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Technical Bulletins: State Street Aid Fund Revenues and Expenditures: On the Road to Understanding (2011)

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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 receive $84.6 million. The current allocation to cities is based on $26.65 (2011-2012) 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 into 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
thereto. 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.

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

• 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.

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

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 equipment, supplies, or paving that is not questionable.

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.