THE UNIVERSITY of TENNESSEE
MUNICIPAL TECHNICAL ADVISORY SERVICE
...in cooperation with the Tennessee Municipal League

TECHNICAL bulletin

September 18, 2012

STATE STREET AID FUND REVENUES AND EXPENDITURES ON THE ROAD TO UNDERSTANDING

Updated by Ron Darden, Municipal Management Consultant

The Tennessee Legislature authorized the state to distribute a portion of the proceeds from the state gasoline fuel taxes to incorporated cities and towns for use on municipal streets. According to the Tennessee Department of Transportation, of the $246.8 million in petroleum and alternative fuel taxes allocated for cities and counties cities are estimated to receive $100,122,368 from State Street Aid Funds (3,920,218 x $25.54 per capita).

STATE GASOLINE TAX REVENUE

The state petroleum and alternative fuel taxes are:

- Gasoline tax — 21.4 cents per gallon;
- Diesel tax — 18.4 cents per gallon;
- Liquefied gas tax — 0.14 cents per gallon; and
- Natural gas tax — 0.13 cents per gallon.

These tax amounts include a special privilege tax of 1 cent per gallon on petroleum products and a 0.4 cent petroleum tax for the underground storage tank fund.

The proceeds from these taxes are paid monthly to local governments on a per capita basis. The law permits motor vehicle fuel tax monies to be used for street-related purposes. The law further requires that these funds be accounted for separately in a special revenue fund, commonly titled the state street aid fund or gas tax fund. Cities may request permission from the state comptroller's office to account for these funds in the general fund. T.C.A. § 54-4-204. See T.C.A. § 54-4-203 for distribution of funds for premier tourist resort cities.

DEFINITIONS

- "Municipal Street Aid Fund" means the funds provided for municipalities from state gasoline fuel taxes;
- "Municipality" means any incorporated city or incorporated town charged with the duty of constructing and maintaining streets within its corporate boundaries;
- "Street" includes streets, highways, avenues, boulevards, publicly owned rights-of-way, bridges, tunnels, public parking areas and other public ways dedicated to public use and maintained for general public travel lying within a municipality's corporate boundaries; and
- "Street improvements" means construction, reconstruction, improvement, and maintenance of streets, including paving, repaving, grading and drainage, repairs, cleaning, acquisition and maintenance of rights-of-way, extension and widening of existing streets, elimination of railroad grade crossings, acquisition or lease or lease/purchase of trucks or other equipment

necessary in the construction and maintenance of streets, including the purchase, construction or leasing of facilities to store equipment, street lighting, signage, and other traffic control devices, and administrative and other necessary expenses, including labor and employee benefits in connection with such street improvements. T.C.A. § 54-4-201.

ADMINISTRATION

Each municipality is required to keep records of receipts and expenditures for its state street aid fund in accordance with sound municipal accounting practices. At the end of each fiscal year the municipality must provide an audit of the accounts of the fund by a certified public accountant, and submit one certified copy of the audit to the comptroller of the treasury to be reviewed for compliance with the provisions of the statute. Minimum standards for municipal audits prescribed by the comptroller of the treasury must be met (see T.C.A. § 54-4-204(c)).

All purchases made by a municipality with state street aid funds are required to be in conformity with public advertisement and competitive bidding laws applicable to the particular municipality. Generally, municipalities must follow the provisions of the 1983 Municipal Purchasing Law.

Municipalities are not required to employ a licensed engineer to prepare bid specifications and estimates. T.C.A. § 54-4-204 (d)(2). Upon written request of a municipality, the comptroller of the treasury may authorize that funds received from municipal state street aid fund may be kept and accounted for in the general fund of the municipality. Fund revenue and expenditures related to funds received for the municipal street aid fund are required to be accounted for separately in the general fund in such a manner as to allow identification of the source of revenue and the expenditures related to such revenue.

Funds in the municipal street aid fund may be used by municipalities receiving such funds for funding mass transit systems. No more than 22.22 percent of such funds may be used for funding mass transit. T.C.A. § 54-4-204 (e).

Cities may be eligible for 15-year loans from funds accumulated and set apart from petroleum funds to fund costs incurred in relocating, moving or reinstalling utility facilities, without any additions. Such loans are allowable only for relocating utility lines located within rights-of-way of highways on the system of state highways if relocation is required because of highway construction projects administered by the department of transportation. Applications for assistance should be directed to the State Utility Management Review Board (see T.C.A. § 67-3-901). Cities are advised that utility relocation expenses for state highway projects may be paid for with state highway project funds.

It is a Class C misdemeanor for any municipal official or employee to authorize, direct or permit the expenditure of such funds for any purpose, except those authorized by the state law. Any municipal official or employee who violates this provision shall be personally liable for any unauthorized expenditures of such fund. T.C.A. § 54-4-205.

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EXPENDITURES

GENERAL

State street aid funds can pay:

- Street improvements, including work by TDOT or by a county highway department or another municipality, performed under an agreement;
- Valid administration expenses connected with issuing street improvement bonds;
- Principal and interest on street improvement bonds or other indebtedness incurred to pay for street improvements issued after February 19, 1953;
- Street work supervision fees;
- Workers' compensation insurance for employees engaged in street improvement activities;
- General and automotive liability insurance coverage of street improvement activities;
- Property insurance coverage for portions of buildings used to store and maintain street improvement equipment; and
- Mass transit systems, provided that such funding shall not exceed 22.22 percent.

State street aid funds can't pay:

- Auto expenses for the city recorder;
- Salary supplements to the street superintendent;
- Loans temporarily borrowed from the municipal state street aid fund;
- Audit fees;
- Recorder's commission;
- Personal damages;
- Property damages;
- Office assistance; or
- General administrative expenses.

Be careful:

- If a city makes curb and gutter improvements and pays the total cost from state street aid funds but has assessed the abutting property owners for two-thirds of the cost, the funds derived from the assessments must remain available for other qualified street projects;
- Interest received by a municipality from the investment of state street aid funds is subject to the same restrictions as the state street aid fund money; and
- A city must keep records in accordance with sound municipal accounting practices and include the state street aid funds in the year-end audit.

CONSTRUCTION

State street aid funds can pay for:

- Engineering fees for street improvements. Cities are not required to employ licensed engineers to prepare bid specifications and estimates;
- Constructing sidewalks along city streets;
- Acquiring rights-of-way for city streets, including approaches to bridges and tunnels;
- Widening and/or draining a creek to prevent city street flooding, where the primary purpose is to stop street flooding. Protecting other property may be an incidental benefit;
- Up to one-third of the city's rights-of-way acquisition costs for a state highway through the city; and
- The city's part of the cost of grade eliminations on streets and highways, including state and federal highways.

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State street aid funds can't pay for:
- Extending municipal sewer lines even if tunneling under city streets is necessary; or
- Drainage improvements not associated with protecting a street.

Be careful:
- Funds may not exceed one-third of the total costs of rights-of-way for state and federal highways within the municipality; and
- All purchases must be made in conformity with public advertisement and competitive bidding laws applicable to the city.

REPAIR AND MAINTENANCE

State street aid funds can pay for:
- Purchasing machinery to repair and maintain municipal streets;
- Purchasing and maintaining equipment for mowing areas within street rights-of-way;
- Removing dead trees, tree limbs, leaves, and similar objects;
- Purchasing boiler for asphalt plant if used to heat asphalt for street improvements; and
- Purchasing street cleaning equipment.

State street aid funds cannot pay for:
- Maintaining county roads; or
- Purchasing refuse pick-up equipment.

Be careful:
If purchasing a piece of equipment is questionable, spend the money on other equipment, supplies, or paving.

STREET SIGNS AND STREET LIGHTS

State street aid funds can pay for:
- Erecting street signs;
- Installing and maintaining traffic lights; and
- Street light installation and electric bills for street lights.

State street aid funds cannot pay for:
- Welcome-to-the-city signs; or
- Community event and general informational signs.

OTHER FACILITIES

State street aid funds can pay for:
- Purchasing, constructing, repairing, or leasing a facility to store street equipment, street lighting, signs, and other traffic control devices.

Cities are advised to use municipal street aid funds for known eligible expenditures and fund questionable expenditures from the general fund.

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