regarding the transfer of the debt. The terms of the debt are negotiated directly by the local government entity and the purchaser of the debt.

The permitted method of sale for local government debt will generally be established by the statutes that authorize the issuance of the debt. Most general obligation debt in Tennessee is required to be sold by public competitive sale, and the State of Tennessee through its State Funding Board prefers to issue its general obligation debt for larger capital projects by competitive sale.



Section 6 – Comptroller Oversight of Short-Term Obligations

a. Short-Term Obligations Requiring Approval by the Comptroller of the Treasury

Types of Obligations	Statute
Bond Anticipation Notes	T.C.A. §§ 9-21-501 et seq.
Capital Outlay Notes	T.C.A. §§ 9-21-601 et seq.
Financing Leases	T.C.A. §§ 9-24-101 et seq.
Grant Anticipation Notes	T.C.A. §§ 9-21-701 et seq.
Revenue Anticipation Notes – Health Care	T.C.A. §§ 9-21-1101 et seq.
Revenue Anticipation Notes – Utilities, Emergency Cash Flow	T.C.A. §§ 7-34-111; 7-36-113; 7-82-501; 68-221-611; 68-221-1311
Revenue Anticipation Notes – Utilities, Other	T.C.A. §§ 7-34-111; 7-36-113; 7-82-501
Tax and Revenue Anticipation Notes	T.C.A. §§ 9-21-801 et seq.
Utility System Interfund Loans	T.C.A. § 9-21-408(a)(2)

i. General Requirements for Notes

Limits on Indebtedness

Except for Tax Anticipation Notes and certain Revenue Anticipation Notes, there is no limit on indebtedness imposed on local governments in the “Local Government Public Obligations Act of 1986” (the “Act”).

Local Government Powers

Local governments have the following powers under the Act: (a) contract debts in order to make grants, donations, reimbursements or loans to one (1) or more local governments, local government instrumentalities, or utility districts for the construction of any public works project; (b) Borrow money for the construction of any public works project; or (c) Issue bonds or notes to finance such construction, grant, donation, reimbursement or loan for the construction of any public works project.

In addition, local governments may pledge the full faith, credit, and unlimited taxing power of the local government as to all taxable property in the local government or a

portion of the local government, if applicable, to the punctual payment of the principal of and interest on the bonds or notes issued to finance any public works project, except bonds or notes and the interest thereon payable exclusively from revenues of a public works project. Local governments may assess, levy, and collect ad valorem taxes on all taxable property within the local government or a portion of the local government, if applicable, sufficient to pay the principal of and interest on the bonds or notes issued to finance any public works project, except bonds or notes and the interest thereon payable exclusively from revenues of a public works project.

Tenn. Code Ann. § 9-21-107

Tax-Exemption

Any bonds or notes issued by a local government pursuant to the provisions of the Act and the income therefrom shall be exempt from all state, county and municipal taxation except for inheritance, transfer and estate taxes, and except as otherwise provided in the Tennessee Code Annotated.

Tenn. Code Ann. § 9-21-117

ii. Remedies for Noteholders

Any holder of notes issued pursuant to the Act has the right, in addition to all other rights:

By mandamus or other suit, action or proceeding in any court of competent jurisdiction to enforce such holder's rights against the local government, the governing body of the local government and any officer, agent, or employee of the local government, including, but not limited to, the right to require the local government, the governing body and any proper officer, agent or employee of the local government to assess, levy and collect taxes, and to fix and collect fees, rents, tolls, or other charges adequate to carry out any agreement as to, or pledge of, such taxes, fees, rents, tolls, or other charges, and to require the local government, the governing body of the local government and any officer, agent or employee of the local government to carry out any other covenants and agreements, and to perform its and their duties under this chapter. No holder or holders of notes payable exclusively from the revenues of a public works project shall ever have the right to compel the levying and collection of taxes to pay such notes and the interest thereon.

By action or suit in equity to enjoin any acts or things which may be unlawful or a violation of the rights of such holder or holders of notes.

Tenn. Code Ann. § 9-21-407

iii. Public Works Projects Defined by Tenn. Code Ann. § 9-21-105

The following list is a summary and grouping of all public works projects authorized by Tenn. Code Ann. § 9-21-105:

GENERAL GOVERNMENT

- City and town halls
- Convention and event centers
- Courthouses
- Equipment (including vehicles, technology equipment, and related software) used for local government purposes
- Facilities for the indigent
- Fire alarm systems
- Local government stables or garages
- Public buildings
- Plazas
- Parking facilities
- Memorials
- Voting machines

PUBLIC SAFETY

- Ambulances
- Corrective, detention, and penal facilities, including, but not limited to, jails and transition centers
- Fire department equipment and buildings
- Law enforcement and emergency services equipment

HEALTH

- Dispensaries
- Facilities for persons with disabilities
- Health centers and clinics, including medical and mental health centers and clinics
- Hospitals
- Nursing homes

PUBLIC RECREATION

- Acquisitions of land for the purpose of providing or preserving open land
- Auditoriums
- Expositions
- Fairgrounds and fairground facilities
- Greenways
- Museums
- Parks
- Playgrounds
- Public art
- Preserves

- Recreation centers and facilities
- Stadiums
- Swimming pools
- Zoos

PUBLIC WORKS

- Facilities for the storage and maintenance of any items of equipment that constitute public works projects
- Flood control
- Levees
- Reclamation of land

SOLID WASTE

- Garbage collection and disposal systems
- Incinerators

EDUCATION

- Libraries
- Schools
- Transportation equipment for schools
- Technology equipment and related software

TRANSPORTATION

- Airports
- Alleys
- Bridges
- Curbs
- Harbor and riverfront improvements
- Highways
- Highway and street equipment
- Parkways
- Port facilities
- Railroads, including railway beltlines and switches
- Rights-of-way
- River and navigation improvements and roads
- Ship canals
- Sidewalks
- Streets
- Tunnels
- Urban transit facilities
- Wharves

UTILITIES

- Culverts
- Drainage systems, including storm water sewers and drains
- Electric plants and systems

- Gas and natural gas systems and storage facilities
- Heat plants and systems
- Reservoirs
- Sewers
- Sewage and wastewater systems, including, but not limited to, collection, drainage, treatment, and disposal systems
- Thermal transfer generating plants and/or distribution systems
- Viaducts
- Water treatment distribution and storage systems

ECONOMIC DEVELOPMENT

Hotels and supporting or incidental facilities built by local governments which are built adjacent to, and as a supporting facility of, civic or convention centers located in municipalities which have created a central business improvement district under the provisions of the “Central Business Improvement District Act of 1971,” compiled in Tenn. Code Ann. Title 7, Chapter 84

Improvements made pursuant to a plan of improvement for a central business improvement district created pursuant to the “Central Business Improvement District Act of 1971,” compiled in Tenn. Code Ann. Title 7, Chapter 84

- Markets
- Business parks
- Industrial parks
- Urban renewal projects

b. Bond Anticipation Notes

The authority for the issuance of Bond Anticipation Notes (BANs) is found in Title 9, Chapter 21, Part 5 of the Tennessee Code Annotated. BANs are issued for the express purpose of providing funds in anticipation of the sale of bonds. Pursuant to Tenn. Code Ann. § 9-21-505, BANs must first be approved by the Comptroller’s Office. See the template BAN resolution in the Appendix. Template resolutions can also be found on the Comptroller of the Treasury’s website at tncot.cc/debt – select the “Resolutions” tab.

✓ STEP ONE – Submission Requirements for Approval – BAN

Local governments seeking approval to issue BANs shall submit the following information electronically to the Division of Local Government Finance in the Comptroller’s Office at LGF@cot.tn.gov:

1. Request Letter

The letter requesting approval to issue the BANs shall be from and signed by the local government’s Chief Executive Officer or designee.

2. Adopted Initial Bond Resolution

A certified copy of the signed and adopted initial bond resolution authorizing the issuance of general obligation bonds or revenue bonds.

3. Statement Regarding Publication of Initial Bond Resolution and Protest Period

- For general obligation bonds, certification of compliance with Tenn. Code Ann. § 9-21-206 that (a) the initial bond resolution authorizing the issuance of general obligation bonds has been published in a newspaper of general circulation; and (b) no protest was made against the initial resolution for general obligation bonds during the 20-day protest period.
- For revenue bonds, certification of compliance with Tenn. Code Ann. § 9-21-304 that the initial bond resolution authorizing the issuance of revenue bonds has been published in full once in a newspaper of general circulation.

4. Adopted Resolution

The resolution shall authorize the issuance of BANs and shall be certified. The resolution should include the following key elements:

- Clear description of public works project(s) that meet(s) the definition in Tenn. Code Ann. § 9-21-105, Title 9, Ch 11 or Title 49, Ch 3, Pt 10;
- Not to exceed dollar amount;
- Name of the note;
- Life and term of the note does not exceed 2 years;
 - Entity may request subsequent approval to extend BANs for two additional 2-year periods – Tenn. Code Ann. § 9-21-505.
- Planned amortization of the notes that meets statutory requirements;
 - After the first 2-year period, a minimum of 1/20 of the original principal shall be retired annually.
 - The entity may request subsequent waiver of the principal retirement when requesting BAN Extension – Tenn. Code Ann. § 9-21-505.
- Disclosure of any recurring fees included in the interest rate;
- Not to exceed interest rate that does not exceed the state usury maximum (Tenn. Code Ann. § 47-14-103);
- If it is an internal loan, and the entity is lending restricted monies (e.g., money from the water and sewer fund), then the entity is paying interest – Tenn. Code Ann. § 9-21-408.
 - Interest should be the highest rate currently being earned on other investments, excluding pension investments.
 - If there are no applicable investments, the interest rate is the amount that could be earned for deposits in the Local Government Investment Pool administered by the Tennessee State Treasurer.
 - The fixed interest rate may be set on the day of issuance or locked in up to 60 days prior to the day of issuance, but not prior to the decision by the local government to execute the project.
- Method of sale – competitive or negotiated;

- Security – Tenn. Code Ann. § 9-21-504 – general obligation or revenue;
- Date of approval by governing body; and
- Relevant signatures and certification.

5. Statement of Monthly Cash Flow Analysis

This requirement only applies for interfund BANs. A monthly cash flow analysis is required for the lending fund(s). A monthly cash flow analysis Microsoft Excel template is available on the Comptroller of the Treasury’s website at tncot.cc/debt – select the “Tools” tab.

✓ **STEP TWO – Approval by the Comptroller’s Office – BAN**

1. The request will be reviewed within 10 days of receipt by the Division of Local Government Finance in the Comptroller’s Office. If the submission is incomplete, the 10-day review period will not begin until the information needed is received.
2. Once the review process is complete, the local government will receive a letter via e-mail from the Division of Local Government Finance indicating approval or non-approval.
3. The approval is valid for six months after the date of the letter. If the BANs are not issued within that time, a new note resolution must be passed and submitted to the Comptroller’s Office for approval. Please notify LGF@cot.tn.gov as soon as possible if a decision is made not to issue the BANs.

✓ **STEP THREE – Submission Requirements after Approval – BAN**

1. Debt Report

Pursuant to Tenn. Code Ann. § 9-21-134, a Debt Report shall be completed and filed with the governing body of the local government no later than 45 days after the issuance of the BANs and a copy (including attachments, if any) shall be filed with the Division of Local Government Finance in the Comptroller’s Office. The form should be completed using the Comptroller’s online application located at tncot.cc/debt-report. An additional Debt Report will need to be filed once the long-term bonds are issued.

2. Debt Management Policy Revisions (when applicable)

Any changes made to a debt management policy should be approved by the governing body of the local government. A copy of the revised policy should be submitted to the Division of Local Government Finance at LGF@cot.tn.gov. Additional information on debt management policies may be found in Section 7.

3. Debt Default, Covenant Violation, or Credit Rating Downgrade (when applicable)

Any default, covenant violation, or credit rating downgrade, regardless of whether the associated debt obligation was approved or reported on by the Comptroller’s Office,

should be reported to the Division of Local Government Finance as further explained in Section 7.

c. Capital Outlay Notes

Capital Outlay Notes require the approval of the Comptroller's Office. The authority for issuance of Capital Outlay Notes (CONs) is found in Tenn. Code Ann. Title 9, Chapter 21, Part 6. See the template CON resolution in the Appendix. Template resolutions can also be found on the Comptroller of the Treasury's website at tncot.cc/debt under the "Resolutions" tab.

✓ STEP ONE – Submission Requirements for Approval – CON

Local governments seeking approval to issue CONs shall submit the following information electronically to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov:

1. Request Letter

The letter requesting approval to issue the CONs shall be from and signed by the local government's Chief Executive Officer or designer.

The request must state that the proposed sale is feasible and in the best interest of the local government and that the entity is able to repay the proposed indebtedness together with all other obligations of the local government.

2. Adopted Resolution

The adopted, signed, and certified authorizing resolution, and draft note. The resolution should include the following key elements:

- Clearly described municipal project(s) that meet(s) the definition in Tenn. Code Ann. § 9-21-105.
- Not to exceed dollar amount.
- Economic life of the project(s) that is reasonable based upon the nature of the project.
- Method of sale (competitive sale, negotiated, informal bid process, or interfund). The proposed type of sale must comply with Tenn. Code Ann. § 9-21-607:
 - Up to 3 years & any amount = Competitive public sale or private negotiated sale.
 - >3 and up to 12 years & up to \$5,000,000 = Competitive (can be local) or informal bid.
 - >3 and up to 12 years & >\$5,000,000 = Competitive public sale only.
 - Land acquisition notes can be sold to the seller of land in a private negotiated sale in addition to other permitted methods of sale.
 - Interfund loans are not subject to the method of sale requirements in Tenn. Code Ann. § 9-21-607.
- Name of the note.
- Life/term of the note does not exceed:

- Economic life of the project(s) or 12 years, whichever is less – Tenn. Code Ann. § 9-21-602(a).
- Economic life of the project(s) or 20 years, whichever is less, for interfund CON lent from proceeds from the sale of a Tennessee private act hospital – T.C.A. § 9-21-604(b).
- 10 years for a land purchase (Tenn. Code Ann. § 9-21-607).
- Economic life of the project (s) or 12 years, whichever is less, for interfund loans (Tenn. Code Ann. § 9-21-408 & Title 9, Chapter 21, Part 6)
- Planned repayment begins after the first fiscal year the notes are issued and are repaid, either by maturity or by mandatory redemption. The amortization of the notes meets the statutory requirements of Tenn. Code Ann. § 9-21-604.
 - Level debt service payments (specifically, the amount for annual principal and interest does not exceed any prior year by more than 5%).
 - An equal amount of principal in each fiscal year.
 - As otherwise approved by the Comptroller’s Office.
 - Interfund CON from Tennessee Private Act Hospital sale proceeds— not less than 1/20 of the original principal amount of the notes.
 - The Comptroller’s Office may waive periodic retirement requirement.
- Disclosure of any recurring fees included in the interest rate.
- Not to exceed interest rate that does not exceed the state usury maximum (Tenn. Code Ann. § 47-14-103).
- If this is an internal loan and the entity is lending restricted monies (e.g., money from the water and sewer fund), the entity is paying interest – Tenn. Code Ann. § 9-21-408).
 - Interest should be the highest rate currently being earned on other investments, excluding pension investments.
 - If there are no applicable investments, the interest rate is the amount that could be earned for deposits in the Local Government Investment Pool administered by the Tennessee State Treasurer.
 - The fixed interest rate may be set on the day of issuance or locked in up to 60 days prior to the day of issuance, but not prior to the decision by the local government to execute the project.
- Security – Tenn. Code Ann. § 9-21-603
 - Notes shall be direct general obligations of entity; taxing power pledged.
 - If for an income-producing public works project (e.g., water utility fund), a secondary security/pledge payable from revenues of the public works may be added.
- The date of approval by governing body.
- Relevant signatures and certification.
- Interfund CON from the Tennessee Private Act Hospital sale proceeds – the authorizing resolution may provide that the notes must be subject to redemption prior to maturity at the option of the local government.

3. Informal Bid Attachment

If seeking informal bid approval, the CON must be for \$5 million or less. Tenn. Code Ann. § 9-21-609. See the sample informal bid form in the Appendix.

4. Statement of Monthly Cash Flow Analysis

This requirement only applies for interfund CONs. A monthly cash flow analysis is required for the lending fund(s) to demonstrate the lending of fund(s) will not adversely impact the cash flow/working capital needs of the lending fund. A monthly cash flow analysis (Microsoft Excel) template is available on the Comptroller of the Treasury's website at ncot.cc/debt – select the “Tools” tab.

5. Copy of Proposed Disclosure Statement, if any

6. Schedule of Estimated Annual Principal and Interest Requirements

7. Detailed Estimated Costs of Issuance, if any

This must include all amounts required to be reported under Tenn. Code Ann. § 9-21-134, if applicable.

8. List of Projects to be Financed

A detailed list of all proposed projects, including the amount and estimated life of those projects. A weighted average life calculator is available on the Comptroller of the Treasury's website at ncot.cc/debt – select the “Tools” tab when financing several capital assets that have different estimated useful lives.

✓ STEP TWO – Approval by the Comptroller's Office – CON

1. The request will be reviewed within 10 days of receipt by the Division of Local Government Finance in the Comptroller's Office. If the submission is incomplete, the 10-day review period will not begin until the information needed is received.
2. Approval can only be granted if the issuance of the CONs, as compared to the issuance of GO bonds, is in the best interest of the local government pursuant to Tenn. Code Ann. § 9-21-601(b)(4).
 - When making this determination, the Comptroller's Office will consider whether the life of the project materially exceeds the life of the CON.
 - For example, if school construction is being financed for 12 years, and it is apparent that the entity will not be able to repay the CON within that period and will need to refund the CON in order to extend maturity to a later date, then the request cannot be approved.
3. Once the review process is complete, your local government will receive a letter via e-mail from the Division of Local Government Finance indicating approval or non-approval.
4. The approval is valid for six months after the date of the letter. If the CONs are not issued within that time, and the local government still plans to issue the notes, then a new note resolution must be adopted and submitted to the Comptroller's Office for

approval. Please notify LGF@cot.tn.gov as soon as possible if a decision is made not to issue the CONs.

✓ **STEP THREE – Submission Requirements after Approval – CON**

1. Debt Report

Pursuant to Tenn. Code Ann. § 9-21-134, a Debt Report shall be completed and filed with the governing body of the local government no later than 45 days after the issuance of the CONs and a copy (including attachments, if any) shall be filed with the Division of Local Government Finance in the Comptroller’s Office. The form should be completed using the Comptroller’s online application located at tncot.cc/debt-report.

2. Debt Management Policy Revisions (when applicable)

Any changes made to a debt management policy should be approved by the governing body of the local government. A copy of the revised policy should be submitted to the Division of Local Government Finance at LGF@cot.tn.gov. Additional information on debt management policies may be found in Section 7.

3. Debt Default, Covenant Violation, or Credit Rating Downgrade (when applicable)

Any default, covenant violation, or credit rating downgrade, regardless of whether the associated debt obligation was approved or reported on by the Comptroller’s Office, should be reported to the Division of Local Government Finance as further explained in Section 7.

d. Grant Anticipation Notes

Grant Anticipation Notes require the approval of the Comptroller’s Office. The authority for issuance of Grant Anticipation Notes (GANs) is found in Tenn. Code Ann. Title 9, Chapter 21, Part 7. See the template GAN resolution in the Appendix. Template resolutions can also be found on the Comptroller of the Treasury’s website at tncot.cc/debt under the “Resolutions” tab.

A local government may issue capital outlay notes or bond anticipation notes for the matching portion of public works grants, provided that the proceeds from the sale of any such capital outlay notes or bond anticipation notes shall not be applied to the payment of such grant anticipation notes.

✓ **STEP ONE – Submission Requirements for Approval – GAN**

Local governments seeking approval to issue GANs shall submit the following information electronically to the Division of Local Government Finance in the Comptroller’s Office at LGF@cot.tn.gov:

1. Request Letter

The letter requesting approval to issue the GANs shall be from and signed by the local government's Chief Executive Officer or designee.

2. Adopted Resolution

The resolution shall authorize the issuance of GANs and shall be certified as well as include the draft note. The resolution should include the following key elements:

- Not to exceed dollar amount.
- Name of the note.
- Life/term of the note does not exceed 3 years from the date of issuance, unless requesting initial Comptroller approval to extend – Tenn. Code Ann. § 9-21-705.
- Disclosure of any recurring fees included in the interest rate.
- Not to exceed interest rate that does not exceed the state usury maximum (Tenn. Code Ann. § 47-14-103).
- Security – Tenn. Code Ann. § 9-21-704.
 - ~~Notes shall not be direct general obligations of entity.~~
 - Primary pledge to repay principal shall be ~~solely~~ from a state or federal grant ~~contract/agreement~~.
 - General obligation or relevant revenue pledge may be added to the repayment of the principal and interest of the note.
 - ~~Pledge for interest payment may be from ad valorem taxes.~~
- Date of approval by governing body.
- Relevant signatures and certification.
- If this is an internal loan and the entity is lending restricted monies (e.g., money from the water and sewer fund), the entity is paying interest – Tenn. Code Ann. § 9-21-408.
 - Interest should be the highest rate currently being earned on other investments, excluding pension investments.
 - If there are no applicable investments, the interest rate is the amount that could be earned for deposits in the Local Government Investment Pool administered by the Tennessee State Treasurer.

3. Copy of Signed Contract and Notice to Proceed with Project Letter

The fully executed contract or agreement between the state or federal agency and the local government pledging the funds for the public works project and documentation indicating that a notice to proceed with the project or the equivalent has been received.

4. Statement of Monthly Cash Flow Analysis

This requirement only applies to interfund GANs. A monthly cash flow analysis is required for the lending fund(s). A monthly cash flow analysis Microsoft Excel template is available on the Comptroller of the Treasury's website at tncot.cc/debt under the "Tools" tab.

✓ **STEP TWO – Approval by the Comptroller's Office – GAN**

1. The request will be reviewed within 10 days of receipt by the Division of Local Government Finance in the Comptroller's Office. If the submission is incomplete, the 10-day review period will not begin until the information needed is received.
2. Once the review process is complete, the local government will receive a letter via e-mail from the Division of Local Government Finance indicating approval or non-approval.
3. The approval is valid for six months after the date of the letter. If the GANs are not issued within that time, and the local government still plans to issue the notes, then a new note resolution must be passed and submitted to the Comptroller's Office for approval. Please notify LGF@cot.tn.gov as soon as possible if a decision is made not to issue the GANs.

✓ **STEP THREE – Submission Requirements after Approval – GAN**

1. Debt Report
Pursuant to Tenn. Code Ann. § 9-21-134, a Debt Report shall be completed and filed with the governing body of the local government no later than 45 days after the issuance of the GANs and a copy (including attachments, if any) shall be filed with the Division of Local Government Finance in the Comptroller's Office. The form should be completed using the Comptroller's online application located at tncot.cc/debt-report.
2. Debt Management Policy Revisions (when applicable)
Any changes made to a debt management policy should be approved by the governing body of the local government. A copy of the revised policy should be submitted to the Division of Local Government Finance at LGF@cot.tn.gov. Additional information on debt management policies may be found in Section 7.
3. Debt Default, Covenant Violation, or Credit Rating Downgrade (when applicable)
Any default, covenant violation, or credit rating downgrade, regardless of whether the associated debt obligation was approved or reported on by the Comptroller's Office, should be reported to the Division of Local Government Finance as further explained in Section 7.

e. Revenue Anticipation Notes

Pursuant to Tenn. Code Ann. §§ 7-34-111, 7-36-113, and 7-82-501, cities and counties as well as energy authorities and utility districts can issue certain utility Revenue Anticipation Notes (RANs), which require the approval of the Comptroller's Office.

✓ **STEP ONE – Submission Requirements for Approval – RAN**

Local governments seeking approval to issue RANs shall submit the following information electronically to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov:

1. Request Letter

The letter requesting approval to issue the RANs shall be from and signed by the local government's Chief Executive Officer or designee.

2. Adopted Resolution

The resolution shall authorize the issuance of RANs and shall be certified as well as include the draft note. The resolution should include the following key elements:

- Name of the note.
- Not to exceed dollar amount.
- The next two requirements only apply to RANs issued for construction, etc. of public works systems pursuant to Tenn. Code Ann. § 7-34-111 (a)-(b):
 - Economic life of the project(s) is reasonable based upon the nature of the project.
 - Life/term of the note does not exceed economic life of the project(s) and does not exceed 5-years.
- Planned amortization of the notes that meets statutory requirements.
 - Maximum 12 months for gas and/or power purchases – Tenn. Code Ann. §§ 7-34-111(d), 7-36-113(d), and 7-82-501. Note: The 12-month period does not have to mirror the entity's fiscal year.
 - Maximum 5 years for construction-related – Tenn. Code Ann. § 7-34-111(a)-(b).
- Not to exceed interest rate that does not exceed the state usury maximum (Tenn. Code Ann. § 47-14-103).
- Date of approval by the governing body.
- Relevant signatures and certification.

3. Copy of Budget

For RANs issued to fund gas and/or power purchases, budget showing the amount of budgeted electric power or gas purchases that will be used to calculate the 60% limitation should be included – Tenn. Code Ann. §§ 7-34-111(d), 7-36-113(d), and 7-82-501.

✓ STEP TWO – Approval by the Comptroller's Office – RAN

1. The request will be reviewed within 10 days of receipt by the Division of Local Government Finance in the Comptroller's Office. If the submission is incomplete, the 10-day review period will not begin until the information needed is received.
2. RANs issued for gas/power purchases must comply with the following requirements:

- The amount requested for approval is 60% or less than the total budgeted for the purchase of gas or electricity – Tenn. Code Ann. §§ 7-34-111(d), 7-36-113(d), and 7-82-501.
 - The entity has a positive ending net position for the last fiscal year audit and a positive change in net position in one of the last three fiscal years.
 - Revenue projections in the budget appear realistic in that the RANs may be retired within 12 months after issuance.
3. Once the review process is complete, the local government will receive a letter via e-mail from the Division of Local Government Finance indicating approval or non-approval.
 4. The approval is valid for six months after the date of the letter. If the RANs are not issued within that time, a new note resolution must be passed and submitted to the Comptroller’s Office for approval. Please notify LGF@cot.tn.gov as soon as possible if a decision is made not to issue the RANs.

✓ **STEP THREE – Submission Requirements after Approval – RAN**

1. Debt Report

Pursuant to Tenn. Code Ann. § 9-21-134, a Debt Report shall be completed and filed with the governing body of the local government no later than 45 days after the issuance of the RANs and a copy (including attachments, if any) shall be filed with the Division of Local Government Finance in the Comptroller’s Office. The form should be completed using the Comptroller’s online application located at tncot.cc/debt-report.

2. Debt Management Policy Revisions (when applicable)

Any changes made to a debt management policy should be approved by the governing body of the local government. A copy of the revised policy should be submitted to the Division of Local Government Finance at LGF@cot.tn.gov. Additional information on debt management policies may be found in Section 7.

3. Debt Default, Covenant Violation, or Credit Rating Downgrade (when applicable)

Any default, covenant violation, or credit rating downgrade, regardless of whether the associated debt obligation was approved or reported on by the Comptroller’s Office, should be reported to the Division of Local Government Finance as further explained in Section 7.

f. Revenue Anticipation Notes (RANs) for Emergency Cash Flow

Pursuant to Tenn. Code Ann. §§ 7-34-111, 7-36-113, and 7-82-501, 68-221-611, and 68-221-1311, cities and counties that operate water ~~and~~ sewer ~~or gas~~ systems, as well as municipal energy authorities, utility districts, water and wastewater authorities, and regional water and wastewater authorities, may issue Revenue Anticipation Notes (RANs) for emergency cash flow, which require the approval of the Comptroller’s Office.

✓ STEP ONE – Submission Requirements for Approval – RAN for Emergency Cash Flow

Local governments seeking approval to issue RANs for emergency cash flow needs shall submit the following information electronically to the Division of Local Government Finance in the Comptroller’s Office at LGF@cot.tn.gov:

1. Request Letter

The letter requesting approval to issue the RANs for emergency cash flow needs shall be from and signed by the local government’s Chief Executive Officer or designee.

2. Adopted Resolution

The resolution shall authorize the issuance of RANs and shall be certified as well as include the draft note. The resolution should include the following key elements:

- Name and Series of the notes.
- Not to exceed dollar amount. Such amount must not exceed 60% of the total projected cash for that same period. – Tenn. Code Ann. §§ 7-34-111(d), 7-36-113(d), 7-82-501, 68-221-611, and 68-221-1311.
- Term – Planned amortization of the notes that does not exceed 12 months from the date of issuance – Tenn. Code Ann. §§ 7-34-111(d), 7-36-113(d), 7-82-501, 68-221-611, and 68-221-1311. Note: The 12-month period does not have to mirror the entity’s fiscal year.
- Not to exceed interest rate that does not exceed the state usury maximum (Tenn. Code Ann. § 47-14-103).
- Security – The notes shall be secured by the revenues of the utility system.
- Date of approval by the governing body.
- Relevant signatures and certification.

3. Projected Cash Flow Schedules

Cash flow projections showing the amount that will be used to calculate the 60% limitation. The projections should be by individual month for both the 12-month term of the proposed RAN, and for the preceding 12-month period, or as otherwise required by the Comptroller’s Office.

✓ STEP TWO – Approval by the Comptroller’s Office – RAN for Emergency Cash Flow

1. The request will be reviewed within 10 days of receipt by the Division of Local Government Finance. If the submission is incomplete, the 10-day review period will not begin until the information needed is received.
2. RANs issued for emergency cash flow needs must not exceed 60% of total projected cash flows of the 12-month period – Tenn. Code Ann. §§ 7-34-111(d), 7-36-113(d), 7-82-501, 68-221-611; and 68-221-1311.

3. Once the review process is complete, the local government will receive a letter via e-mail from the Division of Local Government Finance indicating approval or non-approval.
4. The approval is valid for six months after the date of the letter. If the RANs are not issued within that time, and the local government still plans to issue the RANs, a new note resolution must be passed and submitted to the Comptroller's Office for approval. Please notify LGF@cot.tn.gov as soon as possible if a decision is made not to issue the RANs.
5. If approved the following will apply:
 - The Division of Local Government Finance, in consultation with the local government, shall develop a corrective action plan by which the local government must abide. The corrective action plan takes effect at the time the RANs are approved and remains in effect as long as the notes are outstanding and until the utility system, in the discretion of LGF, has adequate cash reserves and an adequate cash management plan.
 - The Division of Local Government Finance shall refer the local government to the Tennessee Board of Utility Regulation (TBOUR). TBOUR may review the system and order appropriate remedial measures, as set forth in Tenn. Code Ann. § 7-82-706.

✓ STEP THREE – Submission Requirements after Approval – RAN for Emergency Cash Flow

1. Debt Report
Pursuant to Tenn. Code Ann. § 9-21-134, a Debt Report shall be completed and filed with the governing body of the local government no later than 45 days after the issuance of the RANs and a copy (including attachments, if any) shall be filed with the Division of Local Government Finance in the Comptroller's Office. The form should be completed using the Comptroller's online application located at tncot.cc/debt-report.
2. Documentation of Repayment
The RANs must be repaid no later than 12 months from the date of issuance and local officials are required to provide documentation of repayment to the Division of Local Government Finance at LGF@cot.tn.gov within 15 days of repayment.
3. Debt Management Policy Revisions (when applicable)
Any changes made to a debt management policy should be approved by the governing body of the local government. A copy of the revised policy should be submitted to the Division of Local Government Finance at LGF@cot.tn.gov. Additional information on debt management policies may be found in Section 7.

4. Debt Default, Covenant Violation, or Credit Rating Downgrade (when applicable)
Any default, covenant violation, or credit rating downgrade, regardless of whether the associated debt obligation was approved or reported on by the Comptroller's Office, should be reported to the Division of Local Government Finance as further explained in Section 7.

g. Tax and Revenue Anticipation Notes

Tax and Revenue Anticipation Notes (TRANs) require the approval of the Comptroller's Office. The authority for issuance of TRANs is found in Tenn. Code Ann. Title 9, Chapter 21, Part 8. See the template TRAN resolution in the Appendix. Template resolutions can also be found on the Comptroller of the Treasury's website at tncot.cc/debt – select the "Resolutions" tab.

✓ STEP ONE – Submission Requirements for Approval – TRAN

Local governments seeking approval to issue TRANs shall submit the following information electronically to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov:

1. Request Letter

The letter requesting approval to issue the TRANs shall be from and signed by the local government's Chief Executive Officer or designee. It must identify the amount of the TRAN and whether it is an internal or external loan.

2. Adopted Resolution

The resolution shall authorize the issuance of TRANs and shall be certified as well as include the draft note. The resolution should include the following key elements:

- Approved and certified resolution and draft note.
- Not to exceed dollar amount.
- Borrowing Fund.
- Life/term of the note does not exceed beyond appropriation fiscal year.
- Name of the note.
- Not to exceed interest rate that does not exceed the state usury maximum (Tenn. Code Ann. § 47-14-103).
- Date of approval by the governing body.
- Relevant signatures and certification.

3. Statement of Monthly Cash Flow Analysis for the Borrowing Fund

A monthly cash flow analysis is required for the borrowing fund (the fund anticipating the future tax or other revenue). A monthly cash flow analysis Microsoft Excel template is available on the Comptroller of the Treasury's website at tncot.cc/debt – select the "Tools" tab.

4. Statement of Monthly Cash Flow Analysis for the Lending Fund (for Internal Loans)
This requirement only applies for interfund TRANs. A monthly cash flow analysis is required for the lending fund(s). A monthly cash flow analysis Microsoft Excel template is available on the Comptroller of the Treasury's website at tncot.cc/debt – select the “Tools” tab.

✓ **STEP TWO – Approval by the Comptroller's Office – TRAN**

1. The request will be reviewed within 10 days of receipt by the Division of Local Government Finance in the Comptroller's Office. If the submission is incomplete, the 10-day review period will not begin until the information needed is received.
2. Approval can only be granted if the following requirements are met:
 - The amount requested for approval is 60% or less than the total budgeted appropriations for the fund – Tenn. Code Ann. § 9-21-801.
 - Any prior year TRANs have been repaid and the entity sent proof to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov.
 - The cash flow for the borrowing fund: (1) appears reasonable/realistic; (2) demonstrates need; and (3) demonstrates ability to repay.
3. Once the review process is complete, the local government will receive a letter via e-mail from the Division of Local Government Finance indicating approval or non-approval.
4. The approval is valid through the end of the fiscal year identified in our approval letter.

✓ **STEP THREE – Submission Requirements after Approval – TRAN**

1. Debt Report
Pursuant to Tenn. Code Ann. § 9-21-134, a Debt Report shall be completed and filed with the governing body of the local government no later than 45 days after the issuance of the TRANs and a copy (including attachments, if any) shall be filed with the Division of Local Government Finance in the Comptroller's Office. The form should be completed using the Comptroller's online application located at tncot.cc/debt-report.
2. Repayment Requirement
The local government must repay the TRANs no later than June 30 of the fiscal year of borrowing and provide the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov with documentation of repayment within 15 days of, but not later than June 30 of the fiscal year of borrowing.
3. Debt Management Policy Revisions (when applicable)

Any changes made to a debt management policy should be approved by the governing body of the local government. A copy of the revised policy should be submitted to the Division of Local Government Finance at LGF@cot.tn.gov. Additional information on debt management policies may be found in Section 7.

4. Debt Default, Covenant Violation, or Credit Rating Downgrade (when applicable)
Any default, covenant violation, or credit rating downgrade, regardless of whether the associated debt obligation was approved or reported on by the Comptroller's Office should be reported to the Division of Local Government Finance as further explained in Section 7.

**h. Summary Grid of Notes Authorized Under Tenn. Code Ann. Title 9,
Chapter 21**

	Bond Anticipation Notes	Capital Outlay Notes	Grant Anticipation Notes	Tax Anticipation Notes
Purpose	Issued in anticipation of bond proceeds for all purposes which bonds can be legally issued and authorized for by a local government for public works projects and purposes authorized by Title 9, Chap. 11 and Title 49, Chap. 3, Part 10	For all purposes which bonds can be legally issued and authorized for by a local government for public works projects and for property valuation, tax assessment, and tax equalization programs	Notes issued in anticipation of monies received pursuant to a contract between the state or federal agency and the local government for public work projects	Tax anticipation notes are for the purpose of meeting appropriations made for the current fiscal year in anticipation of the collection of taxes and revenues.
Resolution	Yes (Adopted)	Yes (Draft or Authorizing)	Yes (Adopted)	Yes (Adopted)
Initial Resolution Published	Yes	No, except for certain refundings under TCA 9-21-606	NO	NO
Report by Director	Approval	Approval	Approval	Approval
Maximum Amount	No Maximum	No Maximum	No Maximum	60% of adopted appropriations for the current fiscal year
PAR	99%	99%	100% and accrued interest	100% and accrued interest
Serial	Yes	Yes	Yes	Yes
Sale Type Negotiated	Yes	Yes for notes with terms up to 3 years and land acquisition notes sold to seller of land	Yes	Yes
Competitive or Informal Bid	Yes	Yes, Notes over \$5,000,000 and with a term longer than 3 years shall be sold at competitive sale. Notes less than \$5,000,000 with a term longer than 3 years may be sold using an informal bid process as approved by the Comptroller of the Treasury or the Comptroller's Designee.	Yes	Yes
Security	Taxing Power, Revenue, or Taxing Power and Revenue	Taxing Power, Special Tax, Taxing Power and Revenue	Pledge of moneys for principal amount. General obligation of local government or may levy ad valorem taxes for interest.	Current Fiscal Year taxes and revenues.
Term (Yrs.)	2	Up to 12	10	Current Fiscal Year
Renewal	2 Terms	N/A	a. 3 Year - Extension 7 Years b. 7 Years -Extension 3 years	N/A
Total Life (Yrs.)	6	12 Years	10	One Year or Less
Renewal Approved by Director	Yes	N/A	Yes	N/A
Periodic Retirement Waiver	Yes	Yes. Also statutory waiver for interfund CON from TN Private Act Hospital sale proceeds	N/A	N/A
Minimum Retirement of Principal per Year	1/20th after first 2 years	Level debt service payments (specifically, principal and interest does not exceed any prior year by more than 5%). Interfund CON from TN Private Act Hospital sale proceeds– not less than 1/20 of the original principal amount of the notes.	N/A	100%
Other Special Requirements	None	20 Year notes issued to the EPA	None	None
Authority	TCA 9-21 Part 5	TCA 9-21 Part 6	TCA 9-21 Part 7	TCA 9-21 Part 8

i. Financing Leases

Lease financing agreements meeting certain criteria must be approved by the Comptroller's Office. Tenn. Code Ann. § 9-24-101 et seq. This approval requirement applies to individual lease financing agreements with principal amounts greater than \$100,000 and to individual lease financing agreements that are \$100,000 or less if the principal amount, together with the principal amount of all exempt lease financings issued by the public entity in the same fiscal year exceeds \$100,000. A lease is defined as an agreement for the use of property under which a public entity is the lessee, and a lease financing includes one of the following elements: (a) rental payments include an identifiable interest component; (b) the local government has the right to purchase the property that is subject to the lease at a price that is not based upon the fair market value of the property at the time of the purchase; or (c) the life of the asset is materially equal to the maturity of the lease.

✓ STEP ONE – Submission Requirements for Approval – Financing Lease

Local governments seeking approval to enter into Financing Leases shall submit the following information electronically to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov:

1. Request Letter

The letter requesting approval to enter into a Financing Lease shall be from and signed by the local government's chief executive officer or designee.

2. Plan of Lease Financing

A Plan of Lease Financing includes the following key elements:

- A certified copy of the draft lease agreement.
- Lease information summary sheet available on our website: tncot.cc/debt.
- Not to exceed dollar amount.
- Schedule of estimated annual principal and interest requirements.
- Detailed estimated costs of issuance, including one-time fees and recurring administrative or similar fees paid over the life of the lease.
- Lease terms that are reasonable and comparable to debt being issued in the current markets.
- Interest rates and other borrowing costs from two additional lenders for the same amount and maturity of the proposed lease financing.
- When leasing multiple assets that have different useful lives: A weighted average maturity of the lease principal payments that does not exceed the estimated weighted average life of the property being financed – Tenn. Code Ann. § 9-24-104(a)(2). A weighted average life calculator is available on the Comptroller of the Treasury's website at tncot.cc/debt – select the "Tools" tab.
- A lease term that does not exceed the maximum term of debt that could be issued by the public entity to finance the proposed project – Tenn. Code Ann. § 9-24-104(a)(3).

- Description of the project(s) to be financed with the following minimum information:
 - Estimated useful life (or lives).
 - Authorizing law to incur indebtedness for the project [Tenn. Code Ann. § 9-24-104(a)(3)].
- The lease is payable from all or any portion of the revenues of the public entity, pursuant to applicable law [Tenn. Code Ann. § 9-24-104(a)(4)].
- Not to exceed interest rate that does not exceed the state usury maximum (Tenn. Code Ann. § 47-14-103).

3. Initial Resolution

If the lease is payable from or secured by property taxes, and the term of the lease exceeds the maximum term of a capital outlay note that may be issued for the same project, the entity must adopt and publish an initial resolution with respect to the lease financing consistent with Tenn. Code Ann. Title 9, Ch. 21, Pt. 2, as applicable with respect to the type of property that is being financed [Tenn. Code Ann. § 9-24-104(a)(5)]. A statement that the local government complied with this provision, as applicable, should be included in the request letter.

4. Balloon Indebtedness

When the lease is considered balloon indebtedness as defined in Tenn. Code Ann. § 9-21-133, a separate request to issue balloon debt is required pursuant to State Funding Board Guidelines. Refer to Section 7.

✓ STEP TWO – Approval by the Comptroller’s Office – Financing Lease

1. The request will be reviewed within 15 days of receipt by the Division of Local Government Finance in the Comptroller’s Office. If the submission is incomplete, the 15-day review period will not begin until the needed information is received.
2. Approval can only be granted if the issuance of the lease, as compared to debt being issued in the current markets, is in the best interest of the local government pursuant to Tenn. Code Ann. § 9-24-104. When making this determination, the Comptroller’s Office will consider the following:
 - Do the lease terms appear reasonable and comparable to debt being issued in the current markets?
 - Does the weighted average maturity of the lease principal payments exceed the estimated weighted average life of the property being financed? Tenn. Code Ann. § 9-24-104(a)(2).
 - Does the term of the lease not exceed the maximum term of debt that could be issued by the public entity to finance the proposed project? Tenn. Code Ann. § 9-24-104(a)(3).

3. Once the review process is complete, the local government will receive a letter via e-mail from the Division of Local Government Finance indicating approval or non-approval.
4. The approval is valid for six months after the date of the letter. If the Financing Lease is not issued within that time, a new plan of lease financing must be prepared and submitted to the Comptroller's Office for approval. Please notify LGF@cot.tn.gov as soon as possible if a decision is made not to issue the Financing Lease.

✓ **STEP THREE – Submission Requirements after Approval – Financing Lease**

1. Debt Report

Pursuant to Tenn. Code Ann. § 9-21-134, a Debt Report shall be completed and filed with the governing body of the local government no later than 45 days after the issuance of the Financing Lease and a copy (including attachments, if any) shall be filed with the Division of Local Government Finance in the Comptroller's Office. The form should be completed using the Comptroller's online application located at tncot.cc/debt-report.

2. Debt Management Policy Revisions (when applicable)

Any changes made to a debt management policy should be approved by the governing body of the local government. A copy of the revised policy should be submitted to the Division of Local Government Finance at LGF@cot.tn.gov. Additional information on debt management policies may be found in Section 7.

3. Debt Default, Covenant Violation, or Credit Rating Downgrade (when applicable)

Any default, covenant violation, or credit rating downgrade, regardless of whether the associated debt obligation was approved or reported on by the Comptroller's Office, should be reported to the Division of Local Government Finance as further explained in Section 7.

- j. Utility System Interfund Loans

- [Tenn. Code Ann. § 9-21-408\(a\)\(2\) allows for utility systems as defined in Tenn. Code Ann. § 7-82-701 to issue interfund loans as set forth in this manual. This includes utility systems operated by counties, municipalities, metropolitan governments, municipal energy authorities, utility districts, and water and wastewater authorities. Utility systems may issue interfund loans, with Comptroller approval, structured as bond anticipation notes, revenue anticipation notes, grant anticipation notes, and capital outlay notes as prescribed in the respective section of the manual as set forth above.](#)

a. Plans of Refunding

Requirements for a Plan of Refunding

Tennessee statutes require local governments to submit a plan of refunding (the “Plan”) to the Comptroller’s Office for review prior to the adoption of a resolution authorizing the issuance of refunding bonds. The Comptroller’s Office may present the local government with a report on the Plan (“Refunding Report”) that must be submitted to the governing body and reviewed at the public meeting during which the refunding bond authorizing resolution is considered for adoption.

A fillable ~~and downloadable form~~ PDF of a Refunding Plan can be found on the Comptroller’s website at tncot.cc/debt. Please contact the Comptroller’s Office with any questions about this ~~online~~ form.

Statutory Sections Requiring Plans

The following Plans are required to be filed with our office:

- Tenn. Code Ann. § 9-21-612—To issue Capital Outlay Notes (CONs) to refund CONs;
- Tenn. Code Ann. § 9-21-903—To issue General Obligation Bonds to refund General Obligation and/or Revenue debt;
- Tenn. Code Ann. § 9-21-1003—To issue Revenue Refunding Bonds to refund Revenue debt; and
- Tenn. Code Ann. § 12-10-116—To issue Public Building Authority Loans to refund any General Obligation and/or Revenue Debt.

Developing the Plan

Write the Plan to communicate the narrative of the refunding in easy-to-understand language. Clearly state the objectives for the refunding and explain, in detail, how the refunding will accomplish the objectives. There may be multiple objectives; however, list each objective individually and describe them in order of importance.

Objectives of the potential refunding must be clearly stated and may include:

- Debt service savings;
- Reduction of risk;
- Removal of restrictive covenants; or

- Payment of outstanding debt to prevent a default.

Method of Submission

- ~~Requests for Refunding Reports shall be submitted online via the Comptroller of the Treasury at LGF@cot.tn.gov's website at tncot.cc/debt. **Please select the "Refunding Plan" tab, fill out the online form, upload supporting documentation, and hit the "Submit" button. Your request will automatically be emailed to LGF@cot.tn.gov.**~~
- Plans of refundings may be submitted by the local government, municipal advisor, bond counsel, or third-party administrator.
- ~~**As an alternative, requests may be e-mailed to LGF@cot.tn.gov.** Please note that all Refunding Plans must be submitted in the standard format as shown in the online form under the "Refunding Plan" tab on tncot.cc/debt. **Please contact the Comptroller's Office if you have questions about the online form.**~~

Minimum Requirements for a Request for a Refunding Report:

Plan of Refunding

The Plan of Refunding must include all relevant portions as explained ~~in the following Narrative below and a submittal letter signed by the chief executive officer or designee requesting review of the plan of refunding, and the refunding plan fillable PDF.~~ A The fillable and downloadable PDF form of a Refunding Plan can be found on the Comptroller's website at tncot.cc/debt. Please contact the Comptroller's Office with any questions about the ~~online form~~ or the refunding plan.

Narrative

1. State the objective of the refunding and provide a detailed explanation of how the refunding will achieve the objective.
 - a. Cost savings (see savings schedule requirements in number 10 below).
 - i. Describe how the refunding's cost savings meets the requirements of the local government's adopted debt management policy.
 - ii. Quantify and state savings in dollars and as a percentage of the amount of the refunded debt.
 - iii. Justify refunding if total combined net present value (NPV) debt service savings are less than 2.5 times the costs of issuance (including underwriter's discount and bond insurance as costs of issuance). ~~Include~~ Start the justification with a sentence in the plan that states: NPV Savings are "___" times costs of issuance and..
 - iv. If NPV savings meet the prior threshold or are less than 2.0% of the refunded bonds principal then ~~Do~~ describe how any change in structure and/or interest rate impacts savings (plus and minus 10, 20, and 30 bsp).

- v. If multiple bonds are being refunded and the refunding of a candidate does not produce positive NPV or gross savings, describe why the bond is being included in the refunding.
 - vi. If the refunding transaction is a variable rate into a fixed rate or a fixed rate into a variable rate (interest rate resets are variable), then savings cannot be an objective and should not be included in the plan.
- b. Restrictive covenant removal or change (describe the restrictive covenant).
 - c. Payment of outstanding debt to prevent a default (explain in detail).
 - d. Reduction or elimination of risk (list and describe risk(s) and how it is (they are) reduced or eliminated).
2. Security of debt issue (general obligation, revenue, general obligation & revenue, or other [please specify]).
 3. Type of sale (competitive or negotiated: if GO bonds are planned to be negotiated, see number 18 below for specific requirements).
 4. Heightened Risk Debt – If the refunding bonds will be issued at a variable interest rate, contains an interest reset option, or contains a feature where the holder of the debt can “put” the bond or loan to the local government at a predetermined date, provide details of the variable rate or other options, as applicable. Refer to the “Heightened Risk Debt Approval” requirements within this Section.
 5. Maximum authorized amount, and anticipated size of issue.
 6. Description of each refunded candidate including the following:
 - a. Call date and premium (if any).
 - b. Maturities being called.
 - c. Par amount originally issued.
 - d. Dated date.
 - e. Current amount outstanding.
 - f. Amount to be refunded.
 - g. Tax status (and explanation if status has changed).
 - h. Purpose for which the bonds were issued (Projects).
 7. Type of refunding for each refunded candidate:
 - a. Current.
 - b. Advance, in which case provide a statement of the feasibility of an advance refunding under current market conditions including assumptions.
 8. One of the following statements regarding Balloon Indebtedness (as defined in Tenn. Code Ann. § 9-21-133):
 - a. Statement that the refunding does not constitute Balloon Indebtedness and provide the reason; or
 - b. Statement that a separate Plan of Balloon Indebtedness was submitted as prescribed by the State Funding Board (see State Funding Board Guidelines on Balloon Debt, which is available on the Comptroller of the Treasury’s website at tncot.cc/debt – select the “Balloon Debt” tab.).

9. Please specify if a derivative is associated with the refunded debt. If a derivative instrument is associated with the refunding, please contact the Comptroller's Office for separate submission requirements.

Schedules

10. Savings schedule, if refunding for savings, or a cost schedule, if restructuring. For each individual refunding bond and an aggregate report, both containing at a minimum:
 - a. A comparison of ~~refunded~~ prior debt service and anticipated refunding debt service.
 - b. Gross savings amount.
 - c. Net present value savings (NPV) amount (see calculation information in e. below).
 - d. NPV as a percent of refunded principal.
 - e. NPV should be calculated using the arbitrage yield or all in true interest cost (TIC) and should show the discounted difference between total refunded debt service and new refunding debt service for each yearly period: calendar year, fiscal year, or any 12-month recurring period may be used (do not calculate NPV savings using less than a 12-month period).
 - f. Any cost of issuance paid from sources other than bond proceeds and any cash contributed to the escrow other than bond proceeds must be subtracted from savings; only rounding amount up to a whole bond may be included in the final savings amount.
11. Before and after overall debt portfolio schedule (in tabular and chart format) for the security of the bonds (General Obligation/Revenue, or paying source, e.g., water, gas, etc.); showing the effect of the refunding on the overall portfolio.
12. Refunding bond schedules:
 - a. Amortization schedule including principal, interest, and total debt service.
 - b. Average coupon, arbitrage rate, all in cost, and TIC
 - c. Weighted average maturity/average life.
 - d. Minimum and maximum debt service payment.
13. Refunded bond schedules for each refunding candidate:
 - a. Amount to be refunded.
 - b. Amortization schedule of refunded maturities, including maturity date, principal, interest, and total debt service.
 - c. Average coupon.
 - d. Call date.
 - e. Weighted average maturity/average life.
 - f. Amortization schedule of un-refunded maturities.
 - g. Savings schedule for each bond being refunded.
14. If multiple refunded bonds, include an aggregate schedule of all refunded bonds, including Parts a–d of #13 above.
15. Sources and uses schedule.

16. Detailed costs of issuance schedule including any recurring costs (identify firms associated with respective cost, or TBD if to be determined).
17. If the refunding will extend the maturity of the refunded bonds (a) by more than 6 months after the date the last maturity is due; or (b) by more than 2% of the weighted average maturity, provide a detailed statement as to why the extension is in the public's interest and an assertion that the new maturity does not extend beyond the project life.
18. Requirements for negotiated sale of general obligation refunding bonds:
 - a. Approval by the Comptroller's Office is required for general obligation refunding bonds, including revenue and tax bonds.
 - b. The request for approval of a negotiated sale should be included as part of the request letter for a plan of refunding and must state and demonstrate the private negotiated sale is:
 - i. in the best interest of the local government,
 - ii. feasible, and
 - iii. the proposed bonds can be amortized with all other obligations outstanding.

At a minimum, the following shall be included with the request for approval:

- i. Draft copy of the proposed resolution authorizing the issuance of the refunding bonds;
- ii. Copy of the proposed disclosure statement, if any; and
- iii. Documentation and analysis that supports the three assertions at 18(b)i-iii above.

The preceding items must be included in a Plan; however, the minimum required information for a Plan must be sufficient to provide an understanding of the transaction, outline the costs, risks, and benefits, and communicate the transaction to your governing body and citizens, thus additional information may be required more than the preceding items in the narrative and in any supporting schedules or documents. Additional information may be required to support the understanding of the planned refunding. The narrative should include an explanation of the information and schedules that support the refunding. The Comptroller's Office may request additional information.

The Comptroller's Office has 15 days from the date of receipt of a complete plan to provide a report. If, due to time constraints, a local government needs the report sooner than 15 days, please contact your Analyst in the Comptroller's Division of Local Government Finance and request an expedited review.

The report issued for a refunding plan will be relevant/valid for 90 days after/from the date of the report. If the proposed bond issue has not priced during this/within that period, and the local government wishes to continue/proceed with the pricing, a new plan (reflecting with current assumptions) must/will need to be submitted for review. Requests for 30-day extensions may be granted/considered on a case-by-case basis and will be granted only if the extension is needed due to/under extenuating circumstances. Local governments seeking an

~~extension should contact~~ ~~Please contact~~ the Comptroller's Office if you need to request a 30-day extension.

Contact List

The contact list must include the name, title, firm name, address, phone number, and email address for the following individuals, as applicable:

1. Local Government Issuer:
 - a. Mayor or Executive
 - b. Each member of the governing body
 - c. Chief Financial Officer
2. Municipal Advisor
3. Bond Counsel
4. Underwriter

If professional services are not retained, please state the reason, and identify the individual who prepared the plan of refunding.

After Issuance

Within 45 days of the issuance of refunding bonds, a Debt Report must be completed and presented to the governing body ~~and a copy shall be filed with the Comptroller's Office~~. We recognize that the information provided in the Plan submitted to the Comptroller's Office is based on preliminary analysis and estimates and that actual results will be determined by market conditions at the time of sale. However, if it is determined prior to the issuance of the debt that the actual results will significantly differ from the information provided in the submitted Plan, and the local government decides to proceed with the issue, the governing body and the Comptroller's Office should be notified after the sale by either the Chief Executive Officer or the Chief Financial Officer of the local government regarding these differences and that the Chief Executive Officer was aware of the differences and determined to proceed with the issuance of the debt.

Notification will be necessary only if there is a change of ten percent (10%) or more in any of the following:

1. An increase in the principal amount of the debt issued;
2. An increase in costs of issuance, either in total or individually for underwriter, municipal advisor, or bond counsel; or
3. A decrease in the cumulative savings or increase in the loss.

The notification must include an explanation for any significant differences and the justification for change of ten percent (10%) or more from the amounts in the plan. This notification should be presented to the governing body and the Comptroller's Office with the required filing of the Debt Report.

b. State Law Reissuance

Pursuant to Tenn. Code Ann. § 9-21-901(e), the modification of an outstanding obligation must be deemed a refunding of the modified obligation, and such refunding must be required to comply with this chapter, if the modification is of such significance that the obligation would be deemed to be reissued for federal tax law purposes, whether or not the outstanding obligation is tax-exempt for purposes of federal tax laws.

In other words, if the terms of an outstanding obligation are materially changed and would be deemed a reissuance for federal tax law purposes, then the obligation is a refunding and must comply with the requirements of Tenn. Code Ann. Title 9, Chapter 21, including the submission of a plan of refunding to the Comptroller's Office as well as submission of a new Debt Report to the governing body and copy to the Comptroller's Office not later than 45 days following the reissuance.

An example of significant modification would be the change in timing of payments due under the tax-exempt obligation such as an extension of the final maturity or a deferral of payments prior to maturity. Another potential modification is a significant change in the interest rate; however, in no event shall an outstanding obligation be deemed significantly modified and rise to the level of a state law reissuance, if the original obligation allows for and contemplates a modification of the rate of interest of the outstanding obligation at any time during its existence.

c. Utility Districts, Utility Authorities, and E-911 Plans of Financings

Pursuant to Tenn. Code Ann. §§ 7-36-113, 7-82-501, 7-86-114, 68-221-611, and 68-221-1311, Municipal Energy Authorities, Utility Districts, E-911 Districts, Water & Wastewater Authorities, and Regional Water & Wastewater Authorities must submit a plan of finance to the Division of Local Government Finance in the Comptroller's Office at LGF@cot.tn.gov prior to issuance of any debt so the Comptroller's Office can report on it. The plan of finance will be reviewed within 15 days of receipt by the Division of Local Government Finance in the Comptroller's Office. The local government must publish the Comptroller's Report in accordance with state law prior to issuing the debt.

Method of Submission:

- Requests for a report on a plan of financing must be submitted to the Comptroller of the Treasury at LGF@cot.tn.gov.
- The request may be submitted by the local government, municipal advisor, bond counsel, or third-party administrator.

Minimum Requirements for a Request for a Report on a Plan of Finance:

1. Request letter signed by the General Manager/President of the Board.
2. The standardized form for plans of finance available on the Comptroller's website at tncott.cc/debt.

3. Plan of Finance – New Money

- A financial analysis of the operating statements in a columnar format that includes:
 - ing the most recent audited financial data,
 - -estimated current fiscal year financial data,
 - -and Ppro forma financial statements for the three fiscal years subsequent to the most recent audit current fiscal year
 - , including debt coverage ratios before and after the new debt issuance, when applicable.
- Draft resolution, when available.
- Detailed description of the capital project.
- If the proceeds from other debt (SRF, USDA, WIFIA) will fund finance part of the project, list type of debt, amount, and planned issuance date.
- Maximum authorized amount, and anticipated size.
- Amortization schedule including principal, interest, and total debt service;
- Average coupon, arbitrage rate, all in cost, and true interest cost (TIC);
- Sources and uses schedule.
- Detailed costs of issuance schedule
- Detailed including any recurring fees schedule costs, if applicable. The (identify firms associated with -respective cost fee should be identified, or TBD if to be determined).
- Heightened Risk Debt – If the proposed debt will be issued at a variable interest rate, contains an interest reset option, or contains a feature where the holder of the debt can “put” the bond or loan to the local government at a predetermined date, provide details of the variable rate and other options, as applicable. Refer to the “Heightened Risk Debt Approval” requirements within this Section.
- Balloon Indebtedness – provide one of the following:
 - Statement that the proposed repayment structure does not constitute Balloon Indebtedness as defined in Tenn. Code Ann. § 9-21-133, and provide the reason;
 - or
 - Statement that a separate Plan of Balloon Indebtedness was submitted to the Comptroller’s Office. See requirements for “Balloon Debt” in Section 7d.

3. Plan of Finance - Refunding

- The requirements outlined for “Plans of Refunding” in Section 7a should be followed.
- The objective of the refunding for utility districts and water and wastewater authorities (including regional) is governed by state law and must be for savings, removal or modification of a restrictive covenant change, elimination or mitigation of risk due to interest rate changes, or to prevent default See Tenn. Code Ann. §§ 7-82-501(a), 9-21-1001(b), 68-221-611(a), and 68-221-1311(a).

4. Plan of Finance – New Money and Refunding

- The plan of finance should include the elements identified above for both new money and refunding debt issues.

Federal Loans: Utility systems may receive loans from a federal agency, such as the USDA (Rural Development Loans), and the EPA (Drinking Water and Clean Water State Revolving Fund (SRF) Loans, and the Water Infrastructure Finance and Innovation Act (WIFIA) Loans).

~~These federal loans are often approved and administered by a state agency.~~ A report on a Plan of Finance is not required when:

- The debt will be purchased by a direct lending department of the federal government. For example, interim financing is obtained from a non-federal lending entity, such as a local bank, and later refinanced (purchased) with proceeds from a federal loan.
- The loan is with a lending department of the federal government.
- The debt is an SRF loan approved and issued by the State.

However, a Plan of Finance is required when the federal lending department is only guaranteeing the debt. For example, the Rural Utilities Service (RUS) federal loan guarantee program administered by the USDA. This program supports rural development by providing loan guarantees to private lenders, enabling them to extend credit to qualified borrowers in rural areas. The RUS guarantees a portion of the loan, generally up to 80 or 90 percent, and for a term up to 35 years.

d. Balloon Debt

Pursuant to requirements outlined in the “Tennessee State Funding Board Guidelines – Comptroller Approval of Balloon Indebtedness,” all requests for approval of balloon indebtedness should include a request letter and plan of balloon indebtedness and be submitted to the Division of Local Government Finance in the Comptroller’s Office at LGF@cot.tn.gov for review and approval. The guidelines are available on the Comptroller of the Treasury’s website at tncot.cc/debt – select the “Balloon Debt” tab. For further illustration of what constitutes balloon indebtedness, see the balloon debt flowchart in the Appendix.

Minimum Requirements to Request Approval to Issue Balloon Indebtedness:

1. Request Letter

The letter must be signed by the Mayor/Executive or designee and clearly describe the public purpose for the balloon repayment structure and why it is in the public’s interest. See Tenn. Code Ann. § 9-21-133(f). It must also include contact information, including e-mail addresses, for all professionals working on the issuance.

2. Plan of Balloon Indebtedness including the following key elements:

- Not to exceed dollar amount and/or estimated amount of issuance.
- Name of the debt issuance.
- Security.
- Project.
- Material terms of transaction.
- Amortization schedule(s).
- Multiple series of debt to be issued simultaneously that will finance the same project must be reviewed in the aggregate and included in one plan.

- New money debt must be evaluated separately from any refunding debt when issued at the same time.

The Comptroller's Office has 15 business days after receipt of a plan to review and either approve or disapprove the plan. Incomplete plans are not considered received and additional information may be requested to properly review the proposed plan. The Comptroller's Office will evaluate each plan based on the plan's particular circumstances and approve the plan only if a determination is made that the repayment structure is in the public's interest.

e. Pledge of Non-tax Revenues

Municipalities or counties that have created a Tourism Development Authority may pledge non-ad valorem taxes and revenues toward the payment of bonds issued pursuant to Tenn. Code Ann. § 7-69-111. Prior to authorization by the creating municipalities and/or counties, approval must be requested from our Office.

Requests for approval should include the following:

- Signed request letter from the Mayor, County Executive, City Manager, or Finance Director
- Proposed resolution authorizing the bonds or notes
- Proposed disclosure statement; if any
- Schedule showing the estimated annual principal and interest requirements
- Detailed statement showing the estimated cost of issuance
- Listing of projects to be financed
- Detailed description of non-ad valorem tax revenue pledge including a listing of individual revenues pledged
- Five-year history of the pledged revenues
- Five-year proforma balance sheet, income statement, and cash flow analyses for the project showing the estimated inflow and outflows of revenues, expenses, cash, and the effects on net assets and cash balance

f. Debt Report

In Tennessee, any governmental entity that issues debt must complete a Debt Report once the debt is issued. The report must be submitted to the governmental entity's governing body (e.g., the county commission) within 45 days after the issuance, and an additional copy must be filed with the Comptroller's Office. Please visit the Comptroller's website at tncot.cc/debt-report for specific requirements and filing information, including an online submission process.

As approved by the Tennessee State Funding Board, the Debt Report includes various information about the debt incurred, such as:

- the type of debt – bond, note, loan, or lease financing – and the purpose of the debt issuance (e.g., general government, education, refunding or refinancing of prior debt);
- the par value of the debt and any discount or premium;
- the interest cost, and whether the interest is taxable or tax-exempt; and
- the method of sale, cost of issuance, and professionals involved on the financing team.

g. Events of Default, Covenant Violations, and Credit Rating Downgrades

As approved by the Tennessee State Funding Board, public entities, including all state and local governmental entities, are required to report events of default, covenant violations, and credit rating downgrades to the Comptroller’s Office (Tenn. Code Ann. § 9-21-134). Timely notification of the following occurrences enables the Comptroller’s Office to be proactive in supporting public entities that may be at risk of financial distress.

Events of Default

Events of default include defaults (monetary), events of acceleration, termination events, modifications of terms, or other similar events under the terms of a debt obligation of a public entity. Events of default must be reported to the Comptroller’s Office at LGF@cot.tn.gov within 10 business days using the notice form available at tncot.cc/debt-notice. Industrial development boards have 15 calendar days to report a default (see requirements at tncot.cc/idc).

Covenant Violations

Covenants are contractual obligations associated with a debt obligation (bond contract, note form, financing lease, loan agreement, etc.) that are meant to protect the interests of the debt holder. Covenant violations must be reported to the Comptroller’s Office at LGF@cot.tn.gov within 10 business days using the notice form at tncot.cc/debt-notice.

Credit Rating Downgrades

Credit rating downgrades are the reduction or elimination of a credit rating by any nationally recognized statistical rating organization as identified by the United States Securities and Exchange Commission. Credit rating downgrades must be reported to the Comptroller’s Office at LGF@cot.tn.gov within 10 business days using the notice form at tncot.cc/debt-notice.

h. Debt Management Policies

Pursuant to Tenn. Code Ann. § 9-21-134(b)(1), the State Funding Board is authorized to develop model financial transaction policies for local governments in Tennessee. Local governments incurring or issuing debt shall have an adopted debt management policy (DPM) that complies with the guidance from the State Funding Board found on our website.

The DPM shall be fitted to the local government’s needs and reviewed and amended as needed. The DPM should be reviewed at a minimum each time there are legislative changes that impact your policy and when there is a change in the administration.

i. Heightened Risk Debt Approval

Pursuant to Tenn. Code Ann. § 9-21-409, prior to issuing any heightened risk debt, a local government must receive approval from the Division of Local Government Finance. Heightened risk debt includes any debt obligation that contains:

- a put option (a provision where the holder of the debt can force repayment with a limited notice);
- an interest rate reset provision; or
- a variable interest rate.

For the purposes of this statutory requirement, local government includes any incorporated county, metropolitan government, municipality (city or town), water, wastewater, or energy authority, or utility district.

Minimum Requirements to Request Approval:

A fillable and downloadable form for a request to issue heightened risk debt can be found on the Comptroller's website at tncot.cc/debt. Please contact the Comptroller's Office with any questions about the request or the online form.

When Approval Overlaps with Other Comptroller Approvals and Reports:

1. For debt that is approved by the Comptroller's Office, such as capital outlay notes, follow the requirements already outlined within this manual for the proposed debt, and also include a completed request form, available at: tncot.cc/debt, for heightened risk debt. These may be sent as one submission.
2. For debt that is reported on by the Comptroller's Office, for example: refundings and plans of finance, follow the minimum requirements outlined above and submit as a separate request.

Requests should be sent to the Division of Local Government Finance at LGF@cot.tn.gov for review and approval. Requests will be reviewed within 15 days; however, if the submission is incomplete, the 15-day review period will not begin until all information is received. Once the review process is complete, the local government will receive a letter via e-mail from the Division of Local Government Finance indicating approval or non-approval. Pursuant to Tenn. Code Ann. § 9-21-409, the Comptroller will evaluate each request based on the local government's particular circumstances and approve the request only if a determination is made that the debt terms are in the public's interest.

j. Comptroller's Annual Budget Approval – Impact on Debt Issuance

See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-404, 68-221-611, and 68-221-1306.

Annual Budget Approval – Prerequisite to Incurring Debt

State legislators have recognized the importance of having an approved budget by passing legislation specifying that if the annual budget is not approved by the Comptroller's Office, local governments (counties, municipalities, metropolitan governments, utility districts, municipal energy authorities, water and wastewater treatment authorities, and other local governments subject to the Comptroller's budget oversight) may not issue debt or financing obligations until a subsequent budget is approved.

Emergency Financial Transactions

The Comptroller's Office may waive the requirement of budget approval to allow a local government to enter into an emergency financial transaction. If the local government does not receive an approved budget for the fiscal year and requires a waiver to enter into an emergency financing transaction, local officials should contact their regional financial analyst within the Division of Local Government Finance for assistance. Requests for waivers must contain:

- A letter requesting approval for a waiver so that the local government may enter into an emergency financial transaction. The letter should:
 - Be from and signed by the local government's chief executive (mayor, etc.).
 - Include a description of the nature of the emergency financing need, including the capital project.
 - Describe the debt transaction including:
 - Not to exceed amount
 - Security
 - Maturity/term
 - What corrective actions the local government has done, or plans to do, to address the reason why the budget was not approved.
- A proposed amortization schedule.
- Any additional documentation that will demonstrate the emergency financing need.

The request will be reviewed within 10 days of receipt by the Division of Local Government Finance. If the submission is incomplete, the 10-day review period will not begin until all the information that is needed is received. Once the review process is complete, the local government will receive a letter via e-mail from the Division of Local Government Finance indicating approval or non-approval. Approval may be conditioned upon some action by the local government. Consideration will be given when the financing is needed to prevent an emergency, to respond to an emergency, or when public health or essential public services are at risk.

a. Internal Revenue Service and Tax-Exempt Status

The interest paid on debt obligations issued by local governmental entities may be exempt from federal income taxation. Very complex provisions of the Internal Revenue Code, together with hundreds of pages of regulations issued by the Internal Revenue Service, provide guidance as to whether the interest on a debt obligation of a governmental entity is exempt from federal income taxation. If the interest on a debt obligation of a governmental entity is exempt from federal income taxation, that type of debt obligation is frequently referred to as a tax-exempt bond, whether the obligation is a bond, note, loan agreement, or financing lease. For purposes of this Section, all debt obligations that are tax-exempt (i.e., the interest on the debt obligation is exempt from federal income taxation) are referred to as tax-exempt bonds irrespective of the type of debt obligation.

It is often beneficial for a local government entity to issue a debt obligation that is a tax-exempt bond when undertaking a borrowing. Because the holder of the tax-exempt bond does not pay federal income tax on the interest of the tax-exempt bond, the holder should charge a lower interest rate on the tax-exempt bond. The interest rate on a tax-exempt bond is usually 20% to 30% less than a comparable taxable debt obligation. Therefore, it is often in the best interests of the local government entity to ensure that a debt obligation qualifies as a tax-exempt bond.

A debt obligation issued by a local government entity is never automatically a tax-exempt bond. Although many debt obligations issued by local government entities can be tax-exempt, a local government entity must meet certain requirements of the Internal Revenue Code and the related regulations to qualify a debt obligation as a tax-exempt bond. For example, in connection with any tax-exempt bond, a notice filing must be made with the Internal Revenue Service. Because these requirements can be very complex, many local government entities retain bond counsel that has experience with tax-exempt bond issues to provide an opinion that a debt obligation is tax-exempt, and many purchasers of tax-exempt debt also require the receipt of such an opinion.

In determining whether a debt obligation of a local government entity can be a tax-exempt bond, the Internal Revenue Code distinguishes between two types of obligations—governmental bonds and private activity bonds. Almost all governmental bonds can be tax-exempt bonds, while many private activity bonds cannot be tax-exempt bonds. A

governmental bond is essentially any debt obligation issued by a local government entity that is not a private activity bond. Very generally, a private activity bond is a debt obligation issued by a local government entity if (i) more than 10% of the proceeds of the debt obligation will be used by a private party or the federal government **and** (ii) more than 10% of the debt service on the debt obligation is payable by a private party or the federal government. Very complex regulations interpret this general rule, but in most cases, debt obligations issued by traditional governmental entities, such as counties, cities, school districts, and utility districts, will not be private activity bonds and instead will be governmental bonds that can be tax-exempt.

If a debt obligation of a local government entity is a private activity bond, it likely will be a taxable obligation, but under certain circumstances, it still might qualify as a tax-exempt bond. The following categories of private activity bonds may be eligible to be tax-exempt bonds provided all other relevant requirements are met:

- Bonds for non-profit entities that are exempt from taxation under Section 501(c)(3) of the Internal Revenue Code. Under this exemption, bonds issued for many hospitals, private schools and colleges, and other non-profit institutions can be tax-exempt.
- Bonds issued to finance low-income housing, even if privately owned.
- Bonds issued to finance airport facilities, even if privately used or owned.
- Bonds issued to finance certain small manufacturing facilities, even if privately owned (generally facilities with a total capital cost of less than \$20 million).
- Bonds issued to finance certain solid waste disposal facilities, even if privately owned.

Most private activity bonds are issued by local government instrumentalities, such as industrial development boards and health, education, and housing facility boards, and not traditional local government entities. In these cases, the issuing entity usually issues bonds at the request of a private party and loans the proceeds of the bonds to the private party. This type of financing is frequently referred to as a conduit bond financing because the local government entity is just serving as a conduit for the financing in order to obtain tax-exempt status, and the local government entity generally has no liability to pay the bonds except from payments made by the private party.

As previously mentioned, complex rules apply to all tax-exempt bonds. The most complex rules address issues relating to arbitrage, which means the investment of proceeds of tax-exempt bonds at a higher interest rate than the interest rate being paid on the bonds. Because bond proceeds can be invested in taxable investments, the interest rate on the investments can sometimes exceed the interest rate paid on the tax-exempt bonds, and this difference is considered arbitrage by the Internal Revenue Service. Some types of arbitrage are acceptable, and other types are not. An issuer's bond counsel should assist the issuer in complying with any arbitrage rules.

Many other rules apply to tax-exempt bonds, particularly private activity bonds that are tax-exempt bonds. Those additional rules include the following:

- The applicable rules may limit the amount of bond proceeds that a local government issuer can use to reimburse itself for expenditures that were made prior to the bonds being issued. This rule applies to governmental bonds and private activity bonds.
- A volume cap allocation from the State or a State agency may be required for certain private activity bonds including bonds for low-income housing.
- Most private activity bonds must be approved by the highest elected official in the jurisdiction in which the financed project is located.
- Most tax-exempt bonds are subject to a requirement that average weighted maturity of the bonds cannot exceed 120% of the average economic life of the assets financed, either through the arbitrage rules or a specific rule applicable to private activity bonds.
- Private activity bonds are generally subject to a limit on financed issuance costs.
- Tax-exempt bonds cannot be refinanced with other tax-exempt bonds more than 90 days before the refinanced tax-exempt bonds can be redeemed. In other words, “advance refundings,” which at one point were fairly common for governmental bonds, can no longer be issued as tax-exempt bonds.

Notes issued for working capital purposes, such as tax anticipation notes, can be issued as tax-exempt obligations if a number of requirements are met. The most significant requirement is that the issuer must demonstrate that a cash flow deficit is expected to occur in order to justify the working capital borrowing. Except under the most unusual of circumstances, working capital borrowings must be short-term in order to be tax-exempt.

Many tax-exempt bonds issued by smaller issuers are also “bank qualified” obligations under the Internal Revenue Code. “Bank qualified” obligations are a subset of tax-exempt bonds. The interest on “bank qualified” bonds is exempt from federal income taxation just like other tax-exempt bonds, but there are some additional tax benefits to banks and other financial institutions to buy “bank qualified” bonds. Therefore, a bank may offer a particularly attractive interest rate to purchase a tax-exempt bond that is also “bank qualified.” Bond counsel can advise as to whether a tax-exempt bond issue can also be “bank qualified.”

The Internal Revenue Service can audit a debt obligation of a local government entity in a manner similar to an audit of a tax return for an individual or a corporation. The audit process can be complex, and a local government should consider obtaining professional assistance if an issuer’s tax-exempt bond is the subject of an audit. In the worst-case scenario, the Internal Revenue Service could determine that a debt obligation is not eligible to be a tax-exempt bond, in which case the holders of the obligation would have to pay tax on the interest on the obligation (and would likely seek relief against the local government issuer or other parties involved).

b. Federal Securities Laws

When private entities publicly sell debt and/or equity, private entities are frequently required to submit a registration statement relating to the debt and/or equity to the federal Securities and Exchange Commission (“SEC”). Local government entities are generally exempt from such registration requirements in connection with the sale of debt. Therefore, only in very rare circumstances will a local government entity be required to file a registration statement with

the SEC. Generally, official statements and other offering documents of local government entities are not required to be submitted to or approved by the SEC or any other government entity prior to the sale of the debt.

While local government entities are generally exempt from registration requirements, local government entities are not exempt from the anti-fraud regulations that have been issued by the SEC. Under these regulations, the issuer of debt must not make fraudulent statements or engage in certain other abusive practices in connection with the sale of securities, and municipal bonds and other types of municipal debt are typically considered securities for this purpose. If a local government entity makes a material misstatement in connection with the sale of its debt, the local government entity could be the subject of an enforcement action by the SEC or could be sued by the purchasers of its debt. It is therefore essential that the official statement or other offering document pursuant to which a local government entity offers to sell debt be as accurate as is possible.

Many local government entities rely on a municipal advisor (also known as a financial advisor) to prepare the disclosure relating to the local government entity that is included in the official statement or other offering document. Even though a third party prepares this information, the local government still remains primarily responsible for the accuracy of the information in the official statement or other offering document, and the Chief Executive Officer and/or Chief Financial Officer should carefully review all offering documents as to the accuracy of the information contained therein. Some local government issuers retain legal counsel, which is known as disclosure counsel, to assist in ensuring that requirements of the securities laws are met in connection with disclosure of a debt offering. Disclosure counsel may be the same law firm as bond counsel or may be another law firm hired specifically for that purpose. Unless bond counsel is asked to also assist with the accuracy of disclosure relating to a local government, bond counsel generally has no role in that regard, and bond counsel's involvement with the official statement or other offering document is limited to describing the debt being sold (and not the information relating to the issuer).

If a local government entity sells debt in a public sale, the local government will become obligated to provide updated financial information to the holders of the debt on at least an annual basis under Rule 15c2-12 issued by the SEC. If the local government entity has less than \$10 million in public debt outstanding, the local government entity may only be required to file its audit each year, and if the local government entity has more than \$10 million in public debt outstanding, the local government entity will likely have to provide additional financial information. These annual updates are filed on a financial reporting website with the acronym "EMMA," which is maintained by the Municipal Securities Rulemaking Board ("MSRB"). Many local government entities rely on a dissemination agent to make annual disclosure filings, but the primary responsibility for making such filings remains with the local government entity. Failure to make such annual filings can make the future offering of public debt by the issuer more difficult and possibly more expensive.

While the federal government does not generally have the right to exercise direct oversight over the issuance of debt by local government entities, the federal government, through the MSRB, exercises broad regulatory oversight over underwriters and municipal advisors. Under

MSRB regulations, underwriters must comply with a number of rules relating to the purchase and sale of municipal securities, such as the delivery of official statements. In order to comply with these rules, underwriters will require local government entities, in connection with the purchase of debt, to provide certain information and meet certain requirements to allow the underwriter to comply with MSRB requirements. The MSRB also regulates municipal advisors and regulates the standards of conduct of municipal advisors.

Various resources are available to local government entities to assist with the issuance of debt. The resources referenced in this section will be helpful to local government entities that are not conduit debt issuers, and that issue debt based upon their own credit.

a. Seven Keys

The Seven Keys to a Fiscally Well-Managed Government is a document produced by the Comptroller’s Office that outlines various characteristics present in financially well-managed governments. Follow this link for a printable copy for your board and for related videos: tncot.cc/7keys

Building a Strong Budget for a Resilient Government

Structurally Balanced Budget

A budget is structurally balanced when recurring revenues are sufficient to pay recurring expenditures. Recurring revenues can be relied on every year (property taxes, sales taxes, wheel taxes). Recurring expenditures are those required for normal governmental operations (debt payments, salaries, pension payments). Using overly optimistic revenue projections or underestimating expenditures, as well as relying on one-time revenue from selling assets, restructuring debt, spending savings, or deferring maintenance, indicate the budget is not structurally balanced. [Tenn. Code Ann. § 9-21-403]

Cash Flow Management

A local government’s ability to track how much revenue is coming into the government and how much is going out is vital to its fiscal health. Local governments that rely heavily on property taxes will need larger cash reserves to fund governmental services until tax revenue is received. Prior to its adoption, the budget must contain adequate revenues along with cash on hand to fund the government throughout the year. In addition, local governments need to have plans in place if additional sources of liquidity either internally (interfund tax anticipation note “TAN”) or externally (bank issued TAN) prove to be necessary. [Tenn. Code Ann. § 9-21-801]

Forecasting Budgetary Amounts

Mechanisms for forecasting revenues and expenditures that consider economic trends and growth rates provide for reliable revenue estimates. Local governments that do not routinely forecast budgetary amounts may find revenues overstated and expenditures understated. [Tenn. Code Ann. § 9-21-403]

Planning for Unknowns

Rainy Day Reserve

Beyond liquidity management, local governments need to have reserves for unforeseen events like natural disasters or economic downturns. A government that creates a rainy day fund should at times expect to use the reserves but also have a policy for replacing the funds.

Contingency Spending Plans

Knowledge of what part of a budget is discretionary and can be legally and practically cut is necessary for dealing with unforeseen circumstances. If an event decreases a significant revenue source or increases spending during a year, and revenues cannot be adjusted quickly, then cuts to expenditures are necessary. Prior planning as to what cuts will be made will expedite the recovery.

Planning for Tomorrow

Long-Term Liability Planning

Debt, pension, and OPEB payments are set amounts in the annual budget. The larger these payments are, the less ability the governing body has to make changes to the budget. Ongoing decisions of whether to issue additional debt or to make changes to benefits have a direct budgetary impact that must be considered. When the repayment of long-term liabilities comprises a large percentage of the budget, consistent management of the government's obligations is essential.

Multi-Year Financial Planning

Having a plan that considers the long-term affordability of programs or projects before they become an item in the annual budget is crucial. Assets will need to be replaced, maintenance performed, and programs expanded; advanced planning of these items will help ensure the funding is available in the future.

b. Financial Health Metrics

Financially healthy local governments tend to have a few traits in common—they operate with balanced budgets, do not spend nonrecurring funds on recurring expenses, maintain adequate cash reserves, have a manageable debt burden, and keep liabilities in check. Local governments that do not manage these items tend to experience financial issues that show up in the following metrics that the Comptroller's Office calculates annually:

For Governmental Operating Funds				
(General Fund, General Purpose School Fund, and Other Funds with Recurring Payroll Expenditures)				
Financial Health Metric	Description	No Concern	Concern	Distress Concern
Cash as a Percent of Expenditures	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Greater than 15%	15% to 8%	Less than 8%
Cash divided by Current Liabilities (Cash Ratio)	Do we have the ability to pay short-term obligations?	Greater than 1.2x	0.7x to 1.2x	Less than 0.7x
Change in Fund Balance as a Percent of Expenditures	How much did we overspend last year? (A concern exists when cash reserves are low.)	Positive	Decrease of 0% to 2%	Decrease greater than 2%
For General Governmental Debt				
For Counties, Metros, and Municipalities with a Property Tax - General Governmental Debt as a Percent of Assessed Value*	How burdensome is our debt load?	Less than 8%	8% to 10%	Greater than 10%
For Municipalities without a Property Tax - General Governmental Debt per households as a Percent of Median Household Income	How burdensome is our debt load?	Less than 8%	8% to 10%	Greater than 10%
For Utility Systems				
(Utility Systems Operated by a City/Town, County, Metro Govt, Utility District, Authority, or Joint Venture)				
Financial Health Metric	Description	No Concern	Concern	Distress Concern
Cash as a Percent of Cash Expenses	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Greater than 15%	15% to 8%	Less than 8%
Current Assets divided by Current Liabilities (Current Ratio)	Do we have the ability to pay short-term obligations?	Greater than 1.5x	1.25x to 1.5x	Less than 1.25x
Statutory Change in Net Position as a Percent of Operating Revenue for Systems under TBOUR Jurisdiction	Are my rates sufficient to cause a positive statutory change in net position?	Positive	N/A	Negative
Business Type Activity Debt Coverage Ratio**	Do we have revenues sufficient to cover debt service?	Greater than 1.20x	N/A	Less than 1.20X

* Debt as a Percent of Assessed Value is calculated as: total general governmental debt divided by total assessed value of property in the local government as reported by the Comptroller on the Tax Aggregate Report.

** Debt Coverage Ratio is calculated as annual operating revenues minus annual operating expenses excluding depreciation divided by annual debt service (principal and interest) payments.

c. Technical Assistance Services

The Municipal Technical Advisory Service (MTAS) assists Tennessee *cities* and *towns* with finance and accounting, human resources, legal services, municipal management, public safety, public utilities, and public works. <https://www.mtas.tennessee.edu/>

The County Technical Assistance Service (CTAS) assists Tennessee *counties* with financial services, legal services, information technology, highway services, public safety, environmental services, training services, and research and analysis. <http://www.ctas.tennessee.edu/>

The Tennessee Association of Utility Districts (TAUD) provides Tennessee *utilities* with training, industry information and publications, and legislative updates. <https://taud.org/>

d. Debt Coverage

The State of Tennessee does not limit the amount of debt a local government can issue; however, all local governments should know what amount of debt they can afford.

The Government Finance Officers Association (GFOA) states in its Debt Management Policy Best Practices that local governments' debt management policy should consider setting specific limits or acceptable ranges for each type of debt. Limits generally are set for legal, public policy, and financial restrictions and planning considerations. Debt limits often are expressed as ratios. Different limits are used for different types of debt. Examples include:

i. General Government Debt:

- Debt per capita,
- Debt to personal income,
- Debt to taxable property value, and
- Debt service payments as a percentage of general fund revenues or expenditures.

ii. Revenue Debt

Revenue debt levels often are limited by debt service coverage ratios, additional bond provisions contained in bond covenants, and potential credit rating impacts.

For more information, see the GFOA website at: <https://www.gfoa.org/>

For local governments with rated debt, or those seeking a rating, rating agencies set outer limits on the amount of debt and/or debt service allowed for their various rating categories (see Section 9e and rating agency websites and other resources for more information on specific rating methodologies).

The Division of Local Government Finance recommends that all local governments that have outstanding debt, or plan to issue debt, review their debt management policy and discuss the merits of setting a debt limit for each debt security (general obligation/revenue) the local government maintains. The local government should also review the Financial Health Metrics section of this Manual for guidance on debt metrics.

e. Rating Agencies

Rating agencies provide, for a fee, opinions on the credit quality of an entity that issues bonds, or a specific bond issue—in other words, how likely the issuer is to pay principal and interest on time. In determining a rating, the rating agency reviews, among other factors, the issuer’s financial reports, tax structure and related laws, demographic data, and economic statistics.

The three major rating agencies are Moody’s Investors Service, Standard and Poor’s (S&P), and Fitch Ratings.

	Rating		Definition
	Moody’s	Standard & Poor’s	
Investment Grade	Aaa	AAA	The highest rating – considered the highest quality, with minimal risk of default.
	Aa	AA	Considered high quality with very low risk.
	A	A	Considered upper-medium grade with low risk of default.
	Baa	BBB	Considered medium-grade; may have speculative characteristics.
Non-Investment Grade – Speculative or “Junk” Bonds	Ba	BB	Considered to have some speculative elements and substantial risk of default.
	B	B	Considered speculative with high risk of default.
	Caa	CCC	Considered poor quality with very high risk of default.
	Ca/C	CC/C	Considered highly speculative, and likely in default or close to default; some chance of recovering principal and interest.
	C	D	The lowest rating – usually in default with little chance of recovering principal and interest.

Depending on the rating agency, modifiers of 1, 2, and 3, or +/- are added to each rating classification —e.g., Aa1 or BB+ – to indicate whether the security falls into the low or high end of the range. Definitions adapted from Moody’s Investors Service.



JASON E. MUMPOWER
Comptroller

MEMO

To: Members of the State Funding Board
From: Steve Osborne, Assistant Director, Division of Local Government Finance
CC: Sheila Reed, Director, Division of Local Government Finance
Date: June 22, 2026
Subject: Report on Emergency Financial Aid to Local Governments

The Federal Emergency Management Agency (FEMA) issued a Major Disaster Declaration for Tennessee as follows:

- January 22-27, 2026 – DR-4898-TN – Winter Storm Fern (Declared on February 6, 2026)

Pursuant to Tenn. Code Ann. § 9-13-201 et. seq (the “Act”), local governments must request approval from the Comptroller’s Office prior to issuing notes in the case of economic distress due to a natural disaster certified by the Federal Emergency Management Agency (FEMA). The Act requires the Comptroller of the Treasury to report to the State Funding Board any approval of note issuance pursuant to Tenn. Code Ann. § 9-13-206.

We have approved the following notes issued in connection with the FEMA declaration described above and as authorized by the Act.

Entity	Description	Date Approved	Amount Approved	Maturity
McNairy County	Tax Anticipation Notes, Series 2026 (Highway Fund)	5/13/2026	\$400,000	6/30/2028
Fairview	Tax Anticipation Notes, Series 2026 (General Fund)	5/22/2026	\$2,750,000	6/1/2029

For a copy of the approved letter please see our [website](#).