# BUDGET PREPARATION MANUAL

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# INTRODUCTION

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

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

The outline found on the first pages provides the steps in the budget process that will be discussed in the workshop. Feel free to ask questions and make notes in the workbook. The MTAS and CGT staff have developed this for you to use, here at City Hall.

The TCA specifies in the Manager-Commission Charter that the manager shall present on or before November 15, the budget estimate for the coming fiscal year. The modified Manager Charter, which applies to Union City, Elizabethton, and Oak Ridge, notes that no later than 90 days before the beginning of the fiscal year the manager shall submit a budget. Our experience in Tennessee cities reveals that the work on the budget is begun in the last quarter of the fiscal year.

The point in citing these references relates to the legal basis for a budget, recognizing the statutory differences in completing this process. In city manager cities and mayor-alderman cities also, it intends to reinforce one item -- you need a budget, not only because the law "says so", but because in these uncertain economic times, it's a management tool that will allow the best use of your fiscal, and in turn, your human resources to provide services to your city. Now that we've established the legalities, there are some additional steps in the process that need to be followed in order to complete the budget in a timely manner.

Review of City's Financial Condition. Each year a municipality has its fiscal affairs audited, another legal requirement found in TCA 6-56-105. This document provides a "picture" of how well the city is doing, financially.

Audit. The information found in the audit places the elected official in a position to determine where new revenues are needed, what to set aside for bonded indebtedness, etc. This information, when added to the day-to-day knowledge of the staff, provides a basis in developing a budget, as well as determining needs for improving the city's accounting procedures. While the "numbers" in the audit represent one aspect of the city's fiscal picture, the recommendations of the auditor about changes in bookkeeping, accounting, etc. complete the review, allowing for deficiencies to be rectified. Once a

## THE BUDGET PROCESS IN GENERAL

Budget Defined. What is a budget? A budget is a plan for spending money and designates the purposes for which money will be spent. Some people call it an "educated guess". It contains a schedule showing the amount of money that will be available to spend, the sources from which the money will be received and the estimated amount of money from each source. A budget can take one of three forms: line-item, program or performance.

Line Item Budget. A line-item budget allocates money for expenditures to specific items reference to programs or departments. Expenditures are categorized into salary, benefits, utilities, contractual services, etc. A line-item budget is easy to prepare, but tells very little about which department performs what services and the extent of services provided. It is a limited device in giving direction, and basically fulfills the minimum requirement in having a budget.

Program Budget. A program budget allocates monies to activities in the city listing expenditures by departments such as public safety, general government, public works, recreation, etc. It presents information in more detail and usually breaks costs into line-items. It shows the functions for which money will be expended and the importance the city places on these functions. It does not show the level of services produced and some say that its value as a tool for managing the quantity or quality of public service programs is weakened.

Performance Budget. A performance budget allocates money to activities or programs plus describes the services which will be produced with the monies allocated. It allows regulation of the functions in a qualitative and quantitative way. It becomes the most useful, but most difficult to prepare.

Generally then, a budget is a plan that governs the allocation and expenditure of monies in a way that directs the city's activities for a year. Any of these budget examples takes time to develop and ample time should be given to the process. Fortunately, in the State of Tennessee a budget is required by TCA. A discussion of the logal aspects follows citing the code and private act charters as reference for the budget process.

## Legal Aspects

TCA. Simply speaking, it's a statutory requirement that a municipality have a budget. The Tennessee Code Annotated prescribes the manner in which a city complies with the law, with varied procedures based on the form of government, mayor-alderman or city manager, or as prescribed in the city charter. For a Mayor-Alderman city, TCA 6-2-301 cites that no expenditure of money shall be made unless money is available. A sidelight to this is found in Section 303 where it notes that the mayor and each alderman shall be liable for expenditures which exceed money on hand or taxes anticipated. A recent amendment to a city charter specified time periods for adopting a budget, including requirements for public hearings, etc. The crux of this fiscal process for mayor-alderman cities is indicated in Seciton 305 which cites that no levy of taxes shall be made unless a "budget of estimates, itemizing the amount required for each municipal purpose, is first made and reported". The procedure for the levying of taxes or appropriating monies is indicated in Section 308 wherein an ordinance on three (3) separate days must be adopted. There are some variations to this approach in a city manager town.

City Manager Town. In most cities the mayor or city recorder or a committee of aldermen compile a budget from monthly reports presented by the treasurer, with the city manager as the budget officer under the manager charter.

review of the financial affairs is completed, we take this knowledge and plan for the coming year, the planning culminating with the development of a budget.

Steps in Preparation and Adoption of a Budget. The budgetary process varies, legally and practically, in each of the 331 municipalities within the state. Sometime ago, MTAS published a budget calendar for small/middle sized cities, see Appendix A. The use of a calendar as shown in the appendix, or one divised by your city, is important since it establishes a "plan of attack" as opposed to a "fly-by-the-seat-of-the-pants" approach. Each step should be identified, as well as the person responsible for each step. A time frame should be developed in order that the deadline for meeting statutory requirements can be met. Allow enough time to complete the budget, hopefully, before the beginning of the fiscal year. Practically speaking, the budget should be adopted during a regularly scheduled meeting in July. While the calendars from city to city vary, make them detailed enough to eliminate confusion about what must be completed, by whom and when.

Public Hearing Requirements. The TCA cites that public hearings must be held regarding the budget; TCA 6-35-306, which applies to cities with this charter only. Another requirement for public hearings is found in the legislation regarding Federal Revenue Sharing Funds. There are two hearings about the uses of Federal Revenue Sharing Funds -- Proposed Use and Budget Hearing.

Proposed Use Hearing. The Proposed Use Hearing provides a tentative, non-binding list of uses for the entitlement and all other available revenue sharing funds. "All other" in this regard means Revenue Sharing Funds on time deposits, in savings or in checking accounts that have accumulated over the past years.

A primary purpose of this hearing is to allow citizens, orally or in writing, to have input about the use of funds. The decision for use of revenue sharing funds rests with the Mayor and Board, but the law requires that citizens be heard.

An example of the type of notice that should be advertised is found in Appendix B. It is suggested that notices be placed in prominent places throughout the city; i.e. post office, city hall bulletin board and other public places.

The basic requirement for publication states that the notice should appear in the paper ten (10) days before the date of the hearing. One (1) week after this hearing the budget hearing may be held. You should convene the proposed use hearing early in order to avoid a last minute approach in fulfilling these requirements.

In the past cities have used their funds for equipment purchases or other capital, one-time items. Recently, these funds have been used for operational expenditures; i.e. salaries. In the event the appropriations for revenue sharing were cut or eliminated, cities would be in a precarious position, fiscally, having to raise taxes or decrease services in order to make-up the loss of revenue. Caution is urged in the use of these funds.

<u>Budget Hearing</u>. Appendix C provides the type of notice that must be published for this hearing. This notice lists by department the amounts of revenue sharing funds proposed to be spent during the coming fiscal year, along with the amount of monies from other funds.

You may amend the budget to move revenue sharing funds from one department to another, if the need arises. There is one condition that should be considered before you do this. Once this hearing is completed, the adoption of the budget may occur. Again, you must give ten (10) days notice before holding the hearing to amend the budget. These two hearings must be held one (1) week apart.

Let's say that you need to spend $5,000.00 for a piece of equipment in the police department. You had decided not to use revenue sharing funds in this department's part of the budget, thus an amendment is necessary. You may have to convene another public hearing if the amendment exceeds 25% of your entitlement amount. Thus, if you receive $12,000.00 a year and want to spend $5,000.00, you'd need to advertise and hold a public hearing, since $5,000.00 is greater than 25% of the entitlement. If the amount to be amended was less than $3,000.00 (or 25%), you would not be required to hold a hearing.

We advise that all revenue sharing expenditures be noted in the minutes of the meeting, even if you are spending money you budgeted. It takes a minute to pass a motion that "x" dollars be spent in revenue sharing funds for a piece of equipment. It would take days to track the expenditure, if you fail to keep good records of your financial transaction. After all, it will help in completing the audit to have the minutes serve as an additional audit trail.

Budget Adoption - The Ordinance. We have placed in Appendix D and E some sample adoption ordinances which should be used to assist in finalizing the budget process. The normal and legal process used in adopting other ordinances should be followed in the adoption of the budget ordinance. We noted that TCA requires three (3) separate readings, but some cities use two or one. We urge consistency with prior practice. Following the budget hearings, the initial reading of the ordinances or approval of the budget, whatever the case may be, can be held.

You can establish the tax rate at the same meeting and in the same ordinance used to adopt the budget. The sample ordinances show both methods.

A budget is comprised of revenue/expenditures in a format that will enable municipal officials to make fiscally responsible decisions regarding the use of resources. We recommend that the budget process be one that allows sufficient time and manpower to do the best for your city. After all, it's your tax dollars, as well as your constituent's, so spend them wisely.

Within thirty (30) days of adoption, a notice should be published similar to Appendix F.

## REVENUE PROJECTIONS

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

Political Limits. Besides the legal limits, all revenue sources also have political limits or limits that the voting public will tolerate. However, these limits are usually based on perceptions, unless a referendum is held on a specific revenue.

Whether it is preception or actual vote, if the point of controversy is rate increases, then the communication of the reasons for a rate increase was lost or was inadequate. Cities should be aware that the failure of revenues to maintain a service is not likely to correct itself.

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

Once those reviews have been made, it is important to communicate to the citizens how revenues are performing, and even to the extent of what those revenues mean in services. The classic statement, "What are you doing with all of my tax money?" is often heard at City Hall. But in reality, that taxpayer's annual property taxes may not even be paying for the collection and disposal of his garbage.

Property Tax. The basic local tax is real estate or property tax. When property taxes are levied, they represent a substantial percentage of each city's overall revenue picture. It is true that most Tennessee cities are not able to control the appraisal of the property within their corporate limits. But, they are able to control their tax rate, which is unlimited unless reimposed by a charter provision subsequent to an act by the legislature which removed all maximum limits. It is important in preparing the budget that the preparer calculates the value of one cent (1¢) in the tax rate based upon the latest assessment figures, which are available at the county tax assessor's office. Such information should be available to the governing body as an additional revenue option, if such options are necessary.

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

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

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

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

How to Project. As for the projection of this revenue line item, you should compare your current total delinquency for the beginning of the fiscal year with the past two or three years delinquency for the same time of beginning. If those comparisons are basically equal, then the percentage of collection in past years should hold true for the coming year. Of course, all of this has to be weighted with the intended collection effort. With revenues becoming tighter, it appears that efforts are beginning to intensify on the collection of delinquent property taxes.

Local Sales Tax. Sales tax projections, as with property tax, works with a fixed rate, but with sales tax, the tax base which is volume of sales, can result in a low volume of sales unless prices increase through inflation, which has been a saving factor for many cities during the past few years. A growing local economy or local commercial growth can result in increased sales and sales tax revenue. However, be wary of past increases in sales tax that resulted due to inflation or commercial growth. Price increases may not maintain past levels, and therefore, result in less sales tax growth. Commercial growth will create new customers, i.e. reducing travel to other urban areas. It will also create sales tax growth, however, such growth may only draw customers from other commercial centers within the corporate limits, and therefore, generate little, if any, increases in sales tax revenue.

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

How to Project. In making projections we recommend you base them on at least two (2) years of data as shown in the budget format in Appendix H. The first is an actual year, which is the previous fiscal year. For this data each city should refer to their immediate past year's audit report.

The other year of data would be the current year and is obtained by using both actual year-to-date and projected figures to arrive at a total for the current year. Three approaches can be used in obtaining the current year and it is recommended a city use all three, especially in significant line items. Each approach requires year-to-date totals through the most recently ending month. Therefore, if you are preparing your budget in April, you should have revenue totals through March.

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

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

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

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

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

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

As you can see, all three of these approaches result in relatively close results. However, when multiplied to reflect many cities actual sales tax revenue, the differences could amount to several thousand dollars.

Once you have two years of data you are ready to make projections for the coming fiscal year. If the current year is less than the previous year, efforts need to be made to determine why. And, if the factors are identfied, determine whether they are temporary or long term. Regardless, the maximum projection for the coming year should not exceed the current year projection.

If the situation is reversed and current year projections are more than the previous year, you also need to determine why. However, unless unusual growth is taking place, i.e. more people moving in or more jobs being created, the safe approach is to budget the coming year at the current year level with no more than a maximum of five to ten percent (5% - 10%) increase.

It will be stressed in other sections of this document, but it is most important not to over project revenues.

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

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

How to Project. Projections of this revenue source depend upon the decisions of the government body as to whether they will take the maximum allowable or something else. Whatever their decision, the result less to twenty-two and one half percent (22 1/2%) of the total (maximum provided for county) can be entered in the budget.

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

How to Project. In making projections, the minimum two year history referenced earlier should be used. If the history shows a steady growth in revenues year after year, then the average percentage growth can be projected for the coming year. However, if the current year is indicating a downturn, the cautious approach would be to budget no more than current year's receipts. New beer retail outlets within the city will not necessarily result in increased revenues if there are several other outlets already located within the corporate limits. However, annexation of existing beer outlets will usually increase revenues. The approximate extent of such increase can usually be determined if the wholesaler or retailer will cooperate by supplying the volume of wholesale sales or purchases for the business in the annexed area.

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

Collection of current and delinquent business taxes is a local responsibility and if it is a significant revenue source, it should receive significant importance delegation of staff time. An important point on delinquencies is that after the tax is six (6) months delinquent, it becomes the duty of the state to collect the tax and any tax penalty and interest collected by the state from the delinquent taxpayer will be allocated to the state. Therefore, if a city imposes a business tax, the city should collect it in order to receive the revenue.

How to Project. Projections of business tax revenues again rely on a minimum two year performance history. Significant growth history can usually be safely projected for the coming year. However, in making projections cities should be aware to weigh the impact of additional commercial area (i.e. through annexation) and any changes in staff who are responsible for business tax collections.

In many cases, there will not be significant fluctuations or increases in business taxes and the current year receipts would be a safe projection for the coming year.

Other Local Taxes. Other local taxes may include franchise taxes, which are usually a fix percentage on gross receipts and remain basically constant from year to year, unless affected by user rate increases or system expansion. In either case, the city should be aware of these changes and coordinate their projections based upon information provided by the franchisee.

Other local taxes may also include room occupancy (hotel/motel), special assessments or mixed drink taxes which have not been discussed in this document because they do not receive that widespread use. We refer you to the MTAS Municipal Handbook for other revenues.

Licenses and Permits. Normally, the two sources of highest revenues among licenses and permits are automobile registration (city sticker) and permits related to the building codes. There are, of course, other types of permits, but these usually do not generate a significant volume of revenue and, therefore, have not been specifically mentioned.

Whether mentioned or not, primary consideration should be given to the following three factors in discussing licenses and permits. Changes within these factors can make the minimum two year history almost meaningless.

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

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

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

Each city should closely review the amount of construction taking place and in talking to local contractors and developers, try to determine the approximate amount of planned activity for the coming year. Permit amounts in each category should then be applied to the anticipated volume of business to determine the projection for the coming year.

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

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

State and Federal Grants. State and federal grants require application to obtain these funds and the amount requested is stated in the application. Budgeting these grants, even though the grant may not be secured, should not affect the other parts of the budget since these grant revenues are tied directly to specific expenditure line items. However, a city should closely monitor their expenditures so as not to avoid expending money until the grant is finally approved.

Charges for Service. Charges for service cover a broad range of revenue sources ranging from pool admittance fees to refuse collection charges. These charges have been established for reasons such as additional revenue, to assess specific individuals receiving specific services and to make certain government functions self-supporting. All of these are important reasons and require close review of each type of charge each year. This is especially true if the latter reason was the primary intent in establishing a charge. In such case, these specific revenues need to be compared to the specific expenditures they are supposed to support. Such comparison needs to be made annually and during times of substantial cost increases, charges may increase in order to maintain the self-supporting function. Offsetting factors to such increases would be volume increases (i.e. increases in customers) or technical improvements that would reduce costs.

In making projections in this area, it is important to have customer counts, if such information is available. If not, a city must rely on the minimum two year history of total revenues for the specific charge. The coming year should not, from a conservative approach, reflect more than the best year of that two year history.

Fines, Forfeits, Etc. Some cities depend heavily on this item for revenue, however, if they check the expenditure side of the ledger, they may see that such revenue is very expensive. This is not to say that a law enforcement and traffic control program is not needed, but it should not be relied upon as a major revenue source. With almost any city, this revenue will fluctuate with the enforcement efforts exerted.

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

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

Interest Earnings. Each city should have an investment program even if it involves only a small amount of money in a passbook savings. There are various types of investment options and each city must select their own depending greatly on their cash flow situation. It is important to identify large budget expenditures such as construction and equipment and when those expenditures will occur. Investment of those funds appropriated for such expenditures will allow the money to work for the city while waiting to make the expenditure. Such calculations as these, along with anticipated cash available for investment at the beginning of the fiscal year plus anticipated interest rates, are all factors in projecting interest revenues.

## BORROWING

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

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

As stated, tax anticipation notes are not a revenue, but they can be an important asset in meeting cash flow needs which is an extension of revenue projections in our overall budget management program.

Capital Outlay Notes. Another indirect revenue source that is not a revenue itself is the capital outlay note. It is a short term borrowing tool that extends a sometimes limited cash flow into a means of funding much needed capital items. Cities have used capital outlay notes to finance such various items as police cars, garbage trucks and street improvements. Like the tax anticipation note discussed earlier, the capital outlay note also requires prior approval by the State Director of Bonds and Local Finance. However, the time limits are somewhat more liberal.

Capital outlay notes can be executed for a period not to exceed three (3) years from date of issuance, and such notes issued solely for the acquisition of land or an interest in land may be executed for a period not to exceed seven (7) years from the date of issuance. A sample cover letter to the director, capital outlay resolution which must be adopted by the governing body, and capital outlay note are included in Appendix H.

State Shared Taxes. Projections of state shared taxes are based primarily on per capita amounts calculated from total state appropriations. Specific exceptions to this are state shared income tax, mixed drink tax and alcoholic beverage tax. The state appropriations are based upon the results of each annual session of the state legislature. Also, any changes in removing, adding or adjusting the regulations on use of these state shared taxes are a result of legislative action.

Two factors are most inportant in projecting state shared revenues. The first is each city's certified population count. Such count should be the same as last year unless a city has annexed additional population, conducted a special census (two special censuses per decade are allowed for each city) or resolved a challenge to the Bureau of the Census during the current fiscal year. If none of these items have occurred and a city is still in question about last year's certified count, they can refer to the MTAS Municipal Directory for the current fiscal year which contains the certified population figure in each city listing. If any of the three items did occur and a city is in question as to that item's impact on their certified count, they should contact their regional

Tennessee State Planning Office for information.

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

Once the certified population is determined, the second factor is the per capita amounts. In past years final action on the state budget, which determines these amounts, has taken place at the end of very long legislative sessions. The result of this has been the late issue of the per capita amounts, sometimes as late as June. Waiting for such data can place a city very late in preparing their budget. It is recommended that cities use the current year amounts as shown in Appendix J to establish a tentative revenue projection for state shared taxes. Once data for the coming year is available the (tentative) projections can be adjusted.

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

Also, in reviewing the two year history each city should compare for actual revenues both history years in each line item against the per capita amount times the population for each respective year. The reason for this is many of these per capita amounts are based on projected sales volumes. This is especially true for state sales tax and state street aid. After having made such calculations, the percentage difference, whether plus or minus, should be compared to the projections for the coming year. If the differences are significant, a cautious approach might require an adjustment of projections to reflect the effect of the percentage differences established in the history years.

As referenced above, Appendix I contains the per capita amounts for each line item of state shared taxes for the current year followed by a brief description of each line item, the method in which it is funded and the amount of checks used in distribution. This appendix is an excerpt from a technical bulletin prepared annually by MTAS consultants. The appendix also describes the uses for which each line item can be expended. The uses of the Gasoline Inspection Fee and State Street Aid funds will be discussed in greater detail in the section of expenditures.

General Revenue Sharing. General revenue sharing funds are appropriated on a twelve month basis identified as an entitlement period. As long as local governments use a fiscal year other than the federal October 1 through September 30, cities will have to calculate from portions of two entitlement periods to project their revenue sharing funds for the coming year. Depending on how each city's auditor handles the city's July quarterly payment (some auditors count this payment in the revenues of the year just ending, while some count it in the coming year's revenues), each city will be either totalling two payments of their current entitlement period and two payments of the coming entitlement, or one payment of the current period and three of the coming period. In either case, the city should review their quarterly payments for April of their current and either multiply by two or just duplicate the amount to obtain the respective portion of current entitlement period for the coming fiscal year. To obtain the other portion of the calculation, the budget preparer should take the estimated allocation provided on the data improvement card (usually available in May) and multiply by fifty or seventy-five percent (50% or 75%) depending on the city's approach. The result of this calculation when added to the current year calculation will provide the revenue projection for the coming year. Calculations should be as follows:

| | |
|---|---|
| April Payment | |
| $400 X 2 = | $800+ |
| New Entitlement | |
| $1,200 X 50% = | $600+ |
| Revenue Projection | $1,500 |
| April Payment | |
| $400 X 1 = | $400+ |
| New Entitlement | |
| $1,200 X .75 = | $900 |
| Revenue Projection | $1,300 |

There will be years in which the estimated allocation is not available in time to meet the city's budget adoption requirements, and especially for the proposed use hearing held in April. In such cases the city should multiply their April payment times four (4) and use such calculation in both situations. This may place actual receipts above or below the amount projected. Therefore, it is recommended that as soon as the allocation estimate is available, the calculations previously discussed should be conducted and if significant differences result, adjust the budget accordingly.

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

No recommendations are made in regard to these factors, especially with per capita income. But, each city should be mindful of how other cities are doing in regard to population and local taxing effort.

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

Aside from discussion of this formula, each city should complete and promptly return the reports required by the Office of General Revenue Sharing. Failure to complete and return the statement of assurances form, and especially the actual use report, can result in holding of quarterly entitlement payments. This doesn't mean the money is lost because the payments held will be forwarded in conjunction with the first quarterly payment following the Office of Revenue Sharing's receipt of the report, but it can cause severe cash flow problems for cities, and certainly means a loss of interest earnings if the money could have been invested.

Water and Sewer Systems. Primary revenue sources in these utility systems, as in other utility systems, are user fees. Certainly there are other revenue items, but utility operations must rely primarily on user fees.

Projections in either water or sewer will be approximately the same as the current year unless a rate increase is planned or factors that increase consumption take place. Such factors may include subdivision developments, utility line extensions or just normal consumption increases by current users. The latter factor may not be constant and should not be the only basis for projecting increases.

In making projections based on the other two factors, the city needs to count the total addition of customers and multiply the customers total times the average monthly bill. And since either factor may not be in effect for the full fiscal year, it should be multiplied times the anticipated months it will be in effect. Such calculations would be as follows:

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

When considering rate increases, each city should look beyond the needs of the coming year because a reasonable net earnings after all obligations are met (including depreciation) should always be maintained by each city. In monitoring net earnings, cities should review the past three or four years preceding the current year estimate to see if any downward trend is occurring. Rate increases, if needed, should be preceded by rate studies. Such studies should analyze the amount of customers, consumption and revenue contributed for each step of the city's rate structure. These studies should also review the percent of water that is lost between pumping and sales. Bad meters, leaks, etc., only place a heavier burden on those citizens with accurate meters.

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

## EXPENDITURE PROJECTIONS

Chart of Accounts. The following comments are applicable to revenues, as well as expenditures, but we have chosen expenditures as the area for stressing the benefit of a chart of accounts. The reason for this is because of the numerous line items that usually accompany the expenditure side of the budget. In speaking of line items, each city needs to determine the extent they wish to go in identifying cost items. A city can make a mistake in using too few line items, which in most cases reduce the financial management capacity of the city. In essence, if line items are excessively encompassing, it is difficult to monitor costs and operations because a city really can't tell whether electric costs are exorbitant in an all encompassing utility line item.

Whichever chart of accounts is used (we recommend the state's chart of accounts), a city should be sure that the same structure is applicable to the city's budget, accounting records and audit. The same account structures should also be applied to any other activity that is finance related. This allows for uniformity to the city's total financial picture, its potential reducer of audit costs, and is essential if a city has or is going to an automated accounting system.

Prior Year History. The calculation process discussed in revenues is also applicable and important to expenditures. A city should utilize one year of actual data taken from the immediate previous fiscal year audit. The city should also calculate an estimated entire year for the current year. Such calculations were discussed in revenues, however, for expenditures a city should be mindful of any planned expenditures for the current year that may not develop until April, May or June. Such expenditures may include major street work or equipment purchases and should not be forgotten in making current year estimates.

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

Personnel and Related Costs. Personnel and associated costs are the largest or one of the largest expenditure items of any municipal operation. These are also items that require decisions by the governing body as to the extent they will increase. Therefore, it is emphasized that the persons preparing the budget utilize a format that clearly identifies current personnel costs and the impact of any proposed increases. Such analysis should be prepared on a departmental basis in order that the current costs and increases can be directly related to municipal services. Such analysis should be prepared in the format shown in Appendix K. This format provides a salary breakdown of each position and each employee within that position, and brings salaries to an annual total in each instance. After salaries are computed and a departmental total is reached, annual costs should then be computed for those items associated with personnel utilizing current rates or percentages.

The second column offers no salary increases except those provided by guaranteed steps within a position's pay plan, but does increase benefits based upon the percentages or fixed costs estimated for the coming year. Each city should attempt to obtain percentages for OASI (social security), retirement and unemployment compensation for the coming fiscal year from the respective offices for each item. They should also contact their hospitalization insurance agent about any projected increases, provided the city pays any portion of such premiums. The net result of the second column reflects, for the governing body, the impact of cost increases if an across the board salary increase is not adopted.

The third column projects an across the board percentage increase and adjusts all associated costs. Such a projection should be compared to previous years' efforts and to what surrounding cities are doing (cities can utilize the MTAS Salary Survey), and should be discussed in advance with the governing body.

Operational Costs. These are costs such as utilities, repair and maintenance, supplies and insurance. Each is regulated by unit cost and consumption. It is difficult for cities to affect unit costs except through purchasing methods that seek the lowest price and utilize bulk consumption. However, such efforts may not be successful, especially when dealing with a limited number of suppliers. The only other recourse is to reduce consumption and in the case of utilities, this has proven successful. However, for making projections with everything remaining status quo, a city should contact the supplier of each utility product to obtain a projection on the increase they can expect in the coming year. This holds true for all utilities , including telephone. Once that percentage is obtained, it should be multiplied times the estimated current year costs to reach next year's projection. If such information is not avaialble, utilize the history to determine the trend in increases and project from such analysis.

This latter example is about the only way to project retair and maintenance or supplies. One should be aware of any changes in past or future operations that may affect such projections. For example, adding new police cars may increase repair and maintenance, however, replacing some high maintenance cars with new ones may reduce the amount of repair and maintenance needed.

Items of Fixed Amounts. Such items may include contracts, bids, etc., and will either be a fixed amount or will be estimates resulting from research and study. The calculations discussed for other expenditures do not apply to these items. But, it is important that such costs be anticipated. The coming year amounts of any recurring contracts (TSPO, data processing services, garbage collection, etc.) should be secured as early as possible. The other projections that may be based upon estimates should be reviewed carefully to be sure such estimates are accurate. If it involves equipment purchases, try to utilize the higher estimates, or if estimates are basically equal, increase the largest estimate by five to ten percent. Estimates prepared for budget may be low when bids are actually let.

State Street Aid. Periodically, MTAS publishes articles, reports, etc. which have a bearing on local government. Several years ago Ken Joines, Finance and Accounting Specialist and Regional Coordinator, wrote an MTAS Technical Report on "State Street Aid". In addition, a technical bulletin on all state shared taxes was printed in 1981. Both documents were distributed earlier. State Street Aid is a restricted fund and cannot be used in any other department, nor can it be combined with any other fund. Computation of this revenue has been discussed previously. See Appendix L for an outline indicating uses of this fund.

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

Recipient governments must spend, obligate or appropriate revenue sharing funds within 24 months of the end of the entitlement period to which each check applies.

These funds relate to other city revenues as noted in the advertisement for the budget hearing. They blend into the fiscal picture with minimal difficulties. We urge caution, again, in using these funds for operational expenditures. One-time capital projects seem to be subject use of the funds.

Debt Service. Budgeting for a city's debt obligation is most important not only from the point of the amount of money that is needed for the coming year, but when that money will be needed during the year. Therefore, each city with outstanding debt obligations should develop and maintain a bond payment schedule. Such schedule can be developed with the aid of the city's auditor and updated to reflect the bonds and interest due during the coming fiscal year. The schedule should be detailed on a monthly basis.

Once the schedule is prepared a cash flow plan needs to be developed so that each of the other funds are paying their proportionate share on a monthly basis. Payments of such nature avoid bonds or interest coming due without sufficient monies on hand to meet those obligations. Also, proportionate share means that each fund is meeting its own bond obligations.

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

Budget Management. After preparation and adoption of a budget, the most important aspect of the budget process follows, monitoring revenues and expenditures for the budget year. We suggest a few basic needs to adequately monitor the income and expenditures in your city. First, devise a monthly report in order to give the Mayor and Board and department heads a current picture of the city's financial picture. See Appendix M for an example.

Secondly, during the course of the FY compile a quarterly, but at least a mid-year budget review. This will provide you with enough data to determine the third most important aspect of the monitoring process - budget amendment. Even the best budget will miss a line item or several line items. The law allows for an amendment to the budget in order to bring expenditures in line with actual amounts and the budget.

We can't emphasize enough the need for budget monitoring. Without it, the budgetary process is incomplete and places your city in a tedious position, fiscally. Along with monitoring, we urge the use of the audit report to streamline accounting operations.

## APPENDIX A

## SUGGESTED BUDGET CALENDAR FOR SMALL/MEDIUM-SIZED CITIES [1]

By William Bailey, Municipal Consultant

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

### BUDGETARY SCHEDULE

| | |
|---|---|
| On or before March 15 | Finance Officer prepares previous and current year financial data on estimate forms. |
| March 15 | Estimate forms are forwarded to Mayor, Finance Committee, or Chief Administrative Officer. |
| March 20 | Copies of estimate forms are forwarded by Mayor, Finance Committee, or Chief Administrative Officer to Department Heads with instructions. |
| By April 15 | Finance Officer prepares revenue estimates. Proposed use hearing for federal revenue sharing funds is advertised in newspaper. |
| By April 26 | Proposed use hearing for federal revenue sharing funds is held (at least 10 days after advertisement in newspaper). |
| By May 1 | Department Heads prepare estimates and forward to Mayor, Finance Committee, or Chief Administrative Officer. |
| By May 15 | Review of estimates by Mayor, Finance Committee, or Chief Administrative Officer; determination made of recommendations to be made to legislative body. |
| By May 15 | Submit proposed budget or budget requests to legislative body. |
| By June 30 | Legislative body finalizes budget, holds necessary public hearings, and adopts same. Federal revenue sharing regulations require a notice in a newspaper at least 10 days prior to the budget hearing by the legislative body and a proposed budget summary must be included in the advertisement. |
| No more than 30 days after budget adoption | Notice of availability of Adopted Budget as required for revenue sharing. |

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

APPENDIX B

PUBLIC NOTICE NO. 1
(NOTICE MUST BE RUN 10 DAYS PRIOR TO HEARING)
CITY OF ___________
PROPOSED USE HEARING
REVENUE SHARING FUNDS

A proposed use hearing for general Revenue Sharing purposes will be held at City Hall on ______(date)______ at ____(time)____ p.m. All interested citizens will be given the opportunity to give written and oral comment on use of the funds. Senior citizens are encouraged to attend and comment. For 1981, the city anticipates $____________ for the 1981-1982 fiscal year.

NOTE: Include all funds to be received in 1981-82, as well as funds uncommitted from prior years.

## APPENDIX C

### PUBLIC NOTICE NO. 2

(NOTICE MUST BE RUN 10 DAYS PRIOR TO BUDGET HEARING. You can overlap by three (3) days the notice for the budget hearing. The law requires one (1) week's notice between the proposed use hearing and proposed budget hearing. In effect, you could hold the proposed budget hearing seven (7) days after the proposed use hearing, so long as it was advertised ten (10) days prior to the proposed budget hearing.)

CITY OF ____________
PROPOSED BUDGET HEARING

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

Estimated Revenues:

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

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

APPENDIX D

ORDINANCE NO. ______

AN ORDINANCE OF THE CITY OF ______________ ADOPTING A BUDGET FOR THE FISCAL YEAR JULY 1, 1982, THROUGH JUNE 30, 1983.

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

SECTION

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

Section 1. (A) TOTAL REVENUES & AVAILABLE FUNDS

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

(B) EXPENDITURES

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

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

Section 3. Line-item financial plan required. A detailed, line-item financial plan shall be prepared in support of the budget. The financial plan shall be used as guidance and generally followed in implementing the budget.

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

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

Mayor:______________________

City Recorder:______________________

APPENDIX E

ORDINANCE NO. ______

AN ORDINANCE OF THE CITY OF ________________ ADOPTING A BUDGET AND ESTABLISHING A PROPERTY TAX RATE FOR THE FISCAL YEAR JULY 1, 198__, THROUGH JUNE 30, 198__.

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

SECTION

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

Section 1. (A) TOTAL REVENUES & AVAILABLE FUNDS

| | |
|---|---|
| General Fund . . . . . . . . . . . . . . | $ |
| State Street Aid Fund . . . . . . . . . | |
| Revenue Sharing Fund . . . . . . . . . | |
| Water & Sewer Fund . . . . . . . . . . | |
| Gas Department . . . . . . . . . . . . | ________ |
| TOTAL . . . . . . | $ |

(B) EXPENDITURES

| | |
|---|---|
| General Fund . . . . . . . . . . . . . . | $ |
| State Street Aid Fund . . . . . . . . . | |
| Revenue Sharing Fund . . . . . . . . . | |
| Water & Sewer Fund . . . . . . . . . . | |
| Gas Department . . . . . . . . . . . . | ________ |
| TOTAL . . . . . . | $ |

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

Section 3. Line-item financial plan required. A detailed, line-item financial plan shall be prepared in support of the budget. The financial plan shall be used as guidance and generally followed in implementing the budget.

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

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

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

Mayor: ________________________________

City Recorder: ________________________

APPENDIX F

PUBLIC NOTICE NO. 3
(MUST BE RUN IN THE PAPER WITHIN THIRTY (30) DAYS AFTER ADOPTION OF THE BUDGET)

CITY OF ____________________

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

APPENDIX G

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

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

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

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

______________________________
(Mayor)

______________________________
(City Recorder)

## APPENDIX H

RESOLUTION OF THE ____________________
OF ______________, TENNESSEE AUTHORIZING
THE ISSUANCE OF INTEREST BEARING ______
________________________ CAPITAL OUTLAY
NOTES NOT TO EXCEED $________________
AND PROVIDING FOR THE PAYMENT OF SAID NOTES

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

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

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

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

NOW, THEREFORE, BE IT RESOLVED BY THE ______________________________ of the __________ of ____________________, Tennessee:

SECTION I. That, for the purpose of providing funds to finance the cost of ____________________________________________________ in and for said municipality, there shall be issued its negotiable interest bearing capital outlay notes in a principal amount not to exceed $____________________. That, said notes shall be designated "______________________________ Capital Outlay Notes" and shall be numbered serially beginning with the Number 1. Each of said notes shall be dated as of the date of issuance thereof, shall mature not later than three (3) years thereafter and shall be of such denomination and the purchaser of said notes.

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

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

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

SECTION 5. That, said notes shall be in substantially the form attached hereto (Form of Note).

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

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

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

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

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

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

Duly passed and approved this __________ day of _______________, 19____.

______________________________

Title: ______________________________

(Seal)

Attested:

______________________________

Title: ______________________________

(FORM OF NOTE)
STATE OF TENNESSEE
________________ OF ________________

____________________________ CAPITAL OUTLAY NOTE

$__________ No. ____

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

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

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

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

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

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

IN WITNESS WHEREOF, the municipality of ____________________, through its ______________________________ has caused this capital outlay note to be signed by its ____________________ and attested by its ______________ ____________________ under the seal of his office on this ________ day of ____________________, 19____.

______________________________
Title: ______________________________

(SEAL)

Attested:

______________________________
Title: ____________________________

DRAFT DRAFT DRAFT

Mr. Freeley B. Cook, Director
State of Tennessee
Office of State Comptroller
Division of Local Finance
1513 Andrew Jackson State Office Building
Nashville, Tennessee 37219

RE: Town of , Capital Outlay Note

Dear Mr. Cook:

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

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

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

Thank you for your attention to this matter.

Very truly yours,

Mayor

Enclosure

## APPENDIX I

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

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

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

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

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

Beer Tax - TCA 57-5-201 provides for a special privilege tax of $3.40 per thirty-One (31) gallon barrel to be paid by persons manufacturing or distributing beer in the state. Cities receive two-seventeenths (2/17) of ninety-six percent (96%) of revenue collected less two percent (2%) distributed to the Department

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

of Mental Health and Mental Retardation to assist municipalities in carrying out the provisions of the "Comprehensive Alcohol and Drug Treatment Act of 1973" (TCA 57-5-205). These revenues are to be considered as general fund revenues. Checks are forwarded to cities semi-annually.

TVA Gross Receipts Tax - TCA 67-2401 through 67-2403 provide that forty-eight and one half percent (48 1/2%) of any increase in TVA in-lieu-of-tax payments paid to the state, as compared to payments received by the state in fiscal year 1977-78, shall be distributed to the cities and counties. An additional three percent (3%) of the increase is distributed by TVA for "impact" monies where TVA construction is affecting a local government. Cities receive thirty percent (30%) of the forty-eight and one half percent (48 1/2%) distribution based on the proportion of an individual city's population to the population of all incorporated municipalities in Tennessee. These revenues are to be used for general fund purposes.

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

1. The city receives funds based on the per capita distribution;

2. The city was receiving TVA in-lieu-of-tax funds from the state prior to implementation of the per capita distribution and, as a result, continues to receive funds on a per capita basis at a level not less than that being received in fiscal year 1977-78; and/or

3. A city is receiving "impact funds" as a result of TVA construction.

These revenue sources should not be confused with in-lieu-of-tax revenues received from an electric system owned by a city.

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

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

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

These revenues are to be used for general fund purposes.

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

This revenue is a general fund revenue to be used for street maintenance, construction and public transporation purposes. Checks are forwarded monthly.

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

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

ANNUAL BUDGET

APPENDIX J

1982 - 1983

Fund:

Page:

| ACCOUNT NUMBER | DESCRIPTION | PRIOR YEAR ACTUAL 1980-81 | BUDGET 1981-82 | YEAR TO DATE | ESTIMATED ENTIRE YEAR | BUDGET 1982-83 |
|---|---|---|---|---|---|---|
| | | | | | | |

PERSONNEL COST WORKSHEET

APPENDIX K

FUND ______________

DEPARTMENT ______________________

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

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

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

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

# APPENDIX L

## USE OF STATE STREET AID

Tennessee Code Annotated:

1. Street Improvement in accordance with TCA.

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

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

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

2. Legal Uses.

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

3. Illegal Use.

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

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

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

FORMAT FOR MONTHLY FINANCIAL REPORT

APPENDIX M

ANYTOWN, TN

GENERAL FUND

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

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Revenues

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

Expenditures

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

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