Dear Reader:

The following document was created from the CTAS website (ctas.tennessee.edu). This website is maintained by CTAS staff and seeks to represent the most current information regarding issues relative to Tennessee county government.

We hope this information will be useful to you; reference to it will assist you with many of the questions that will arise in your tenure with county government. However, the *Tennessee Code Annotated* and other relevant laws or regulations should always be consulted before any action is taken based upon the contents of this document.

Please feel free to contact us if you have questions or comments regarding this information or any other CTAS website material.

Sincerely,

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Accounting/Budget/Finance

Reference Number: CTAS-156
Information under the Accounting/Budget/Finance tab is broken into the following sections.

Financial Structure of County Government

Reference Number: CTAS-694
Financial structure on the county level generally is organized around each local official and the revenues and expenses of each of these offices, which operate separately within the framework of the county financial structure as a whole. The trustee acts as the county banker and handles receipts and disbursements, the latter of which must be authorized by the county legislative body according to statutes enacted by the General Assembly and decisions rendered by the state courts. No county funds may be expended unless authorized ("appropriated") by the county legislative body. T.C.A. § 5-9-401. This appropriation procedure is a phase of the annual budgeting process that begins in January and usually ends in July with the approval of the budget.

County financial functions involve current operations as well as capital project financing and debt retirement. Day-to-day expenses relating to personnel, supplies, materials, utilities, contracted services, upkeep of facilities, and similar costs of providing county services are referred to as current operating expenses. To pay for these expenses the county collects fees authorized by statute, levies and collects taxes, and receives revenues from the state and federal governments. Like a business, the county has income (referred to as revenues) and expenses. Also like a business, the county's financial management involves budgeting, accounting, purchasing, payroll, cash flow, and related areas. Unlike a business, a county has very limited implied powers. It must operate strictly by the express provisions of the law in carrying out these functions. There are three types of state laws applicable to the county financial function: general laws, general laws with local option application, and private acts for a specific county. Also, the general law provides for county charters and metropolitan government charters to structure financial management in the counties that have adopted these charters.

The management of county finances under the general law allows practically every department to make purchases, make disbursements, receive funds without the trustee's involvement and maintain separate accounting records. With this type of system, it is difficult to manage the cash flow for investing temporarily idle cash funds and to properly communicate the county's financial condition on a monthly and uniform basis. In an attempt to address these and other problems, the General Assembly has passed three sets of local option acts governing one or more aspects of county financial management which may be adopted by referendum or two-thirds county commission approval (the 1993 law may be adopted only by the county commission).

1. Local Option Budgeting Law of 1993,
2. 1981 Financial Management System, and
3. 1957 Fiscal Acts,

These acts provide a means for counties to consolidate functions, establish uniform financial procedures and incorporate efficient business practices into the management of county finances.

For a chart showing which budget law each county has adopted, click here: County Budget Laws.

Financial Management under the General Law

Reference Number: CTAS-695
The day-to-day expenses relating to personnel, supplies, materials, utilities, contracted services, upkeep of facilities and other such costs are referred to as current operating expenses. To finance these functions the county levies and collects taxes and receives revenues from the state and federal governments. The county's financial management of these costs and revenues involves budgeting, accounting, purchasing, payroll, cash flow and related areas. Unless a county has elected to operate under a local option law or has adopted a private act, the county must manage its finances in accordance with the general law. General laws provide guidance in the areas of budgeting, accounting, purchasing, and investment of temporarily idle county cash funds.

The laws regarding purchasing for county governments are not uniform. There are state laws of general application, as well as local option laws that may apply. Also, private acts govern purchasing in some counties. County purchasing laws and procedures are covered under the Purchasing topic.
Budgeting under General Law

Historically, there has been little guidance for those counties operating under the general budgeting laws. Legislation passed in 2016, however, now provides some guidelines for those counties. Public Chapter 1080 amended T.C.A. § 5-9-402 to provide a budget adoption timeline and procedures for counties operating under the general law. Pursuant to T.C.A. § 5-9-402, general budgeting law counties must follow the timeline set forth in the statute or adopt their own timeline. The statutory timeline can be found below. Should a county legislative body choose to adopt its own budget timeline, it must also receive the approval of the county board of education for the portion of the timeline established for the LEA. The provisions in § 5-9-402 do not apply to Davidson, Hamilton, Knox or Shelby counties.

Another provision enacted by Public Chapter 1080 creates a deadline for enactment of the education budget by operation of law. Now, under T.C.A. § 5-9-404, if the county legislative body and the county school board fail to agree on a budget for the county department of education by August 31, then, by operation of law, the budget for the county department of education will be equal to the minimum budget required to comply with the local match and maintenance of effort provisions of the BEP. If this occurs for three consecutive years, the budget for the third year will include a three percent increase in the required local funding amount for schools unless the LEA failed to comply with the applicable budgetary timeline. The provisions in § 5-9-404 do not apply to Davidson, Hamilton, Knox or Shelby counties.

Budget development under General Law is also covered under Operating Budgets of the Accounting/Budget/Finance tab.

Statutory Timeline for County Budget Law 2016 – Public Chapter 1080

All Funds except Education - In the absence of a locally adopted schedule and locally adopted procedures, the budgetary procedures for the county shall be as follows:

- No later than February 1
  - Forms for all budget requests shall be delivered to all departments, commissions, institutions, boards, offices, and agencies.

- No later than March 1
  - All departments, commissions, institutions, boards, offices, and agencies except the local board of education shall deliver the budget request to the county budget committee.
  - County budget committee shall vote upon the proposed budget and shall notify the department, commission, institution, board, office, or agency whether the county budget committee approves or rejects the proposed budget.
  - If approved, the county budget committee or the committee's designee shall immediately forward the proposed budget to the county legislative body for consideration.
  - If rejected, the department, commission, institution, board, office, or agency shall submit a revised budget proposal to the county budget committee within ten (10) business days after receipt of notice that the budget proposal was rejected.

Education - In the absence of a locally adopted schedule and locally adopted procedures, the budgetary procedures for the county shall be as follows:

- No later than May 1
  - Each LEA shall submit a proposed budget to the county budget committee; provided that, the LEA may amend the proposed budget after May 1.
  - County budget committee shall vote upon the proposed budget and shall notify the LEA whether the county budget committee approves or rejects the LEA's proposed budget.

- No later than June 1
  - If approved, the county budget committee or the committee's designee shall immediately forward the proposed budget to the county legislative body for consideration.
  - If rejected, the LEA shall submit a revised budget proposal to the county budget committee within ten (10) business days after receipt of notice that the budget proposal was rejected.

If the county budget committee of the local governing body rejects the first and second budget proposals from any department, commission, institution, board, office, or agency, then the third and any subsequent proposals shall be delivered directly to the county legislative body which shall approve or reject the proposal within ten (10) business days of the body's receipt of the amended proposal.

If rejected, the department, commission, institution, board, office, or agency shall submit a revised budget proposal to the county legislative body within ten (10) business days after receipt of notice that the budget proposal was rejected.

The budget must be approved on or before August 31, unless an extension is approved by the
Comptroller’s Office of State and Local Finance

And remember, if the county legislative body and the county school board fail to agree on a budget for the county department of education by August 31, then, by operation of law, the budget for the county department of education shall be equal to the minimum budget required to comply with the local match and maintenance of effort provisions of the BEP. If this occurs for three consecutive years, the budget for the third year shall include a three percent increase in the required local funding amount for schools unless the LEA failed to comply with the applicable budgetary timeline. However, this increase shall not be required if during any of those three years the school board failed to submit its budget proposals in accordance with the timeline above. This section does not apply to Hamilton, Knox, Davidson and Shelby counties.

Charitable Contributions

Reference Number: CTAS-696
The county legislative body may appropriate general funds for the financial aid of any nonprofit charitable organization or any nonprofit civic organization having federal tax exempt status under Section 501(c)(4) of the Internal Revenue Code and chambers of commerce qualifying under Section 501(c)(6) of the Internal Revenue Code. A nonprofit organization requesting assistance must submit financial reports to the county clerk and these are available for public inspection. To satisfy this requirement, nonprofits may submit a copy of their annual audit or an annual report detailing all receipts and expenditures in a form prescribed by the comptroller. The county legislative body is mandated to provide guidelines for the expenditure of these funds. Notice must be given in a newspaper of general circulation in the county of the intent to make an appropriation to a nonprofit but not charitable organization before the appropriation is made. T.C.A. § 5-9-109.

Also, a county may receive charitable contributions for the general fund. If funds are given subject to certain conditions as to their use, the county legislative body must approve acceptance of the gift and it must be used for such purposes. If funds are restricted, the money is placed in the county general fund and appropriated according to normal budgetary process. If the gift is personal or real property that is subsequently sold by the county, the revenue from such sale must be deposited in the general fund. T.C.A. § 5-8-101.

Accounting under General Law

Reference Number: CTAS-698
The state comptroller of the treasury, with the approval of the governor, is required to devise a modern and effective bookkeeping and accounting system to be used by all county officials and agencies handling the revenues of the state or its political subdivisions, and is to prescribe the minimum standards required under that system. T.C.A. § 5-8-501. Each county and agency of the county is required to meet these standards; if it fails to do so, the county is obligated to pay the actual cost of auditing above the standard fee prescribed in T.C.A. § 9-3-210 (the standard fee is $0.36 per person in the county with an annual 3% increase beginning July 1, 2017). T.C.A. §§ 5-8-502, 5-8-503. Each department must file an annual financial report for the fiscal year ending June 30 with the county mayor and the county clerk, who provides copies to members of the county legislative body. T.C.A. § 5-8-505. The report must be filed before the first Monday in September upon a form provided by the comptroller. T.C.A. § 67-5-1902. There is no longer a publication requirement for these financial reports.

There are also some specific statutorily required accounting procedures for certain county offices and departments. Accounting procedures for the county mayor are found in T.C.A. § 5-6-108; for the county education department, see T.C.A. §§ 49-2-203 and 49-2-301; and for the county highway department, see T.C.A. § 54-7-113.

Under T.C.A. § 9-2-102, counties that are subject to the comptroller's audit requirements and that handle public funds must have their official accounting records closed and available for audit no later than two months after the close of the fiscal year.

Investment of County Funds

Reference Number: CTAS-699
Each county is directed by general state law to invest all idle county funds to the maximum practical extent. T.C.A. § 5-8-301(a). Counties are authorized to invest in instruments designated by general law as a safe temporary medium. These temporary investments must either be approved by the county legislative body, be in compliance with an investment policy adopted by the county legislative body, or be
approved by an investment committee appointed by the county legislative body. T.C.A. §§ 5-8-301, 5-8-302.

In counties that have not adopted the County Financial Management System of 1981, the county legislative body may create an investment committee to determine the investment of idle county funds from the statutory list of approved investments. The number of members on this committee and the mode of selection is according to resolution of the county legislative body. T.C.A. § 5-8-302.

In counties that have adopted the optional County Financial Management System of 1981, the county legislative body may establish an investment committee composed of five members appointed by the county legislative body. The members may or may not be members of the county legislative body. If the county has adopted the 1981 law, the county legislative body may choose to have the financial management committee perform the functions of the investment committee. The investment committee under the 1981 law establishes and approves policies and procedures for cash management and investing idle cash funds in the investments authorized by law and the director of finance has the authority to make the investments within the guidelines set by law and the committee's policies. T.C.A. §§ 5-21-105(e), 5-21-107(a). The organization of the investment committee in counties with a county charter or metropolitan government charter may differ from that provided by the general law.

There are three categories of idle county funds that may be invested: funds derived from bond proceeds; funds from the sale of assets, settlements, or other infrequent occurrences; and other idle county funds. Under T.C.A. § 5-8-301, all three categories may be invested in any of the following manners:

1. Bonds, notes, or treasury bills of the U.S. as well as other obligations guaranteed by the U.S. or its agencies;
2. Deposits of funds into state and federally chartered banks and savings and loan associations, provided that these investments are properly secured;
3. Obligations of the United States or its agencies under a repurchase agreement for a shorter time than the maturity date of the security itself if the market value of the security itself is more than the amount of funds invested. Counties may invest in repurchase agreements only if the comptroller of the treasury or the comptroller's designee approves repurchase agreements as an authorized investment and if such investments are made in accordance with procedures established by the state funding board;
4. The state investment pool;
5. State bonds, if they have a rating of A or higher;
6. Nonconvertible debt securities of the following issuers provided such securities are rated in the highest category by at least two nationally recognized rating services:
   - The Federal Home Loan Bank;
   - The Federal National Mortgage Association;
   - The Federal Farm Credit Bank;
   - The federal home loan mortgage corporation; and
   - Any other obligations that are guaranteed as to principal and interest by the United States or any of its agencies.
7. The county’s own bonds or notes issued in accordance with Title 9, Chapter 21.

Additionally, counties with a population of 20,000 to 150,000 may invest idle funds in prime commercial paper if it is rated in the highest category by at least two commercial paper rating services and the paper has a remaining maturity of 90 days or less. T.C.A. § 5-8-301.

Counties may invest funds held by them with a bank or savings and loan association with a branch in Tennessee under certain conditions, including FDIC insurance of the full amount of principal and interest or collateralization of amounts not so insured. T.C.A. § 9-1-118.

There are other restrictions on the investment of specified county funds, as well as requirements for protection of county funds through proper collateralization of the investment. T.C.A. § 5-8-301. The advice of the state director of local finance, CTAS county government consultant, or county attorney will be helpful in determining available investment options, the correct procedures for making such investments, and the proper collateral to protect county investments.

Financial Management under General Laws with Local Option Application
Reference Number: CTAS-700
As the financial structure of counties has grown more complex and cash flow has increased, many counties have found the general laws to be inadequate. Further, the management of county finances under the general law is a fragmented system in which each department makes purchases without issuing purchase orders and maintains separate accounting records. Under this system it is difficult to manage the cash flow for investing funds and to properly determine the county's financial condition. To compensate for these deficiencies the General Assembly passed the Fiscal Control Acts in 1957, the County Financial Management System in 1981, and the Local Option Budgeting Law in 1993. Although these are general laws, they apply only to counties in which they have been approved by a two-thirds vote of the county legislative body (or by referendum in the case of the 1957 and 1981 acts). County Budget Laws Table.

The primary reasons for these acts were to (1) better use business management techniques, (2) consolidate and establish a uniform financial system, (3) improve utilization of county resources, (4) provide for the employment of a trained technician in finance, and (5) improve county financial information.

Local Option Budgeting Law of 1993

Reference Number: CTAS-701
This act, codified at T.C.A. §§ 5-12-201 through 5-12-217, provides an optional budgeting procedure for all county departments that are funded from county appropriations. It may be adopted by a two-thirds vote of the county legislative body pursuant to T.C.A. § 5-12-201.

This act provides a system through which a county may develop a consolidated budget for all county appropriations, adopt a tax rate and appropriation resolution to fund that budget, and specifies a deadline by which these actions must be taken. In brief outline, this procedure begins no later than February 1 of each year when the county mayor distributes to each department budget forms upon which to submit a proposed budget. T.C.A. § 5-12-206. Additionally, the county mayor furnishes estimated revenue information to the departments of education and highways, based upon the assessor's estimation of property valuation on or before March 15. The assessor is required to furnish his best estimate of the actual assessed value of all taxable property within the county for the ensuing year to the county mayor before March 15. T.C.A. § 5-12-207. All departments, offices and agencies are required to submit a proposed budget to the county mayor or, if a finance director, director of accounts and budgets, or similar person is provided by law, to that official by March 1. Along with their proposed budgets, the departments of education and highways must also submit a form tax rate resolution showing how much property tax they are requesting to fund their budgets. Departments, offices and agencies are authorized to alter or amend their submitted budgets any time prior to when the proposed budget is submitted to the county legislative body. However, the county mayor or budget committee decides whether to allow submission of changes to the proposed budgets after the consolidated budget is submitted to the county legislative body but prior to final approval. T.C.A. § 5-12-208. Procedures for resolving disputes regarding changes made to the proposed budgets submitted by the various departments, offices and agencies are addressed in T.C.A. § 5-12-209.

This act can work in conjunction with either of the other two local option budget laws or with private acts. The only portion of this budgeting plan that cannot be superseded by other general law or private act adopted by the county is found in T.C.A. § 5-12-210. That section requires that the county legislative body adopt a budget, tax rate, and appropriation resolution no later than July 31. The county legislative body can adopt the budget as proposed by the department heads or as consolidated by the county mayor or budget committee. If the budget is not adopted before the beginning of the fiscal year on July 1, then the county operates on a monthly allotment, based upon the preceding year's budget, during the month of July. If the budget still is not adopted by August 31, then the budget for the department of education will go into effect by operation of law in an amount equal to the minimum budget required to comply with the local match and maintenance of effort provisions of the BEP. If this occurs for three consecutive years, then the education budget in the third year will include a mandatory increase equivalent to 3% of the required local funding unless the LEA failed to comply with the applicable budgetary timeline. T.C.A. § 5-12-210. Unlike the other local option budgeting laws, the August 31 deadline also applies to the rest of the budget. The operating budget for the remainder of county departments, excluding education, is the consolidated budget, including proposed amendments, that was submitted by the county mayor or the budget committee. This budget, together with the proposed tax rate and appropriation measures required to fund it, also becomes effective by operation of law if the county legislative body fails to adopt a budget, property tax resolution and appropriation resolution by August 31. Finally, the act requires a balanced budget and contains provisions for adjustments if unanticipated circumstances are likely to result in a budget surplus or deficit. T.C.A. §§ 5-12-215 through 5-12-217. Procedures for amending a budget in effect are described in T.C.A. §§ 5-12-212, 5-12-213.
County Financial Management System of 1981

Reference Number: CTAS-702

This act is found in T.C.A. §§ 5-21-101 through 5-21-130 and provides for the consolidation of financial functions and the establishment of a financial management system for all county funds handled by the county trustee. (Fee and commission accounts of fee offices are not handled by the county trustee and, therefore, are not included under the act.) The system is similar to that found in the 1957 acts; however, under this plan the county operates under one act rather than three. This system must be approved by a two-thirds vote of the county legislative body or a majority of the voters in order to be effective in any county. T.C.A. § 5-21-126.

Under the County Financial Management System of 1981, a finance department is created to administer the finances of the county for all funds handled by the trustee, in conformity with generally accepted principles of governmental accounting and rules and regulations established by the state comptroller of the treasury, state commissioner of education, and state law. T.C.A. § 5-21-103. Unlike the 1957 laws, this program includes the management of school funds just like all other county funds, although the commissioner of education may remove the school department if records are not properly maintained in a timely manner. T.C.A. § 5-21-124.

This system requires a county financial management committee consisting of the county mayor, supervisor of highways, superintendent of education (director of schools), and four members elected by the county legislative body. These latter four need not be members of the county legislative body, but may be. T.C.A. § 5-21-104(b). The committee establishes policies, procedures, and regulations to implement a sound, efficient county financial system. T.C.A. § 5-21-104(e). Additionally the county legislative body, by resolution, may create special committees or may authorize the financial management committee to assume any or all of the following functions: (1) budgeting, (2) investment, and (3) purchasing. T.C.A. § 5-21-105.

The county financial management committee appoints a director of finance. Minimum requirements for this position include a bachelor of science degree with at least 18 quarter hours in accounting, although the committee may select a person with two years of acceptable experience in a related position. T.C.A. § 5-21-106. The compensation of the director is established by the committee subject to the approval of the county legislative body. T.C.A. § 5-21-106(c). The director oversees the operation of the department of finance and installs and maintains a purchasing, payroll, budgeting, accounting, and cash management system for the county. T.C.A. § 5-21-107. The director must have a blanket bond of at least $100,000 for the faithful performance of the director’s duties as well as the department's employees. T.C.A. § 5-21-109.

The department of finance, under the supervision of the director and subject to the policies and regulations of the county financial management committee, is responsible for the following areas:

1. Budgeting: T.C.A. §§ 5-21-110 through 5-21-114;
3. Payroll Account: T.C.A. § 5-21-117;
4. Purchasing: T.C.A. §§ 5-21-118 through 5-21-120;
5. Conflict of Interest - Improper Gifts: T.C.A. § 5-21-121; and

This system is to be installed within 13 months, beginning on July 1 of the fiscal year after its adoption and being completed by August 1 of the second fiscal year. T.C.A. § 5-21-127.

For those counties operating under the County Financial Management System of 1981, T.C.A. § 5-21-110(a) authorizes the budget committee, in conjunction with the director, to adopt a budget timeline. In the absence of a locally adopted timeline, § 5-21-110(e) provides a statutory timeline. The budgetary timeline provided in T.C.A. § 5-21-110 establishes deadlines for submittal of proposed budgets as well as deadlines for responding to such proposals. Section 5-21-110 provides that the timeline may be waived or altered upon agreement by the county legislative body and the respective department, commission, institution, board, office or agency. While the timeline may be altered, such changes do not impact the deadlines set forth in T.C.A. § 5-21-111. Under § 5-21-111, if the budget has not been adopted by July 1, the operating budget for the prior year will continue by operation of law without any further action by the county legislative body required. During this time, the budget may be amended just like a final operating budget. This continuing budget may remain in effect for July and August. It can only be extended through September 30 with approval by the comptroller. Further, if the county legislative body and the school board fail to agree on an education budget by August 31, then the
education budget will go into effect by operation of law. The budget will be equal to the minimum budget required to comply with the local match and maintenance of effort provisions in the BEP. If this occurs for three consecutive years, then the budget for the third year will include a mandatory increase that is equivalent to 3% of the required funding from local sources for schools. The 3% increase will not be required if the school board failed to comply with the budget timeline during any of those three years.

Fiscal Control Acts of 1957

Reference Number: CTAS-703

The Fiscal Control Acts of 1957, found in T.C.A. §§ 5-12-101 through 5-12-114, 5-13-101 through 5-13-111, and 5-14-101 through 5-14-116, were intended to provide a means for counties to consolidate functions, establish uniform financial procedures, and incorporate business practices into the management of county finances. They are divided into three separate acts: budgeting, accounting, and purchasing. A county may enact any or all of the three acts; however, it is difficult to implement fewer than all three acts because each refers to certain provisions of the others. These acts, either individually or together, are adopted by a two-thirds (2/3) vote of the county legislative body or by a majority public vote in a referendum.

If these acts are adopted, all funds managed by the county mayor and the highway supervisor are automatically covered by them. School funds may be placed under the management of these acts only if the state commissioner of education approves the transfer. T.C.A. § 5-13-110.

County Budgeting Law of 1957. This act is found in T.C.A. §§ 5-12-101 through 5-12-114. If adopted by a county, it provides for a budget committee made up of five members who include the county mayor as well as four others appointed by the county mayor and confirmed by the county legislative body. The four appointed members may be members of the county legislative body but are not required to be. The county mayor serves as chairperson of this committee. T.C.A. § 5-12-104. The budget committee performs all duties prescribed by law for the budgeting process, including preparation and control. T.C.A. §§ 5-12-104, 5-12-106, and 5-12-107. Each year while the budget is under consideration, a synopsis of the proposed budget and property tax rate are to be published in a newspaper of general circulation. T.C.A. § 5-12-108. Then the director of accounts and budgets (appointed under T.C.A. § 5-13-103 of the County Fiscal Procedure Law, discussed below) prepares a monthly report showing the condition of the budget and submits this report to the county mayor and the county legislative body. T.C.A. § 5-12-111.

For those counties operating under the County Budgeting Law of 1957, T.C.A. § 5-12-105 authorizes the county legislative body to adopt a timeline and budgetary procedures for the county, with the caveat that the LEA must concur with its timeline. In the absence of a locally adopted timeline, § 5-12-105 sets forth a statutory timeline. The budgetary timeline provided in T.C.A. § 5-12-105 establishes deadlines for submittal of proposed budgets as well as deadlines for responding to such proposals. Section 5-12-105 provides that the timeline may be waived or altered upon agreement by the county legislative body and the respective department, commission, institution, board, office or agency. While the timeline may be altered, such changes do not impact the deadlines set forth in T.C.A. § 5-12-109. Under § 5-12-109, if the budget has not been adopted by July 1, the operating budget for the prior year will continue by operation of law without any further action by the county legislative body required. During this time, the budget may be amended just like a final operating budget. This continuing budget may remain in effect for July and August. It can only be extended through September 30 with approval by the comptroller.

Further, if the county legislative body and the school board fail to agree on an education budget by August 31, then the education budget will go into effect by operation of law. The budget will be equal to the minimum budget required to comply with the local match and maintenance of effort provisions in the BEP. If this occurs for three consecutive years, then the budget for the third year will include a mandatory increase that is equivalent to 3% of the required funding from local sources for schools. The 3% increase will not be required if the school board failed to comply with the budget timeline during any of those three years.

County Fiscal Procedure Law of 1957. This act, found in T.C.A. §§ 5-13-101 through 5-13-111, pertains to accounting for county funds. If this act is adopted by a county, the county mayor, subject to approval by the county legislative body, appoints a director of accounts and budgets (DAB). T.C.A. § 5-13-103(a). The DAB must be qualified by training and experience in the field of accounting to perform the duties of the office. The salary of the DAB cannot be in excess of those salaries allowed county officials in accordance with T.C.A. §§ 8-24-101 and 8-24-102. T.C.A. § 5-13-103(d). The duties and responsibilities of the DAB are established by the county mayor (T.C.A. § 5-13-103(e)) and delineated in T.C.A. § 5-13-105. The amount of the corporate surety bond for the DAB is established by the county mayor in amount not less than $100,000. T.C.A. § 5-13-103(c).

The DAB administers a centralized system of accounting and fiscal procedure for the county. T.C.A.
§ 5-13-104. The DAB also has the duty to verify all claims against the county and to prepare and sign disbursement warrants only after a careful pre-audit of all invoices and verification by the department head receiving the merchandise. T.C.A. §§ 5-13-105, 5-13-107. At the end of each month the DAB prepares a comprehensive report of all revenues and expenditures of the county and presents it to the county legislative body. T.C.A. § 5-13-105(f).

County Purchasing Law of 1957. This act is found in T.C.A. §§ 5-14-101 through 5-14-116. If adopted, it establishes procedures for county purchasing. The County Purchasing Law of 1957 is covered under the Purchasing topic.

Financial Management Under Private Acts

Reference Number: CTAS-704

Private acts are acts of the General Assembly which apply to only one county or to a very few counties. However, the authority of the legislature to pass a law which is not general in its application is limited by several principles. The first is the requirement of local approval. Article XI, Section 9 of the Tennessee Constitution provides:

Any act of the General Assembly private or local in form or effect applicable to a particular county or municipality either in its governmental or its proprietary capacity shall be void and of no effect unless the act by its terms either requires the approval by a two-thirds vote of the local legislative body of the municipality or county, or requires approval in an election by a majority of those voting in said election in the municipality or county affected.

A legislative act may provide a deadline for local approval or disapproval, either by a two-thirds vote of the county legislative body or by referendum. Within 30 days after that approval or disapproval, the chairman of the county legislative body or the chairman of the county election commission, as appropriate, must certify the action to the secretary of state. If the act does not specify a deadline, failure to approve the act by December 1 of the year the act was passed renders the act of no effect. T.C.A.§ 8-3-202.

The second limitation is that the General Assembly lacks power to suspend laws for the benefit of any particular individual. This prohibition includes private acts in contravention of the general law for the benefit of particular counties unless there is a rational basis for the exception. *Brentwood Liquors Corp. v. Fox*, 496 S.W.2d 454 (Tenn. 1973). It cannot be circumvented by the use of population classes; when a population class makes an exception for only one county, it will be treated as a private act, requiring local approval under Article XI, Sections 8 and 9 of the Tennessee Constitution. Op. Tenn. Att’y. Gen. 87-88 (May 14, 1987); Op. Tenn. Att’y. Gen. (February 4, 1982). Furthermore, the use of the words “or any subsequent federal census” in the language setting forth the population classification will not necessarily guarantee the constitutionality of the exception.

In other words, two basic questions arise in the consideration of county-related legislation. The first question is whether a county can be exempted from a requirement of general law without violating the Tennessee Constitution. The second is whether local approval should be required to put such an exception in place. The first question is often restated as whether there exists a rational basis for the exception, and the second, whether certain legislation, irrespective of its form, is local in effect and application, and therefore should be ratified according to the rules for private act ratification.

In considering the question of whether a rational basis exists for a “special classification” (that is, treating one county differently from other counties), courts have held that the reasonable basis for the distinction does not have to appear on the face of the legislation. If any possible reason can be conceived to justify the classification, it will be upheld and deemed reasonable. Even if there is a rational basis for the statute, it must still be submitted for local ratification unless it is potentially applicable in a genuine sense throughout the state.

Because of the constitutional issues that arise when legislation is drafted with population classifications, it is a good policy to always include a severability clause, a Section contained in the act itself which states, that if any portion of the act is declared unconstitutional, the validity of the remainder of the act will be unaffected. However, all statutes, including private acts, are presumed to be valid unless declared unconstitutional by a court of law.

One basis for questioning the constitutionality of a private act is the method of ratification. Therefore, care must be taken to properly follow the mandates of the local approval requirement of a private act, or public act of local application, which will call for the act to be approved either by a referendum or by a two-thirds vote of the county legislative body; then the results of this action must be certified to the secretary of state.

As a practical matter, your county’s representatives in the General Assembly are generally very responsive
to the desires of the county commission for the introduction of private acts. Should your county desire to have a private act on an allowable subject introduced, many legislators require a formal requesting resolution passed by a two-thirds vote of your county legislative body before submitting the act to the General Assembly.

Private acts are not included in the Tennessee Code Annotated. Instead, each year the secretary of state publishes a volume of all private acts passed by the General Assembly during that year. Periodically an index is published which lists private acts by the county or city they affect. The County Technical Assistance Service provides a complete compilation of each county’s private acts and periodically updates that compilation.

Financial Management of Fee Offices

Reference Number: CTAS-705

The fee offices – clerks of court, county clerk, register of deeds, and trustee – may operate on the fee system (under which office expenses are paid out of fees received) or the salary system (under which office expenses are paid from the county general fund and fees are turned over monthly). Those under the salary system are included in the county budget and operate under the procedures described above. However, the financial operation of fee offices under the fee system is similar to financial procedures commonly used by a business. Each office establishes a checking account, receives payments, makes deposits, and issues checks and receipts. The accounting system is similar to that of a business using a double-entry, general ledger system. All fees and commissions must be accurately accounted for to comply with the duties of the office. Each officer must consult the statutes codified in the Tennessee Code Annotated for the prescribed duties of the office and follow the accounting standards as prescribed by the state comptroller of the treasury. T.C.A. §§ 8-11-104, 9-2-102 through 9-2-105. Most of the duties of each office are recorded in Volume 3 of the Tennessee Code Annotated, and it is recommended that each officeholder obtain a copy of this volume or at least a copy of the Section pertaining to the office. Excess fees are turned over quarterly. T.C.A. § 8-22-104(a)(2).

Local Government Modernization Act of 2005

Reference Number: CTAS-706

The Local Government Modernization Act of 2005, T.C.A. §§ 9-3-401 through 9-3-407, directs the comptroller of the treasury to determine those local governments that are not in compliance with the accounting and financial reporting standards established by the Governmental Accounting Standards Board (GASB). Governments not in compliance must submit an implementation work plan to the comptroller. For counties, the county mayor will serve as the primary person with responsibility for the work plan’s development and implementation.

Any local government failing to implement GASB standards is subject to penalties and restrictions, including withdrawal of eligibility for economic and community development grants and reduction of bank excise tax and Hall income tax revenues (not to exceed 5 percent of the total amount due in any fiscal year) until the local government is in compliance. If a school system fails to comply, then it will not be eligible for certain state funded education grants as determined by the comptroller and the commissioner of education. If a county highway department fails to comply, then the comptroller and the commissioner of revenue shall determine the amount reduction of monthly state gasoline tax proceeds going to the county. The gasoline tax proceeds reduced will be held in reserve and allocated to the county upon the county becoming compliant as determined by the comptroller. The comptroller will provide a list of professional firms to any local government not in compliance with GASB standards to assist in the work plan. The local government must provide funds for the cost of this assistance.

The comptroller will review and evaluate the financial management system in those county governments not in compliance with GASB standards. The comptroller will then make a recommendation to the county legislative body on how to improve the system to facilitate compliance. The county legislative body has 90 days from receiving the recommendation to take action on it.

Local governments are encouraged to form an audit committee, and the comptroller may require it for local governments not in compliance with GASB standards, or having recurring findings or material weakness in internal control for three or more consecutive years. T.C.A. § 9-3-405. The audit committee, if created, must establish a process to allow employees, taxpayers, and other citizens to report confidentially any suspected illegal, improper, wasteful or fraudulent activity, and the records of the reports and investigations are declared confidential. T.C.A. § 9-3-406.
Bank Accounts
Reference Number: CTAS-707

County Bank Accounts
Reference Number: CTAS-1839
The county legislative body is authorized to adopt a resolution to contract with a bank or banks making the highest and best bid or bids to pay interest on daily balances of the county's funds. The county legislative body may also appoint a finance committee composed of the county mayor, the county trustee and three of its members. T.C.A. § 5-8-201(a)(1).

Prior to contracting with any bank, the trustee is required to take bids from banks and then file an analysis of the bids with the county clerk who shall provide a copy of the trustee’s report to each member of the county legislative body on or before its next meeting. The trustee’s report shall recommend the bank making the highest and best bid or bids to pay interest on daily balances of the county’s funds. T.C.A. § 5-8-201(a)(2).

The finance committee is vested with the authority to formulate, make and sign a contract on behalf of the county with a bank upon the terms and conditions specified in the bid. The contract must be approved by the county mayor, and attested by the county clerk, with the county seal attached. Such contract is binding on the county. T.C.A. § 5-8-202.

If the county finance committee does not contract with a bank or other financial institution, the county trustee may contract with a bank or banks or other financial institutions for deposit, safekeeping, and earning of interest on daily balances of the county’s funds, according to the same terms as are required by T.C.A. § 5-8-202 for the county finance committee. Additionally, the county trustee is authorized to enter into such agreements with banks and other financial institutions as necessary for the maintenance of collateral to secure the daily balances of the county’s funds on deposit with banks or other financial institutions. T.C.A. § 5-8-201(c).

At least once every four years and not less than once every term of office, the county trustee is required to evaluate whether the county’s contract with the bank should be rebid. The trustee is required to obtain proposals from at least two banks or other financial institutions and then prepare a written evaluation of the proposals. The evaluation must be preserved for a period of not less than three years. T.C.A. § 5-8-201(d).

Collateralization of County Funds. Pursuant to T.C.A. § 5-8-201(b), the county shall require any financial institution that becomes a depository of the county’s funds to secure the funds as provided in a collateral pool created under Title 9, Chapter 4, Part 5, or in the same manner and under the same conditions as state deposits under Title 9, Chapter 4, Parts 1 and 4. See Op. Tenn. Atty. Gen. 09-146 (August 3, 2009).

County Officials Bank Accounts
Reference Number: CTAS-1844
Every county official handling public funds is required to maintain an official bank account in a bank or banks within this state. Within three days after the receipt of any public funds, the official must deposit the funds in the official's official bank account. T.C.A. § 5-8-207(a)(1). A violation of T.C.A. § 5-8-207 is a Class C misdemeanor.

The requirement to maintain an official bank account does not apply to the chief administrative officer (CAO) of the county highway department because T.C.A. § 54-7-113(a) provides that all "funds received by any person for the county for road or highway purposes shall be promptly deposited with the county trustee and shall be expended only upon a disbursement warrant drawn on the trustee in accordance with law. Op. Tenn. Atty. Gen. 85-088 (March 22, 1985).

All disbursements of public funds shall be made by consecutively prenumbered warrants or consecutively prenumbered checks drawn on the county official's official bank account or bank accounts. T.C.A. § 5-8-207(b).

The requirement to maintain an official bank account shall not prohibit a county official handling public funds from maintaining a petty cash fund in an account sufficient for the transaction of the official business of the county official’s office. T.C.A. § 5-8-207(a)(3).

Collateralization of Funds. Each county official maintaining an official bank account is authorized to enter into such agreements with banks and other financial institutions as necessary for the maintenance of
collateral to secure the funds on deposit. All funds deposited with a bank or other financial institution shall be secured by collateral in the same manner and under the same conditions as state deposits under Title 9, Chapter 4, Parts 1 and 4, or as provided in a collateral pool created under Title 9, Chapter 4, Part 5. T.C.A. § 5-8-207(a)(1) and (2).


**Bank Account for Property Tax Collections**

Reference Number: CTAS-1845

Pursuant to T.C.A. § 67-5-1801(c), the county trustee may designate a bank and/or the branches that are located within the county to act as a collection agent for the trustee and accept the deposit of county and municipal property taxes. The county trustee is authorized to establish an account with the bank for such purpose, which shall be restricted to the deposit of county and municipal property taxes.

**Sheriff’s Confidential Bank Account**

Reference Number: CTAS-1848

The sheriff may maintain a confidential bank account in accordance with state regulations for use in undercover investigative drug enforcement operations. Pursuant to T.C.A. § 39-17-420(a)(1), cash transactions related to undercover investigative operations of county drug enforcement programs shall be administered in compliance with procedures established by the comptroller of the treasury. The comptroller’s guidelines, Procedures for Handling Cash Transactions Related to Undercover Investigative Operations of County and Municipal Drug Enforcement Programs, have the authority of law. See also T.C.A. § 53-11-415.

**Disbursement Warrants**

Reference Number: CTAS-1841

The county officers with the power to write warrants vary from county to county according to the applicable laws.

**County Mayor - Disbursement Warrants**

Reference Number: CTAS-1846

The county mayor in most counties has the power to issue a warrant on the county general fund, debt service fund and other special funds. T.C.A. § 5-6-108. The county mayor shall be the accounting officer and general agent of the county; and, as such, it shall be the county mayor's duty to-

- Draw, without seal, all warrants upon the county treasury; T.C.A. § 5-6-108(5)
- Enter in a book, to be known as the warrant book, in the order of issuance, the number, date, amount and name of the drawee of each warrant drawn upon the treasury; T.C.A. § 5-6-108(8).

Pursuant to this statute, the county mayor must track and document all county payments, audit all claims for money against the county, draw all warrants on the county treasury, require county officers to settle their accounts, keep a record of all receipts and disbursements, and report to the county legislative body on the county’s financial condition. See Op. Tenn. Atty. Gen. 99-051 (March 4, 1999) (powers and duties of county mayor as county’s fiscal agent).

Pursuant to T.C.A. § 5-6-110(1), it is the duty of the county mayor to draw the county mayor's warrant on the county trustee for the payment of any judgment recovered against, or debt due from, the county.

Finally, pursuant to T.C.A. § 5-9-307(a), no money shall be drawn out of the treasury of the county except upon the warrant of the county mayor. The foregoing provisions are general in nature and may be modified or superceded in counties operating under local option general laws, private acts, or charter forms of government. See, e.g., Shelby County v. Blanton, 595 S.W.2d 72 (Tenn. App. 1978) (the county mayor and director of finance are the proper persons to sign the warrants of Shelby County).

**Highway Department Disbursement Warrants**
Reference Number: CTAS-1849
Under the Tennessee County Uniform Highway Law the chief administrative officer (CAO) has oversight of the county highway department. Pursuant to T.C.A. § 54-7-113, which governs the receipt and disbursement of county highway funds as well as county highway purchases, the funds of the county highway department shall be expended only upon a disbursement warrant drawn on the trustee in accordance with law. See Op. Tenn. Atty. Gen. 01-084 (May 23, 2001) (funds for the county road system must be expended upon the warrant of the county trustee). Note that some private acts provide warrant issuing authority to the CAO of county highway departments.

Schools Disbursement Warrants
Reference Number: CTAS-1850
Board of Education. It is the duty of the local board of education to order warrants drawn on the county trustee. T.C.A. § 49-2-203(a)(4).

Chair of the Local Board of Education. It is the duty of the chair of the local board of education to countersign all warrants authorized by the board of education and issued by the director of schools for all expenditures of the school system. T.C.A. § 49-2-205(4). See Op. Tenn. Atty. Gen. 79-180 (April 19, 1979).

Director of Schools. It is the duty of the director of schools to issue, within ten days, all warrants authorized by the board for expenditures for public school funds. T.C.A. § 49-2-301(b)(1)(E).

Mechanical Signing of Warrants. Pursuant to T.C.A. § 49-2-113, a board of education, with the permission of its chair, is empowered to authorize, with the consent of the commissioner of education and the comptroller, the use of mechanical signing equipment approved by the commissioner and comptroller of the treasury, to affix the signature of the chair of the board of education and of the director of schools to the original of a public school warrant; provided, that a clear duplicate of the warrant is kept on file in the office of the director of schools, together with the proper supporting papers to justify the issuance of the warrant.

County Trustee. It is the duty of the county trustee to require the director of schools to attach a voucher to every school warrant amounting to $500 or more drawn by the county board of education for any purpose other than the salaries of the supervisors and teachers, showing that the board has complied with the law requiring contracts to be let on competitive bids. Additionally, it is the duty of the county trustee to keep all public school funds separate and apart from all other funds coming into the trustee’s hands. T.C.A. § 49-2-103. See also T.C.A. § 8-11-104.

Student Activity Funds. A school may, if authorized by the board of education, receive funds for student activities and for events held at or in connection with the school. Funds derived from such sources are the property of the school. The board of education must provide reasonable regulations, standards, procedures and an accounting manual covering the various phases of student body activity funds and other internal school funds accounting. T.C.A. § 49-2-110(a). The regulations must include, among other things, procedures for the proper handling of cash receipts, the making of deposits, the management of funds, the expenditures of funds and the accounting for funds. T.C.A. § 49-2-110(a)(2). It is the duty of the principal of each school to institute and follow the regulations, standards, procedures and the accounting manual adopted by the board of education. T.C.A. § 49-2-110(d). Additionally, the State Department of Education has prepared a uniform accounting policy manual for local school systems as required by T.C.A. § 49-2-110(e) which must be followed. See Op. Tenn. Atty. Gen. 92-54 (September 24, 1992).

With regard to school support organizations (e.g. booster clubs, parent teacher associations, parent teacher organizations) handling of money see T.C.A. § 49-2-110(f) and T.C.A. § 49-2-601 et seq. See also Op. Tenn. Atty. Gen. 08-174 (November 18, 2008) (School Support Organization Financial Accountability Act).

Disbursement Warrants under Fiscal Control Acts of 1957
Reference Number: CTAS-1851
The Fiscal Control Acts of 1957 are divided into three separate acts: budgeting (T.C.A. § 5-12-101 et seq), accounting (T.C.A. § 5-13-101 et seq), and purchasing (T.C.A. § 5-14-101 et seq).

In those counties operating under the County Fiscal Control Acts of 1957 it is the duty of the director of accounts and budgets to prepare disbursement warrants on all county funds. T.C.A. § 5-13-105(b)(1). It is the duty of the director to sign all county disbursement warrants as evidence of the director’s audit and approval of the expenditure. T.C.A. § 5-13-105(b)(2). See also T.C.A. § 5-12-110(f)(2). However, no
disbursement warrant drawn on the county trustee becomes a county liability payable by the county trustee until the warrant has also been signed by the county mayor, county director of schools, or other official or officials whose signatures are required on such warrants. T.C.A. § 5-13-105(b)(2).

Pursuant to T.C.A. § 5-12-110(f)(1), expenditures from all funds of the county, except school funds, shall be made by disbursement warrants on the county trustee signed by the county mayor and the director of accounts and budgets, and no other official, department, institution or agency of the county may issue negotiable warrants or vouchers for expenditures.

Before any obligation against the county is paid or any disbursement warrant or voucher issued therefor, a detailed invoice or statement approved by the head of the office, department or agency for which the obligation was made must be filed with the director of accounts and budgets. The director must make a careful pre-audit of such invoice or statement, including a comparison with any encumbrance document previously posted or filed authorizing such obligation, and must approve for payment only such items as appear to be correct, properly authorized, and not exceeding the otherwise unencumbered balance of the allotments or appropriations against which they are chargeable. T.C.A. § 5-13-107(a) and (b). See also T.C.A. § 5-12-110(f)(2).

Disbursement warrants must be promptly prepared for all such approved items by the director and mailed or delivered to the payees thereof. A duplicate copy of all disbursement warrants, with all original invoices or other supporting documents, or both, attached to the duplicate copies, must be kept on file in the office of the director. T.C.A. § 5-13-107(c) and (d).

Payroll Account. The director and the county mayor are authorized to maintain a special county payroll account at a local bank at the county seat in which disbursement warrants for the total of each payroll may be deposited and against which individual net earning checks may be issued to each county employee. The county mayor may authorize the issuance of payroll checks on the signature of the director, and in such event the depository bank shall be so instructed. T.C.A. § 5-13-105(g)(2) and (3).


In counties where the 1957 laws have been approved for schools, the accounts and other obligations of the county department of education, other than payrolls, are paid by disbursement warrants drawn on the county trustee by the county board of education. Copies of all disbursement warrants issued by the board of education, showing the accounting classification chargeable, shall be furnished by the board of education to the director of accounts and budgets daily as issued. As an alternative, disbursement warrants may be prepared in the office of the director of accounts and budgets for the county board of education. T.C.A. § 5-12-110(e).

Disbursement Warrants under Financial Management System of 1981

Reference Number: CTAS-1852

In those counties operating under the County Financial Management System of 1981, the director of the finance department cosigns all disbursement warrants for all funds that are handled by the county trustee. Disbursement warrants are prepared by the director of finance and signed in accordance with T.C.A. § 5-21-116. T.C.A. § 5-21-115(b)(3). See Op. Tenn. Atty. Gen. 99-032 (February 18, 1999) (authority to sign disbursement warrants).

Pursuant to T.C.A. § 5-21-116(a), all disbursement warrants drawn on the county trustee for the obligations of all county departments, agencies, and officials, including the county mayor, the county highway department, and the county department of education, are signed as follows:

1. The disbursement warrants are prepared in the finance department, and provided to each department for signing.

2. Upon preparation of the warrant by the finance department, the department head signing the disbursement warrant keeps one copy for filing in the department.

3. The original and all other copies of the warrant are returned to the director for the director’s signature as a cosigner and for filing and mailing from the finance department.

4. A duplicate copy of all disbursement warrants, with all original invoices and other supporting documents attached thereto, are kept on file in the office of the director.
T.C.A. § 5-21-116(b).
In lieu of each department agency or official signing disbursement warrants, the departments may authorize the director to use a signature plate in accordance with the general law and approval by the comptroller of the treasury. If a signature plate is used, it must be secured in a safe place when not in use and supervised by the person responsible for its safekeeping when in use. A record must be maintained indicating when the signature plate is used, numbers of the warrants signed, and the person using such plate. T.C.A. § 5-21-116(c).

Payroll Account. The financial management committee shall maintain a special county payroll account at a bank, in which disbursement warrants for the total of each payroll shall be deposited and against which individual net earning checks may be issued to each of the county employees. The committee may authorize the issuance of payroll checks on the signature of the director of finance and, in such event, the depository bank shall be so instructed. T.C.A. § 5-21-117.


Optional Checking System

Reference Number: CTAS-1843
The county trustee may adopt a checking system for the disbursing of county funds by the county trustee as prescribed by T.C.A. § 5-8-210 by giving at least thirty days notice to each official authorized to sign checks. Once adopted, the trustee may, with the approval of the county finance committee created pursuant to T.C.A. § 5-8-201, or with the approval of the county legislative body, discontinue the practice. T.C.A. § 5-8-210(a).

County Master Account. The "county master account" means all accounts maintained by the county trustee for the purpose of handling banking transactions of the various county funds required by law to be managed by the county trustee, except for any check clearing account as defined in T.C.A. § 5-8-210(c). It is the duty of the county trustee to reconcile all county master accounts and maintain all records as required by law relating to such accounts, including maintaining paid checks. T.C.A. § 5-8-210(b).

Check Clearing Account. A "check clearing account" includes any account created for combined offices and departments or created for separate offices or departments, or both, that the county trustee establishes as a separate checking account for county payrolls or as a method of certifying checks. If any check clearing account is established, the account must be reconciled by the county trustee, except that a separate clearing account established for a single office or department shall be reconciled by that office or department; provided, that if the county trustee deems it necessary or advisable, the county trustee may reconcile any check clearing account established for a single office or department, which shall include maintaining the paid checks. T.C.A. § 5-8-210(c).

Bank Accounts. In any county coming under T.C.A. § 5-8-210, a county master account and a check clearing account are established by the county trustee at a financial institution selected by the county finance committee created pursuant to T.C.A. § 5-8-201 or, if the county legislative body has not created a county finance committee or the county finance committee fails to specify one or more financial institutions, then the county trustee may select a financial institution authorized to handle the account. The financial institution shall be selected based on the institution offering the highest and best bid or bids to pay interest on daily balances of the county’s funds, considering the lowest service charges, and considering other factors affecting safety and liquidity of county moneys. T.C.A. § 5-8-210(e).

Once a financial institution has been selected, the county trustee is required to establish one or more county master bank accounts or one or more check clearing accounts, or both, and have each official authorized by law to sign checks drawn on each account to complete forms as required by the financial institution. The forms must be completed and returned to the financial institution prior to any checks being issued on the account. Persons who have the authority to sign checks drawn on the account must promptly complete these forms and return them to the county trustee. The county trustee is required to maintain a copy of these forms and to provide a copy of each completed form to the county mayor and to each person who is authorized to sign checks drawn on the account. T.C.A. § 5-8-210(f).

The county trustee, in conjunction with the financial institution, may designate specifications for checks used to make withdrawals on any account established pursuant to T.C.A. § 5-8-210. In the event of a written objection to the specifications by the county mayor, a department head, the director of accounts and budgets, or the director of finance is filed with the trustee, the county trustee’s specifications for checks shall be approved by the finance committee created pursuant to T.C.A. § 5-8-201, or by the county legislative body. T.C.A. § 5-8-210(g).
Financial institution charges incurred by a county for a county master account or for a check clearing account are an allowable office expense for the county trustee. Financial institution charges incurred for a check clearing account established for a single office or department are a charge against the funds of that office or department. T.C.A. § 5-8-210(d).

Certification of Checks. In any county that adopts the provisions of T.C.A. § 5-8-210, the issuance of checks shall be certified by one of the following methods adopted by the county trustee:

1. List Certification Method. This method requires each department, including the county mayor, a department head, director of accounts and budgets, and a director of finance, to submit a list by fund to the county trustee of the checks being issued showing the date of the check, check number, payee and amount. The county trustee verifies the department's fund balance and certifies that funds are available or will be available in the "check clearing account" for payment of those checks. The county trustee then transfers funds from the "county master account" to the "check clearing account." The county trustee may develop a procedure for emergency certification by the county trustee in circumstances where such would be reasonable, in which event the county trustee must be provided with a written document for certification by the end of the next business day;

2. Check Signing/Validation Method. This method requires each department, including the county mayor, department heads, director of accounts and budgets, and directors of finance, to submit a list to the county trustee of checks being issued showing the date of the check, check number, payee and amount. The county trustee verifies the department's fund balance. The county trustee signs or validates each check if sufficient funds are or will be available and makes any necessary transfer of funds from the master account to the check clearing account;

3. Combination Method. The method outlined in (1) may be followed for some offices and departments, and the method outlined in (2) followed for other offices and departments in the discretion of the county trustee; or

4. Any other certification method requested by the county trustee and approved by the comptroller of the treasury. T.C.A. § 5-8-210(h).

When the county trustee has certified that funds are available, the total amount certified shall be charged to the fund on which the check or checks are drawn on at least a daily basis so that a current balance is maintained. T.C.A. § 5-8-210(I).

Any reference in the Tennessee Code Annotated or regulations issued pursuant to the code that require or authorize the issuance or acceptance of a county warrant shall also authorize the issuance or acceptance of a check drawn pursuant to T.C.A. § 5-8-210 and, to the extent that the provisions of T.C.A. § 5-8-210 conflict with other laws or regulations, the provisions of T.C.A. § 5-8-210 shall apply in any county in which this section has been adopted by the county trustee as provided in T.C.A. § 5-8-210(a). T.C.A. § 5-8-210(j).

Any person who signs or issues any check required to be certified by the county trustee, that has not been certified by the county trustee in accordance with T.C.A. § 5-8-210, is in violation of the law and is subject to removal from position or office, and is subject to personal liability for any improperly disbursed funds. T.C.A. § 5-8-210(k).

Credit Cards

Reference Number: CTAS-708

County officials or entities may (but are not required to) receive payment by credit card or debit card for any public taxes, licenses, fines, fees or other monies collected. The entity or official collecting payment by credit or debit card must collect a processing fee in an amount equal to the fee charged by the third-party processor for processing the payment. The amount or percentage of the processing fee must be stated on the notice sent to the person owing the tax, fine, fee or other money. This processing fee may be waived, however, with approval of the county legislative body. T.C.A. § 9-1-108(c). If payment is not honored by the credit card company or the entity upon which a debit card payment is drawn, the county entity or official may collect a service charge in the same amount charged for the collection of a check drawn on an account with insufficient funds. T.C.A. § 9-1-108(c)(4).

Acceptance of payments by credit cards for clerks of court and county clerks is also authorized under T.C.A. § 8-21-107. Acceptance of credit card or debit card payments for taxes collected by trustees is also covered in T.C.A. § 67-1-704. Both of these statutes are substantially the same as T.C.A. § 9-1-108, discussed above.

In credit or debit card transactions, no more than the last five digits of the card number may be printed on
Disposition of Surplus County Property

Reference Number: CTAS-709

Generally, the county legislative body may by resolution direct the sale and conveyance of county real property and personal property other than school property. T.C.A. § 5-7-101. However, in those counties operating pursuant to the County Purchasing Law of 1957, property that is declared surplus, obsolete or unusable must be disposed of by the purchasing agent either by sale at auction or by competitive bid, excepting books and other material in general circulation at a county public library. T.C.A. 5-14-108(o). In counties operating under the County Financial Management System of 1981, the director of finance has responsibility for the public sale of all surplus materials, equipment, buildings and land. T.C.A. § 5-21-118. The county board of education has the authority to determine the sale or transfer of county school property, both real and personal. Surplus school personal property valued at $250 or more is sold to the highest bidder unless sold or transferred to a local government. The county board of education may transfer surplus real property to the county or to a municipality within the county without sale or competitive bidding. T.C.A. §§ 49-6-2006, -2007. All counties may sell surplus property by internet auction whenever they are required by law or their charter to sell surplus property by public auction. T.C.A. § 5-1-128.

Notwithstanding any other laws to the contrary, T.C.A. § 12-2-420 (formerly T.C.A. § 12-3-1005) authorizes counties to establish a procedure by resolution of the governing body for the disposition of used or surplus personal property to other governmental entities, including but not limited to other counties, municipalities, metropolitan governments, state or federal government, any other state governments and their political subdivisions, and instrumentalities of the foregoing, without the necessity of public advertisement or competitive bidding, upon such terms as the governing body may authorize. T.C.A. § 12-2-420.

Under T.C.A. § 12-9-110, public agencies, including county legislative bodies and boards of education, have broad power to convey or transfer both real property and personal property to other public entities without sale or competitive bidding. The conveyance may be made by an agreement between the governing bodies of the public agencies authorizing the conveyance and determining that the terms and conditions are appropriate. The public agency or agencies receiving the conveyance or transfer must use the property for a public purpose. This provision may be used without declaring property surplus, and it supersedes any contrary requirements in any other general law or private act. T.C.A. § 12-9-110.

For more detailed information regarding disposition of surplus property, see CTAS-940 under Purchasing.

Auditing

Reference Number: CTAS-710

In Tennessee, the financial records of all local governments must be audited annually. T.C.A. § 9-3-211. The state comptroller of the treasury through the Division of Local Government Audit is given the authority to establish accounting standards (T.C.A. §§ 5-8-501, 9-3-212(b)) and auditing standards. T.C.A. § 9-3-212(b). The county legislative body contracts with a certified public accountant or the Division of Local Government Audit to make the annual audit. T.C.A. § 9-3-212. However, the county must receive approval of a private auditor from the Division of Local Government Audit and comply with other requirements of that office. The contract cost to use the state department of audit was set in 2016 at $0.36 cents for each person in the county based on the most recent federal census with an annual 3% fee increase beginning July 1, 2017. T.C.A. § 9-3-210. Regardless of who performs the audit, a certified copy of it must be submitted to the state comptroller. T.C.A. § 9-3-213. In the event state-shared funds are misappropriated or misused, the state is authorized to withhold state funds for the amount misused. Also, the state may collect on the individual official's surety bond if the misused funds result from that official's unlawful or dishonest acts. T.C.A. §§ 9-3-301, 9-3-302. If a public servant, with intent to deceive, knowingly misrepresents information to an auditor, this action constitutes a Class C misdemeanor. T.C.A. § 39-16-407.

Counties with one or more audit findings must submit a corrective action plan to the comptroller setting out the actions taken or to be taken to address the findings. The plan must include contact information for the person responsible for the corrective action, the corrective actions taken or to be taken and the anticipated completion date. If a county disagrees with an audit finding, the plan should include the reasons and justifications for the disagreement. T.C.A. § 9-3-407.

Internal Controls
Reference Number: CTAS-2200
Effective June 30, 2016, local governments were required to establish and maintain internal controls to provide reasonable assurance that:

--obligations and costs are in compliance with applicable law;
--funds, property and other assets are safeguarded against waste and loss; and
--revenues and expenditures are properly recorded and accounted for to allow for accurate and reliable financial reports.

GASB 34
Reference Number: CTAS-1975
The Governmental Accounting Standards Board (GASB) is an independent, not-for-profit organization that was organized in 1984 as an operating entity of the Financial Accounting Foundation (FAF). The GASB’s role is to establish standards of financial accounting and reporting for state and local governmental entities. While the GASB technically has no legislative authority, its standards are widely recognized as the guide for preparing external financial reports for state and local governments.

In June 1999, the GASB adopted GASB Statement 34, which contained sweeping changes for financial reporting. Known as Statement No. 34: Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments, these changes represented a fundamental revision of the financial reporting model which had been in place since 1979. While there were a number of significant changes in financial reporting under GASB Statement 34, probably the most major one was the presentation of government-wide financial statements.

Government-wide statements are consolidated financial statements for all of a county’s operations on a full accrual basis of accounting—accounting that is similar to what is used by many businesses and not-for-profits. The intent of these statements is to provide the “big picture” of a county’s financial position and operations as a whole.

Under GASB Statement 34 the statements are not presented on a fund basis. Instead, fiscal operations are organized into two major activities: governmental and business-type. The statements have a “net asset” focus and exclude fiduciary funds and interfund transactions (such as internal service funds). Expenses are shown both gross and net of related revenues (such as fees and grants). Sample government-wide financial statements.

Financial statements also are presented on a fund basis, in a similar way as they were before GASB Statement 34. Emphasis is given to “major” (i.e. larger) funds. Governmental funds do not use the same basis of accounting as the government-wide statements (i.e. modified accrual or current financial basis). Sample fund financial statements.

Because there are differences in the basis of accounting and scope of transactions, there are significant differences between the fund and government-wide financial statements. For this reason, a detailed reconciliation between these two types of statements is required as part of the basic financial statements. In Tennessee, the county’s independent, external auditor typically prepares this reconciliation as well as the draft financial statements. This service is purely technical in nature as the financial statements are derived from financial data prepared and provided by county accounting personnel. The appropriate county officials also must take responsibility for the accuracy of the prepared financial statements.

The independent auditor, as in the past, typically prepares the financial statements from a county’s current accounting records. However, county management is required to prepare and maintain additional financial information. Without this additional information, it is impossible to prepare financial statements that comply with GASB Statement 34.

While GASB encouraged early implementation, it required even the smallest Tennessee county to comply with Statement 34 (except for retroactive capitalization of infrastructure assets) by the end of the fiscal year that ended June 30, 2004. After this date, any Tennessee county that was not compliant with GASB Statement 34 received an adverse audit opinion on their financial statement audit for failure to comply with Generally Accepted Accounting Principles (GAAP). In May 2005, the Tennessee General Assembly passed into law the Local Government Modernization Act of 2005. This act allowed financial penalties to be imposed on county governments that were not in compliance with GASB Statement 34 by June 30, 2008. For additional information, see Local Government Modernization Act of 2005 under Financial Structure of County Government.

Capital Assets
Reference Number: CTAS-1976
While Statement 34 does not give a complete definition of a capital asset, capital assets can be defined as major assets that benefit more than a single fiscal period. Capital assets include items such as land, land improvements, buildings, building improvements, construction-in-progress, vehicles, and equipment.

A county is responsible for capitalizing all county-owned assets above the capitalization threshold determined by the county's written capital asset policy. Creating and maintaining an accurate capital asset management system is one of the more time-consuming responsibilities for achieving GASB 34 compliance. With this in mind, county management must be responsible for providing adequate time, personnel, and resources dedicated to achieving this compliance.

Counties are required to prepare capital asset reports at least annually. These reports present capital assets and infrastructure by function (the description account as defined in the state uniform chart of accounts) and asset type (i.e. land, construction-in-progress, buildings and improvements infrastructure, and other assets). These reports should present all of the county's assets and infrastructure over a certain capitalization threshold, as well as the corresponding annual depreciation expense and accumulated depreciation for these assets. These reports are to be accurately prepared at the end of each fiscal year in a timely manner. Data from these reports will be included in the county's annual audited financial statements. Two required capital asset reports (by classification and by function and activity).

Examples. It is important to become familiar with these two sample reports because the county's government-wide financial statements cannot be prepared until these reports can be generated accurately.

The first and possibly the most important step to creating and maintaining an accurate and complete asset management system is for a county to adopt a written capital asset policy. The policy should be descriptive enough that an auditor (or other individual who did not create the asset management system) would be able to read the policy and verify that the county had capitalized and maintained its capital assets in accordance with its adopted policy. While it is a good idea to acquire a copy of a capital asset policy from another county (one that has already complied with GASB 34) to have a “rough draft” for your own policy, a county should not merely copy another county's capital asset policy—asset management will differ from county to county. Sample capital asset policy. This sample policy is a compilation of best practices from numerous Tennessee counties that have complied with GASB Statement 34 and can be used as a “rough draft” for your county's policy.

Once a county adopts a capital asset policy for use, it is imperative that the county's asset management system is implemented and maintained in accordance with its adopted policy.

A written capital asset policy, at a minimum, should address the following:

- a. Capitalization thresholds
- b. Depreciation methods and rates
- c. Procedures to identify existing capital assets and infrastructure
- d. Methods to determine historical costs or estimated historical costs
- e. Procedures to tag and track movable assets
- f. Procedures to maintain capital assets records on a current basis
- g. Procedures for recording new/donated/transfered/disposed of assets
- h. Identification of available software to account for capital assets

**Capitalization Thresholds**

Reference Number: CTAS-1977
The management of the county must determine the capitalization thresholds for county-owned assets. There are no authoritative pronouncements as to the exact threshold amount or the manner in which a capitalization policy should be established and applied. However, management's capitalization policies should be adopted with the mindset that an appropriate balance should be achieved ensuring that all material capital assets, collectively, are capitalized while simultaneously being mindful to minimize the cost of recordkeeping for capital assets. Counties should strive to use the lowest reasonable capitalization threshold. Keep in mind that all debt issued will be reported without any type of threshold. If a county sets its capitalization threshold too high, it runs the risk of materially misstating its financial statements.

Counties should seriously consider capitalizing all county-owned land, regardless of the amount. Since land does not depreciate, the capitalized land will generally be a permanent increase to the county's total assets. Also, through GASB 34 implementation, numerous counties have been able to identify land that management was previously unaware it owned. These "newly found" assets were either used by management or were sold as surplus, providing funds for various county needs.

Whatever capitalization threshold is decided upon, county management should remember that while it is
their responsibility to determine threshold amounts, it is a responsibility of the independent auditor to determine if the county’s financial statements materially reflect the accurate financial position of the county.

Depreciation Methods and Rates

Reference Number: CTAS-1978

Depreciation is the process of allocating the cost of tangible property over a period of time, rather than deducting the cost as an expense in the year of acquisition. Typically at the end of an asset’s useful life the sum of the amount charged for depreciation will equal original cost less salvage value (if any). GASB Statement 34 allows a county to use any established rational and systematic method of depreciation. This includes such methods as straight-line, sum-of-the-years digits, double-declining balance, and declining balance. The use of straight-line depreciation—the most widely used and simplest method for calculating depreciation—is highly recommended.

Under the straight-line depreciation method, the basis of an asset is written off evenly over the useful life of the asset. The same amount of depreciation is taken each year of the asset’s useful life. In order to identify the annual depreciation expense for an asset using straight-line depreciation, the total cost of an asset (less the salvage value) is divided by the asset’s useful life.

Example of straight-line depreciation:

| Original cost | $10,000 |
| Salvage value | 500     |
| Adjusted basis | $9,500 |
| Estimated life | 5       |
| Depreciation per year | $1,900 |

Salvage Value

The salvage value of an asset is an estimate made by management of what the value of an asset will be at the end of its useful life. The GASB allows county management to determine salvage value from general guidelines from professional organizations such as the Government Finance Officers Association, information from other governments, professionals such as engineers, and by internal experience of what an asset is worth at the end of its useful life. Using the assumption that many counties in Tennessee tend to use capital assets until they are literally worthless, a county could assign a salvage value of zero (0) to its capital assets to help streamline recordkeeping. The CTAS sample capital asset policy uses this assumption.

Averaging Conventions

In order for management to avoid the complications of depreciating individual assets from the specific date that the asset was placed in service, GAAP supports the adoption of guidelines that assume assets are placed in service or disposed of at designated times of the year. These guidelines are known as averaging conventions. There are several types of averaging conventions (mid-quarter, half-year, modified half-year, etc.); however, it is highly recommended that counties adopt the full-month averaging convention. By using the full-month averaging convention, property placed into service at any time during a given month is treated as if it were placed in service at the first day of that month, regardless of the actual day of the month acquired. Likewise, when the asset is disposed of, the actual date of disposal is disregarded and the disposal date is the end of the month prior to the month of disposal (i.e. no depreciation is taken for the month of disposal).

Useful lives of assets

An asset’s useful life can be defined as the estimated number of months or years that an asset will be able to be used for the purpose for which it was acquired. GASB does not recommend any specific useful life schedule, but recommends several sources for a county to estimate the useful lives of their assets. These sources include general guidelines from professional organizations, information for comparable assets from other county governments, and internal experience. Counties should not merely copy the useful life schedule of another county as conditions and asset usage may differ significantly from county to county.

Example:

Gray County assigns a useful life of six years to all sheriff pursuit cars. Blue County, which is located next to Gray County, is in the process of attempting to comply with GASB 34 and copies Gray County’s useful life schedule without any modification. Blue County’s management does not take into consideration that their county has rougher terrain and is three times larger than Gray
County, meaning Blue County’s deputies will drive their vehicles more and in rougher conditions than Gray County’s deputies. After three years, as is typical in Blue County, the police cruisers are worn out and are taken out of service, even though on paper the vehicles should have three years of useful life left. Because of the inaccurate useful life estimate, Blue County could recognize a significant loss on the disposal of the vehicles.

Procedures to Identify Existing Capital Assets and Infrastructure

Reference Number: CTAS-1979

There are numerous ways for management to identify county-owned assets and infrastructure: county department inventories, county commission minutes, the current county road list, building and content insurance records, TDOT bridge inspection reports, and data from the county’s register of deeds and tax assessor. Infrastructure is defined as long-lived capital assets that normally can be preserved for a significantly greater number of years than most capital assets. Infrastructure assets are normally stationary in nature: bridges, roads, dams, etc. Generally, county-owned buildings are considered capital assets, not infrastructure assets. See Infrastructure for more information.

Example:

Blue County is a small county with only a few schools and county-owned buildings. Per Blue’s capital asset policy, building improvements have a useful life of 20 years. The county’s capital asset manager spends a couple days scanning the county commission and school board minutes for the past 20 years, noting any building improvements (new roofs, additions, HVAC replacements, etc.) that exceed the capitalization thresholds. After verifying through an inventory that these improvements still exist (HVAC units, etc.), these items are then capitalized as building improvements and the minutes, if original invoices and warrants cannot be found, are copied and maintained as supporting documentation for each improvement’s cost. By utilizing these procedures, management helps ensure that major capital assets are identified and recorded properly.

Methods to Determine Historical Costs or Estimated Historical Costs

Reference Number: CTAS-1980

Capital assets and infrastructure are to be reported at historical (acquired) cost. A county may use any established tool to accomplish GASB Statement 34 historical cost requirements; however, the mechanism for calculating historical costs for previously acquired assets should be (1) accurate, (2) able to be replicated, and (3) documented. An asset’s total historical cost includes all costs of construction and/or installation and setup of the assets (i.e. shipping, engineering and architect fees, and capitalized interest during construction of a building). An asset’s historical cost can be identified through deeds, bills of sale, county commission minutes, and/or invoices. If the actual historical cost of an asset cannot be identified, an estimated historical cost can be used. A county can estimate the historical cost of assets or infrastructure by identifying an accurate estimate of an asset’s current replacement cost and then using a deflation calculator to arrive at an estimated historical cost. While there are a number of inflation/deflation calculators available, an excellent calculator that utilizes the consumer price index (CPI) is available on the Federal Reserve Bank of Minneapolis Web site.

Example:

A county identifies a 10-acre tract of land that it owns through the register of deeds office. Even though the county has the deed to the land, there is no price amount on the deed. Based on historical research, management ascertains that the land was donated to the county board of education in 1948. The county property assessor values the land (based on what a similar piece of land in the county would cost today) at $80,000. Using a deflation calculator, management calculates that the replacement cost of the land in 1948 would be $9,568. The county would record the asset with an estimated historical cost of $9,568 and print off the calculation, a copy of the deed, and documentation from the property assessor stating his/her estimate for backup documentation for the asset’s cost.

Procedures to Tag and Track Movable Assets

Reference Number: CTAS-1981
A county must establish written procedures to tag and track all movable capital assets over the established capitalization threshold. The inventory tag should be numbered so that the asset can be traced back to the county asset records.

Example:
A county has recorded a front-end loader into its computerized capital asset database and assigned the vehicle the asset ID number 110. The county asset manager is doing an annual physical inventory of movable assets and is able to locate and identify the exact front-end loader at the county road department garage by the asset number tag affixed to the vehicle and by the information on the computerized capital asset database.

County management should insure that, at a minimum, a county-wide inventory of capitalized assets is performed annually and all purchased, donated, surplused, and/or transferred movable assets are accounted for and properly recorded in capital asset records. There are numerous bar-code inventory tag systems on the market today, some with UPC format to permit scanning by an electronic optical scanner. While these systems have proven helpful in several Tennessee counties with asset tracking, they are not required.

### Procedures to Maintain Capital Assets Records on a Current Basis

**Reference Number: CTAS-1982**

Complying with GASB Statement 34 is not a “one time affair.” Because counties are continuously acquiring and disposing of assets, a county must keep capital asset records updated after the initial capitalization of all county assets and infrastructure. It is highly recommended that a capital asset manager position be created for tracking assets for the county. In a mid-to-large size county, this position would be a full-time job. In smaller counties, this task could be accomplished on a part-time basis. While the assistance of all county officials and department heads is necessary to ensure that county assets are inventoried and tracked, numerous Tennessee counties have arrived at the conclusion that the best way to ensure that a county’s GASB 34 compliance (in relation to capital asset management) is maintained is to have one individual who is responsible for maintaining the capital asset database and ensuring that the asset management system is complying with the county’s adopted polices.

Regardless of how this procedure is addressed, counties should have a system in place to: (1) identify and capitalize all new assets over the threshold limits, (2) identify and remove from capital asset records all assets declared surplus, destroyed, stolen, and missing, (3) record any gain or loss on the disposal of individual assets, (4) perform a county-wide inventory of capitalized assets at least once a year, and (5) have all capital asset reports that are required by the county’s auditors prepared and available on a timely basis. Sample job description for a capital asset manager.

### Procedures for Recording New/Donated/Transferred/Disposed of Assets

**Reference Number: CTAS-1983**

Counties must have an effective system in place to ensure accurate recording of new and donated assets. Numerous counties have accomplished this by having all accounts payable clerks make a copy of all invoices that are over the capitalization threshold. This documentation can assist in the recognition of new capital assets. Most large donations tend to be to the county school system from booster clubs, parent-teacher organizations, and other similar groups, so all school principals should be made aware of GASB 34 capitalization requirements for donated assets. It also is recommended that the capital asset manager (or his/her equivalent) be notified whenever the county receives a sizable donation so that the current value, and supporting documentation of the asset’s value, at the time of donation to the county can be recorded, as this is the amount that will be capitalized.

Example:
TRW Industries is donating new playground equipment to Jere Whitson Elementary School. Upon receipt of the playground equipment, the principal contacts the county’s capital asset manager, who speaks with TRW to determine a fair value for the asset. TRW provides a copy of the invoice for the cost of material that was purchased at the time of donation and installation of the playground equipment. The county records the donated playground in its capital asset records and maintains the invoice and any official minutes where the donation was accepted as backup documentation.
The transferring of assets between county departments and/or disposal of assets, whether that is through surplus, destruction, or theft, should be reported promptly to the capital asset manager. Asset tags should be removed from movable assets that are being disposed of. Likewise, the function of transferred assets should be, if applicable, reclassified in the county’s capital asset records.

Example: Blue County’s solid waste department agrees to transfer a pickup truck to the county’s jail in exchange for $1,000. The net value (cost less accumulated depreciation) of the asset is reclassified in the county’s capital asset software and records from asset function #55710–Sanitation Management to #54210–Jail. The $1,000 is not added to the asset’s depreciable basis as this transaction is an intergovernmental exchange (i.e. between two departments of the same county government).

Department heads and officials should ensure that the capital asset manager is alerted whenever assets are declared surplus so any capitalized assets can be identified, have inventory tags removed, and any applicable funds received for surplus asset sales are recorded. Sample spreadsheet for tracking disposed of assets, and the related gain or losses from these assets.

Example: Gray County declares a small school bus surplus and sells the bus at public auction. The bus is totally depreciated and has no salvage value recorded. However, lately this type of school bus has become very popular among the local farmers, who use them to haul hay. The bids come hard and fast at the auction, and the bus is sold for $1,800. Since the net book value of the bus is zero (0), the $1,800 is recorded as a gain on the sale after the bus and its accumulated depreciation is removed from the county’s capital asset software.

As some officials and department heads will prove better then others on reporting purchased, donated, transferred, and surplus assets, it is necessary to ensure a thorough physical capital asset inventory is performed on at least an annual basis.

Identify Available Software to Account for Capital Assets

Reference Number: CTAS-1984

Capital asset software that can produce needed reports must be obtained and utilized so all county assets that are above capitalization thresholds can be accurately reported through software-generated reports. There are several vendors that currently have various capital asset software programs available; however, the software must be able to prepare the necessary capital asset reports and information included in the county’s annual financial statement. County management should show potential software vendors the Sample Required Capital Asset Reports to ensure that the software is capable of producing such reports. Management also should consider the level of support that the vendor will provide after the sale, such as software updates and assistance that may be needed after the original system has been purchased and installed.

Capitalization of Library Books

Considered individually, library books usually have a historical cost well below a county’s threshold for capitalizing assets. However, when valued together as a collection, the cost of library books can be significant in some counties. County management should consider if the cost of a county-owned library collection is of material enough value to capitalize. If management makes the decision to capitalize a library collection, the collection should be depreciated using a composite depreciation method.

Infrastructure

Reference Number: CTAS-1985

The GASB defines infrastructure as long-lived capital assets associated with governmental activities that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure are bridges, roads, dams, and lighting systems.

Buildings usually are excluded from the definition of infrastructure assets unless they are an ancillary part of a network of infrastructure (i.e. a pump-house on a dam). Most small- and medium-size Tennessee counties will typically have at least two main types of infrastructure to capitalize, county-owned roads and bridges.

Except for counties with less then $10 million of total revenue in fiscal year ended June 30, 1999, all Tennessee counties must capitalize all major infrastructure on a retroactive basis. While the GASB encourages all counties, regardless of size, to retroactively capitalize infrastructure, counties under the
$10 million threshold are allowed to capitalize infrastructure on a prospective basis (i.e. just new additions of infrastructure beginning with the year of Statement 34 implementation). When it issued Statement 34, the GASB set forth deadlines for local governments to retroactively report assets. While the GASB encouraged early implementation, Tennessee counties with more than $10 million but less than $100 million in total revenue in the first fiscal year ending after June 15, 1999, were supposed to capitalize all major infrastructure retroactively no later than June 30, 2007. Counties with less than $10 million in total revenue are encouraged, but not required, to retroactively capitalize infrastructure assets.

GASB Statement 34 requires counties to capitalize and report all county-owned infrastructure that exceed capitalization thresholds, at historical or estimated historical cost. The GASB recognized the challenge to determine an accurate historical cost in counties that are required to retroactively report assets. Therefore, counties are required to capitalize and report only major general infrastructure assets that were acquired (purchased, constructed, or donated) in fiscal years ending after June 30, 1980, or that received major renovations, restorations, or improvements during that period.

**Roads**

Reference Number: CTAS-1986

One of the biggest challenges with capitalizing roads is how to determine the historical and/or estimated historical costs of these assets. Many county-owned roads have been maintained in the county for decades, or even more than a century, and have changed over time from a simple dirt road to a multiple-lane asphalt road with numerous upgrades and courses of maintenance.

The GASB considered this accounting challenge when it implemented Statement 34 and requires that counties retroactively report roads at actual or estimated historical cost only back to—

- Those acquired on or after July 1, 1980 or,
- The last time the road was upgraded (gravel to oil-and-chip, etc.) or,
- The last time the road was replaced or resurfaced in a way that it extended the original useful life of the road (i.e. not considered routine maintenance).

**Example 1:**

Blue County is trying to determine the historical cost for Turkey Town Road (a county-owned gravel road). The road has been a gravel road for at least 50 years. Every year, the county grades the road a couple times and drops a few loads of gravel (less than $100) on it for annual maintenance. As this road does not meet any of the requirements for capitalization (date acquired, no upgrades, only routine maintenance performed), county management chose not to capitalize this road.

**Example 2:**

Grey County is trying to determine the historical cost for Short Mountain Road (a county-owned oil-and-chip road). The road has existed for more than a hundred years. However, the road was gravel until 1994, when it was upgraded to oil-and-chip. Since this was the last major work project on this road, the county would determine an estimated historical cost (if actual cost was not known) for the cost of an oil-and-chip road and capitalize this amount as the road’s cost with the acquisition date of the road being 1994 (when it was upgraded).

**Example 3:**

Black County is trying to determine the historical cost for Biven’s Hill Road (a county-owned asphalt road). The road has been an asphalt road for a number of years, however the road was resurfaced three years ago during a large repaving project. The original historic cost of the road would be determined at the time of resurfacing if the project extended the useful life of the road and was not considered routine maintenance. The original acquisition date for the road would be the date of this last major resurfacing.

Often when new subdivisions are finished, the roads within the subdivision are brought up to county road standards and donated to the county. The capitalization cost of these roads should be the actual or estimated fair value of the roads at the time of donation. If the developer refuses to disclose the cost of the roads, the GASB has determined that a county can use an accurate estimate (based on comparable road construction costs) for the value of the donated infrastructure. Management should be cautious if they use a cost estimate provided by a road builder not to include the builder’s profit margin into the cost estimate for a donated road.

**Right-of-ways and Other Easements**

Reference Number: CTAS-1987
An easement is an interest in land that is owned by another entity that entitles its holder to a specific limited use or right. Right-of-ways and other easement rights for which the county did not incur a cost are not required to be capitalized. If the easements were paid for by the county, they should be capitalized by actual or estimated historical cost.

Example:
Blue County has right-of-ways for a certain distance on both sides of all county roads. The county did not pay for these easement rights and private property owners that live next to the roads actually pay property taxes on the land under the roads. Since Blue County did not pay for these easement rights and the rights would cease if the road was taken off the county road list (i.e. no longer a county asset), management has decided not to capitalize these easements as infrastructure.

Bridges
Reference Number: CTAS-1988
County-owned bridges should be capitalized at historical or estimated historical cost and depreciated as infrastructure. The Tennessee Department of Transportation bridge inspection reports are an excellent source of information for determining the construction date and dimensions of most, if not all, county-owned bridges. If the actual historical cost of the bridge cannot be located, a county can use an estimated historical cost by using a deflation calculator to index current bridge construction cost back to the year of construction. All bridges acquired on or after July 1, 1980, and above the county’s capitalization threshold should be capitalized. Major renovations and repairs that are not considered routine maintenance and upgrades to bridges that exceed the capitalization threshold, such as wood to concrete, should also be capitalized and depreciated.

Example 1:
Blue County has a bridge that was originally built with a wooden floor in 1945. The bridge was upgraded to a concrete span in 1985. The county implemented GASB 34 in 2006 and retroactively reported the bridge as a concrete span with an acquisition date of 1985 (when the upgrade took place).

Example 2:
Blue County has a concrete box-type bridge that originally was constructed in 1983. However, the bridge had extensive damage in a storm and had major repairs (that extended the bridge’s original useful life) in 1993. The bridge would be capitalized with an initial acquisition date as of 1993 (the date of the major renovation).

Modified Approach to Reporting Infrastructure
Reference Number: CTAS-1989
Most, if not all, Tennessee counties report their infrastructure on an individual asset basis. However, the GASB allows for a modified approach for infrastructure reporting. Under the modified approach, counties still are required to perform an initial retroactive capitalization of county-owned infrastructure (if over the $10 million threshold mentioned previously). However, instead of annually depreciating each infrastructure asset, the county must calculate a “maintenance of effort” amount that reflects the current costs for preserving infrastructure in lieu of depreciation. Counties are discouraged from implementing the modified approach since use of this method requires a county to periodically engage independent engineering consultants to perform condition assessments and demonstrate that all infrastructure has been maintained at or above a prescribed level.

Leave, Sick and Compensatory Time Liability Reporting
Reference Number: CTAS-1990
A county will have to adopt written personnel policies addressing paid time off. Paid time off includes vacation, sick, and compensatory (comp) time. A policy should address the rate that time off is accrued, the maximum amount of time that each individual employee is able to accrue, and what type of leave is guaranteed to be paid upon termination or retirement of an employee.

While there is no state or federal law requiring that vacation or sick leave be provided for county employees, management should note that federal labor laws require accrued comp time to be paid out in full to employees upon retirement or termination. Comp time accrues at one and one-half hours for each hour of overtime worked, and the maximum amount of comp time that can be accrued by an individual employee in public safety, emergency response, or seasonal activities is 480 hours, which represents 320
hours of overtime actually worked. Employees in other types of job classifications can accrue up to a maximum of 240 hours of comp time, which represents 160 hours of actual overtime worked. Comp time accruals for individual employees should never exceed these maximum amounts. See Employee Leave under the Personnel topic for more information on the legal aspects of paid time off.

Once a county adopts a written personnel policy addressing paid time off, county management will have to prepare an annual report that presents accumulated dollar values by function for all leave, sick, and comp time if guarantee payment provisions for this paid time off exist in the county’s personnel policy. The annual report must present the beginning of fiscal year accumulated leave, sick, and comp time liability balances, amount of time earned by employees during the current fiscal year, amount of time used by employees during the current fiscal year, and the end of year accrued time liability. Management also will have to provide an accurate estimate of the amount of time off that will be expensed in the next fiscal year. See Sample Leave Accrual Spreadsheet.

Note: One of the most common and avoidable mistakes that some counties make when preparing the annual accrued time off report is to use a beginning of current year (July 1) balance that is different than the prior fiscal year’s ending balance (June 30). These amounts should always be the same. If a prior period correction is needed, make the adjustment in the current fiscal year and make your auditors aware of this adjustment.

Outstanding Long-term Debt Reporting

Reference Number: CTAS-1991
County management will need to prepare a schedule that breaks down the percentage of the county’s long-term debt (bonds, notes, loans, and capital leases) between the county and the school department and/or other component units. Management also should obtain or prepare a schedule of the dates for semi-annual or annual payments for principal and interest on each outstanding long-term debt issue. Amortized debt payment schedules should be provided to the county when any debt (including capitalized leases) is issued. County management should compare their outstanding debt schedules with amounts that will be reported by the county’s independent auditors to ensure all outstanding debt is reported accurately.

Example 1:
Black County issues bonded debt for jail improvements. Management notes on the long-term debt schedule the bond issue, amount, and that the debt was issued for 100-percent use with primary government operations. Management makes a copy of the debt amortization schedule as well as keeping all paperwork related to the debt issue in a central location.

Example 2:
Blue County issues $10 million in refunding debt for two previous debt obligations. Management prepares a schedule that details the various individual debt obligations that were refunded and notes that $3 million of the refunded debt came from the purchase of ambulances and stations for county EMS, and $7 million of the original debt was for some renovations at the high school. Management retains all information related to the debt issue in a central location for use by financial statement preparers.

Internal Service Fund Reporting

Reference Number: CTAS-1992
Internal service funds are used to report an activity that provides services or goods to other funds, departments, or agencies to the county, the school system, or component unit on a cost-reimbursement basis. Examples of internal service funds are self-insurance and workers’ compensation funds. Counties that maintain an internal service fund will have to prepare a schedule that presents a breakdown of activity applicable to the county and applicable to the school department. Further detail should be provided to break down the activity between functions (general government, administration of justice, etc.) within the primary government. Example of a schedule that prorates usage of an internal service fund.

Management Discussion and Analysis

Reference Number: CTAS-1993
The Management Discussion and Analysis (MD&A) is a narrative that provides a brief, objective, and easily
readable analysis of the government’s financial activities based upon currently known facts, decisions, or conditions. Further, it provides the management of a county government with the opportunity to present both a short-term and a long-term analysis of activities. MD&A is not a required part of the basic financial statements, but is supplementary information required by the GASB.

Currently, the omission of the MD&A will not adversely affect the audit opinion of a Tennessee county’s financial statements. Any county that decides to include a MD&A should reference the latest edition of Governmental Accounting, Auditing and Financial Reporting (i.e. the Blue Book) and the Government Finance Officers Association Web site for the most up-to-date reporting requirements. Management also should communicate with their external auditor about the desire to prepare an MD&A in order to determine when the narrative must be completed for inclusion into the audit report.

Staying in Compliance with GASB Statement 34

Reference Number: CTAS-1994

Imagine that your county has adopted/updated a capital asset and/or personnel policy, capitalized all county-owned assets and infrastructure, and compiled all the reports needed for the preparation of government-wide financial statements. You also have prepared accurate backup documentation for all capitalized assets, leave liabilities, and other applicable GASB Statement 34 requirements.

Your auditors complete the county’s audit and inform you that the county has complied with GASB Statement 34 reporting requirements. Congratulations! You have successfully complied with the one of the most significant governmental accounting pronouncements ever. However, the job is not entirely done.

The county constantly will be acquiring and disposing of assets. Depreciation reports and employee leave liabilities change each year, and more debt will be issued in future years. These changes will have to be tracked and recorded on financial reports. While in most counties this maintenance of the accounting records will not be a large task, neglect of these duties could cause a county that already has complied with GASB Statement 34 to become noncompliant. This noncompliance would be due to the inability to prepare accurate financial statements because of a lack of updated financial information.

The GASB has continued to issue new accounting statements. Many of these newer statements require the recognition of liabilities on the government-wide financial statements that are prepared under Statement 34. Without the preparation of government-wide financial statements, a county will be unable to comply with numerous current and upcoming accounting requirements. With this in mind, county management should strive to ensure that adequate resources are used to maintain the integrity of the financial reporting system in which they have invested so much already.

GASB 54

Reference Number: CTAS-2195

In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement 54, Fund Balance and Governmental Fund Reporting. This latest GASB standard substantially alters the focus and terminology used for fund balance reporting. The purpose of the Statement is to improve financial reporting by providing fund balance categories and classifications that will be more easily understood.

Three considerations led to the replacement of the previous components of governmental fund balance:

- The previous terminology (i.e., reserved, unreserved, designated) was not self-explanatory and frequently was misunderstood by financial statement users.
- The previous components were often applied inconsistently in practice.
- Some questioned whether the focus on availability for appropriation continued to best serve the needs of financial statement users.

While the Statement’s purpose is clear, only time will tell if the expected end result is realized once the theory is applied to practice. Several factors will have to be considered about this new standard as the annual budget is prepared.

The Statement redefines the definitions of the five types of governmental funds. County management should review these definitions and ensure that all current and, especially, any proposed new governmental funds meet the definition to be a separate fund. As counties in Tennessee prepared annual budgets for the 2010-11 Fiscal Year, CTAS analyzed every county special revenue fund statewide and worked closely with the counties and State Comptroller to identify and close over 100 governmental funds, across the State, which no longer met the definition of a separate governmental fund. Therefore, counties should have few, if any, governmental funds that currently do not meet the standard to be separate funds. However, as county management may consider creating new governmental funds in the future,
management should be aware of each of the governmental fund definitions.

**New governmental fund definitions:**

**General Fund**
The general fund should be used to account for and report all financial resources not accounted for and reported in another fund. It is the principal operating fund of the county for governmental purposes.

**Special Revenue Funds**
Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term “proceeds of specific revenue sources” establishes that one or more specific restricted or committed revenue should be the foundation for a special revenue fund. The restricted or committed proceeds of specific revenue should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations or other governments.

**Capital Project Funds**
Capital project funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

**Debt Service Funds**
Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

**Permanent Funds**
Permanent funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs – that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

Besides clarifying the existing governmental fund type definitions, the objective of Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. No longer will reserves be reported in governmental fund balances and the term “undesignated fund balance” will also cease to be used. Because generally accepted accounting principles dictate that the financial report and the budget are inseparable elements in the financial administration process, county management must take the steps to ensure compliance with the new fund balance reporting requirements as they prepare the annual operating budget. Before converting existing fund balance classifications to be GASB Statement 54 compliant, county management (finance/budget officer) must become familiar with the new fund balance classifications and the definitions of each of these new terms.

**New fund balance classifications:**

- **Nonspendable Fund Balance**: Portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

- **Restricted Fund Balance**: Portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

- **Committed Fund Balance**: Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government’s highest level of decision-making authority.

- **Assigned Fund Balance**: Amounts that are constrained by the government’s intent to be used for specific purposes, but that are neither restricted nor committed (excluding stabilization arrangements). Assigned fund balance will be the minimum level of residual fund balance in all governmental funds except the county general fund and general purpose school fund.

- **Unassigned Fund Balance (formerly undesignated)**: Residual classification for the general fund and the general purpose school fund. This classification represents fund balance that has not been assigned to
other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund and general purpose school fund. While it is noted that the general purpose school fund is a special revenue fund, in Tennessee counties it is recognized as the general fund of the school component unit, and therefore, unassigned fund balance amounts are permissible per the State Comptroller.

Once county management (finance/budget officer) has become familiar with the new fund balance classifications, all existing governmental fund balances should be converted to the new fund balance classifications (preferably before the budget process for Fiscal Year Ending June 30, 2012 begins and no later than June 30, 2011). County management that finds a need for assistance with fund balance classification conversion pursuant to GASB Statement 54 should contact their CTAS field consultant. GASB Statement 54 also encourages counties with fund balance policies to place these policies in writing and formally adopt them. However, a minimum fund balance policy is not required by the statement. Additionally, counties are encouraged to adopt formal spending prioritization policies (i.e. spend assigned amounts before committed). While GASB Statement 34 required counties to have a policy for determining whether restricted or unrestricted amounts were spent first, in practice very few counties have actually approved such policies. In counties that have not formally approved a spending prioritization policy, the Statement provides a “default” policy that stipulates that committed amounts would be reduced first, followed by assigned amounts, and then unassigned when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

While fund balance reserves will no longer be used in external financial reporting, numerous Tennessee state laws require counties to track certain restricted unspent funds (certain litigation taxes, sex offender fees, courtroom security, etc). Counties should be tracking the beginning and end of year reserve balances, with the yearly activity for these reserves posted to the general ledger by June 30th. CTAS recommends counties to maintain a simple subsidiary ledger for these reserves on a Microsoft Excel (or similar) spreadsheet and then convert these amounts at year end to the proper restricted equity accounts (per the uniform chart of accounts) and then post these end of year restricted balances to the general ledger on June 30th.

One of the more interesting aspects of GASB Statement 54 fund balance reporting was the discontinuance of reporting a reserve for encumbrances in the governmental funds. The GASB discussed the question of whether encumbrances meet the criteria to be included in the restricted, committed or assigned fund balance classifications and arrived at the conclusion that an encumbrance does not represent any further constraint on the use of amounts than is already communicated by the established Statement 54 fund balance classifications. With this in mind, the end of year encumbrance balance will be reclassified into restricted, committed or assigned fund balance.

However, for budgetary reporting purposes, the year-end encumbrance reserve will be reversed at the beginning of the next year (out of the restricted, committed or assigned fund balance classifications) and carried forward as a prior-year encumbrance reserve (along with any current year encumbrance reserves) for interim financial reporting purposes. County management (budget/finance officer) needs to be aware that when reviewing the prior year audited financial statements (after Statement 54 implementation) they will no longer see a reserve for encumbrances on the face of the financial statements. However, information about significant encumbrances should be disclosed in the notes to the financial statements in the audit report and management should be able to locate this information there.

**Operating Budgets**

Reference Number: CTAS-711

What is a budget? Why have a budget? For the person who has never worked for a governmental entity, those questions would seem legitimate; however, to the person who has been involved with governments, it would be nearly impossible to operate a government without a budget.

A budget is a method used by governments and many businesses to manage the current and future resources (cash) and to anticipate revenue to provide critical services—law enforcement, health department, education, highways, etc. This financial plan estimates the available funds to be received and the cost of providing services to the public for a 12-month period beginning July 1 and ending June 30.

There are two basic budgets that governments adopt: (1) Operating (2) Capital. A capital improvements budget is a finance plan to purchase or contract for capital improvements.

The operating budget includes funds (referred to as revenues) received from federal, state, and local sources, and expenditures for the various services provided by the government. The expenditures would include salaries, supplies and materials, interest and principal on outstanding debt, and other current operating expenses. This budget would be for the 12-month period referred to as a fiscal year.
In Tennessee, the three types of state laws applicable to the county financial function are general laws, general laws with local option application, and private acts for a specific county. Each of these are reviewed under the Financial Structure of County Government tab. General law also provides county charters and metropolitan government charters as an alternative structure for financial management.

Within a governmental entity, there are separate operations supervised by different elected or appointed officials. Each department may have different laws that govern the operation, and the local legislative body may have little or no power over the operation other than adopting the budget. This is the case with county governments in Tennessee; the county legislative body has no authority over any department other than to approve the budget, and even this is very limited with regard to education budgets and fee officials’ budgets. This is not the case with the state legislature or a city legislative body since they can make rules and regulations and adopt budgets as they deem best.

**Basic Principles of Budgeting**

Reference Number: CTAS-712

The annual budget is the finance plan for a public entity to provide services to all the people in the governmental jurisdiction. Taxes and other public funds are used to provide these services. Due to the importance of this public trust in providing critical governmental services, the following guiding principles that promote a successful budgeting process have evolved over many years of experience:

1. Communications should be clear and open to all public officials and the general public.
2. Information developed should be complete and accurate. It should also be available to officials, public, and press.
3. Problems of providing services by the government should be addressed in the budget. If the problems are not solved in a reasonable manner and a reasonable time, then the solutions usually cost more when the public demands action or a higher level of government mandates expensive solutions.

**Budget Process and Approaches**

Reference Number: CTAS-713

The process of developing budgets depends on the availability and training of staff as well as the data processing capability of the county. In developing budgets, the operating department heads, the legislative body, and other elected officials should determine the information needed to make a reasonable decision in approving an operating budget. What problems and questions should be addressed in considering the budget? Although there are different approaches in developing budgets, as well as different types of budgets (zero basis, performance, etc), the budget type used by nearly all the local governments in Tennessee is the line-item budget. In developing a line-item budget, counties utilize an object code approach.

A budget lists each revenue account and expenditure by department or activity with line items under each for salaries, employee benefits, contracted services, supplies and materials, capital outlay, and other operating expenses.

**Budget Handbook**

Reference Number: CTAS-714

Due to the importance and time involved in adopting budgets, it is highly recommended that the various department heads and members of the legislative body develop a budget handbook or guide. This handbook would be in the form of a policy manual and would be maintained on a current basis. New employees, department heads, and other elected officials would have a guide to follow, and each year modifications could be made to reflect changes and improvements of the process. The end result would be fewer conflicts and more improvements in providing services, rather than the mistrust that has evolved in many local governments.

Sample budget handbook.

Recommended Practice: Develop a Budget Handbook

**Chart of Accounts**

Reference Number: CTAS-715

Local governments are a subdivision of state government; therefore the state has a vested interest in the operation of local governments. The state has a prescribed set of accounting codes (Chart of Accounts) in
Budget Planning

Reference Number: CTAS-716

Each county government should plan, develop, adopt and manage operating budgets for the various operations. During this budget process, a forum should be established where various factions, interests, and operations are discussed, debated, and reviewed. The final product should be a budget that reflects a consensus of all the players involved. Even though conflicts cannot be eliminated, an attempt should be made to identify these potential conflicts and minimize them with a good budgeting system. It is important to develop procedures for the budgeting process.

Before January 1, time should be devoted to reviewing the current budget and beginning the budgeting process for the next fiscal year. Department heads and committees of the legislative body should meet to hear concerns relating to services and the current budget. It is very important that all interests are heard; the merits of these interests discussed; and, in the end, a consensus reached thereby ensuring a positive environment in developing the next fiscal year’s budget.

Some ideas that could be implemented during the planning time are

1. Reviewing current problems relating to services with the department heads and “brain-storming” possible solutions.
2. Attempting to solve these problems within the present budget appropriations.
3. Reviewing the present economic conditions of the county or community.
4. Determining the status of revenue estimates for the current budget by asking the following questions: (1) Are the local sales tax collections running as expected? (2) What about the property tax and other local taxes?
5. Reviewing the status of expenditure estimates. Are the estimates sufficient to provide the services planned for the current fiscal year?
6. Identifying steps the county can take to improve the prior year’s process by asking (1) what information is needed? (2) how can the information be presented to help the decision-making process? (3) do the members of the legislative body and department heads have ideas for improving the budgeting process?

In order for all department heads to have time to develop the budget information needed to meet deadlines, it is imperative they be informed of the applicable budgetary timeline for the county. With the passage of Public Chapter 1080 in 2016, most counties now have the option to adopt their own budget timeline or follow the applicable statutory timeline. It is important all interested parties in the county are aware of the applicable timeline. An example of a budgeting calendar which could be adopted locally can be found here: Sample Budget Calendar

Required and Optional Services

Reference Number: CTAS-2113
The approach of each county government budget will vary based on the information needed to inform the public, legislative body, elected officials, and department heads. In deciding on the approach, the key is what information is needed to answer the following basic questions:

1. What services are needed to meet the mandates of federal and state governments?
2. What services are required due to the demands of your local citizens? (See the following list of required versus optional services)
3. What revenues are available to fund these services?

**Required Services**

Tennessee State statutes require counties provide the following services:
- Ambulance service
- Education
- Civil defense
- Courthouse, including fee officials
- Growth management policy
- Health department
- Law enforcement, including jail
- Medical examiner
- Roads and bridges
- Solid waste (convenience centers only)
- Solid waste (site for batteries, used motor oil, and tires) (If a county has an interlocal agreement with another governmental entity or contracts with a private company, this service can be waived)
- Storm water management

**Optional Services**

The following services are optional:
- Airport
- Animal control
- 911 system
- Fire protection
- Incinerator(s)
- Industrial development
- Mass transit
- Planning
- Port authority(s)
- Recreation
- Sewer system
- Support for non-profit/charitable organizations
- Water system
- Workhouse

After asking the basic questions mentioned above, the dialogue below usually follows:

1. What is the purpose of the program (e.g. juvenile services), service (e.g. Geographic Information System), or activity (e.g. planning)? How will the additional cost improve the service? Will the benefits from the new program or service justify the additional cost? What research is available to support the additional cost?
2. How can we communicate this problem to the public and legislative body? This is a major issue. The key to effective budgeting is properly communicating the problem and solution to the public and the legislative body.
3. What will it cost to provide the services? Why must we raise taxes or increase the tax rate?
4. What information can be provided that will justify a tax increase? How do we justify the
increase in personnel, salaries, capital outlay, and other operating costs?

5. Where are the funds coming from to fund the program or service? How much local funds are needed to fund the program? Will the state or federal government fund the program and for how long?

The approach to answering these questions is very important, especially if taxes must be increased. In determining the approach, the budget coordinator should think about what information he/she would want if they had to make the final decision on whether or not to raise taxes.

Key Budgeting Issues

Reference Number: CTAS-2154
The following issues should be considered when developing a budget.

Maintenance of Effort

Reference Number: CTAS-722
Tennessee Code Annotated requires certain financial mandates for local governments. Financial mandates are often referred to as “maintenance of effort” requirements. These requirements are either on local revenues or on the expenditure budget. We see these mandates for education, public safety, highways, and election commission. Maintenance of effort requirements prevent local governments from substituting state (or federal) funds for local revenues as state (or federal) funding increases. The rationale is to ensure that the additional funds provided are used for improvements or inflation, not simply to maintain spending levels previously supported by local revenue.

While not technically a maintenance of effort requirement, another financial mandate that must be considered when budgeting is the statutory minimum staffing level for the assessor’s office. For more information, see Deputies and Assistants-Assessor of Property.

Education MOE

Reference Number: CTAS-723
For education, “maintenance of effort” requirements differ from matching requirements in that the former do not require a minimum amount of local funds in exchange for receipt of state or federal funds, but rather prohibit reductions in local funding from one year to the next. The maintenance of effort test is a supplanting test that ensures local governments do not use state dollars in place of local dollars. This is governed by T.C.A. § 49-2-203 and § 49-3-314.

The MOE is not a one-time pass/fail test. Once the budget has been approved, the only way the MOE can be affected is through budget amendments.

The MOE test is a comparison between the new/next budget and the amended/original budget. This is used to see if MOE has been met for the new/next budget. This is a bottom line total test and does not compare each line item as a means of passing the test. If the school system receives less than has been budgeted, the county government is not responsible for making up the shortfall.

There are several possible scenarios that will allow the county to reduce its MOE, which are discussed under School Budget – Maintenance of Effort under the Education topic in this library.

In cases where the MOE is not met in the current budget year, the state has the option of withholding funds until the test is met. During the budget process the school MOE should be reviewed prior to passage of local budget.

Education Maintenance of Effort Tests

Reference Number: CTAS-2469
First Level - Year to Year Revenue Comparison

<table>
<thead>
<tr>
<th></th>
<th>2018 - 2019 Budget</th>
<th>2017 - 2018 Amended</th>
<th>2017 - 2018 Original Budget</th>
<th>2017 - 2018 Actual Revenue</th>
<th>Budget to Actual Comparison</th>
<th>Budget to Actual Comparison</th>
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</thead>
<tbody>
<tr>
<td>Total County Taxes</td>
<td>$13,814,445</td>
<td>$13,552,115</td>
<td>$13,552,115$</td>
<td>-</td>
<td>$262,330</td>
<td>$(13,552,115)</td>
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<tr>
<td>Total City/Special School District Taxes</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>$1,115,199$</td>
<td>-</td>
<td>$(1,115,199)</td>
</tr>
<tr>
<td>Total Other Local and State Revenue</td>
<td>$1,115,199</td>
<td>$1,115,199</td>
<td>$1,115,199$</td>
<td>-</td>
<td>-</td>
<td>$(1,115,199)</td>
</tr>
</tbody>
</table>
Sheriff/Law Enforcement MOE

Reference Number: CTAS-724

The county legislative body is required by law to fund authorized expenses fixed by law for the operation of the sheriff's office, including the salary of all the sheriff's deputies. T.C.A. § 8-24-103(a)(1) State ex rel. Ledbetter v. Duncan, 702 S.W.2d 163, 165 (Tenn. 1985) (We hold that the provision requires the county legislative body to fully fund the salaries of all deputies as set by the circuit or criminal court pursuant to T.C.A. Chapter 20 of Title 8).

The county legislative body may not adopt a budget that reduces below current levels the salaries and number of employees in the sheriff's office without the sheriff's consent. In the event the county legislative body fails to budget any salary expenditure that is a necessity for the discharge of the statutorily mandated duties of the sheriff, the sheriff may seek a writ of mandamus to compel such appropriation. T.C.A. § 8-20-120.

Highways MOE

Reference Number: CTAS-725

County highway departments are also required to meet a “maintenance of effort” for local revenues according to T.C.A. § 67-3-901(d). It states a county shall be eligible to receive those revenues to be distributed directly to it from the tax increases imposed by Acts 1985, Ch. 419, Acts 1985, Ch. 454, effective 1985, and Acts 2017, Ch. 181, only if it appropriates and allocates funds for road purposes from local revenue sources in an amount not less than the average of the five preceding fiscal years, except bond issues and federal revenue sharing proceeds shall be excluded from the five year average computation. If a county fails to appropriate at least such average amount for road purposes, then the amount of “gas tax” revenue that would otherwise be allocable to a county would be reduced by the amount of the decrease below the five year average.

Highway certification form.

Election Commission MOE

Reference Number: CTAS-726

Pursuant to T.C.A. § 2-12-209, no county receiving payments from the state for having a certified administrator of elections shall reduce the total amount appropriated to the county election commission
below the total amount appropriated to the election commission in previous comparable election or non-election years.

Recurring Revenues and Expenditures

Reference Number: CTAS-742
If an expenditure will continue each year, will the revenue source to fund the expenditure continue? Often programs are added that require recurring expenditures, but the revenue source is terminated. Therefore, there should be a clear understanding that whenever a new program is added and it is partially or fully funded from non-local tax sources, the program will be terminated or funded from the property tax when the funding source is stopped. The best examples of this problem are when recurring expenditures are funded by non-recurring revenues such as federal grants, federal revenue sharing funds, state grants, or from the undesignated fund balance.

POLICY RELATIVE TO TERMINATED STATE & FEDERAL GRANTS

What is the policy of the county relative to continuing the service when a federal or state grant is terminated? A policy should be established for each grant whenever it starts relative to the continuation of the service if and when the grant funds are terminated.

Recommended Practice: Develop a policy on dealing with grant funds or projects that may not have future revenue to support the programs.

Three-Star Program

Reference Number: CTAS-2156
Developed in 1980, the Three-Star Program is designed to help communities take full advantage of economic development opportunities. The goals are to preserve existing employment, create new employment opportunities, increase Tennessee family income, improve quality of life, and create a strong leadership base. Participating communities are guided through a comprehensive plan of essential criteria developed by local economic development professionals and a cooperative collaboration of various state and regional agencies.

Participation in the Three-Star Program is based on an annual evaluation and activity plan. Local community leaders and Joint Economic and Community Development Boards are encouraged to implement activities that will impact the community’s competitiveness in a global economy. Participating counties (and cities in these counties) will be eligible for a four percent discount (for eligible projects) on both the business development and community development ability-to-pay calculations (CDBG and Fast Track) each year the county fulfills the requirements of the Three-Star Program. Additionally, only cities located in a county that is an active participant in the Three-Star Program will be eligible to participate in the Tennessee Downtowns program. Finally, there is an annual grant for Tier 2 and Tier 3 counties to serve as seed money for activities (not to offset general operating expenses) focused on improving at least one of the measured areas of the program: health and welfare, public safety, and education and workforce development.

Each year, ECD will provide participating counties with a scorecard that documents progress indicators in the five focus areas. The scorecard and activity plan is designed to assess and reward each county on its unique progress in the three scored areas identified in their Three-Star Activity Plan.

Fiscal Strength and Efficient Government

1. Annual budget adopted on time and filed with the Comptroller’s Office by October 15.
2. Create and maintain an audit committee. Click here to download How to Create and Maintain an Audit Committee.
3. Review and sign the Fiscal Strength & Efficient Government Annual Confirmation letter. Click here to download the Annual Confirmation letter.
   - County commission and county mayor annual review of the debt management policy.
   - Annual acknowledgement by county mayor and county commission that an annual cash flow forecast must be prepared and submitted to the Comptroller prior to issuance of debt.
Budget Development

Reference Number: CTAS-717

Policies and procedures should be developed and provided to officials responsible for developing and implementing the operating budget. These procedures should include instructions for the various steps of the fiscal year budgeting process. All policies and procedures should be established and implemented in accordance with the applicable budgetary timeline for the county (either locally adopted or statutory). For those counties operating under general law, it is highly recommended that the legislative body establish a budget committee. A good budget committee model can be found in the County Budgeting Law of 1957 or the Financial Management Act of 1981.

Recommended Practice: If your county is not required to have a Budget Committee, it is recommended that one be established to help in the developing, approving and monthly monitoring of your county budget.

The following steps will provide some ideas for procedures to be developed by the government officials and the legislative body:

1. **General Budget Information**—This step should include information about the status of the current budget and any problems relating to it, including revenue and expenditure deficiencies and/or service inadequacies.

2. **Review all Current and Proposed Special Revenue Funds**— GASB Statement 54, Fund Balance Reporting and Governmental Fund Type Definitions, went into effect in the fiscal year ending June 30, 2011. This Statement, among other things, restates the definition of the different types of governmental funds. Management should analyze every current and proposed governmental fund to ensure each fund meets the criteria to be a separate fund. If a fund no longer meets the criteria to be a separate fund, then the fund should be closed and its activity budgeted in the county general fund.

3. **Budget Preparation Instructions**—General instructions should explain the process for preparing the department/activity budget including revenue and expenditure estimates and statistical data relating to the service provided by the department.

4. **Presentation of the Budget**—A presentation schedule is then developed and distributed to the various officials and department heads. This schedule should identify the time and date their budget requests can be presented to the legislative body.

5. **Review, Analysis and Recommendations by the Committee**—After the budget has been submitted to the appropriate finance/budget committee, it is then the responsibility of the committee to do the following: (1) review and evaluate the budget, (2) meet with department heads and elected officials, if needed, and (3) make recommendations to the county legislative body.

6. **Review by the County Legislative Body**—Upon receiving the budget document and recommendations from the committees, the legislative body deliberates on the budget and considers the following: (1) fund balance(s), (2) revenues, (3) expenditures, (4) services, and (5) proposed tax rate. As discussion of these items may involve considerable time, the county legislative body often schedules work sessions for these deliberations.

7. **Priorities and Alternatives**—If the budget must be reduced, what procedures will be used to set priorities and evaluate alternatives to provide adequate services?

8. **Consolidation of Budgets and Preparation of Resolutions**—Before final adoption, procedures should be prescribed for consolidating all the budgets into a budget document. The county legislative body will review the submitted departmental budgets and requests for assistance, combine them into one county budget, and approve a budget for the fiscal year that begins July 1 and ends June 30. Also, the proper resolutions for adopting the budget and setting tax rates should be prepared.

Budget Handbook and Forms

Due to the importance and time involved in adopting budgets, it is highly recommended that the various department heads and members of the legislative body develop a budget handbook or guide. This handbook would be in the form of a policy manual and would be maintained on a current basis. Since the budget is a written financial plan for providing governmental services, it is extremely important that the budget document and supporting data be complete and accurate in order to communicate the needs of the department and local government. New employees, department heads, and other elected officials would
have a guide to follow, and each year modifications could be made to reflect changes and improvements
of the process. The end result would be fewer conflicts and more improvements in providing services,
rather than the mistrust that has evolved in many local governments.

Sample budget handbook
Using the forms provided by the budget coordinator, departments should complete the documents with
accurate information. Also, if the forms do not adequately present the needs of the department,
supplementary schedules or information should be added to the standard forms. Though it may not seem
to be of utmost importance relating to budgets, communication is at least the second greatest problem in
adopting annual budgets. The use of appropriate forms and supplementary schedules can assist in keeping
budgetary communications clear.

Recommended Practice: Develop a Budget Handbook
Recommended Practice: Develop a series of budget forms to collect budget information.
Recommended Practice: Develop budget forms for the budget amendment process.

Budget Preparation
Reference Number: CTAS-719

Budgeting Formula
Reference Number: CTAS-720
Preparing a budget is a systematic method of determining available funds and how the funds are to be
expended. A basic formula has been developed to prepare a budget.

1. Establish beginning balances as of July 1 (accumulated funds from previous fiscal year)
2. Add estimated revenue for the next fiscal year
3. Add transfers from other funds (See Section 5 on GASB 54)
4. A, B, and C equals estimated available funds for expenditures
5. Subtract estimated expenditures for the next year
6. Subtract transfers to other funds (See Section 5 on GASB 54)
7. All of the above equals estimated ending balances as of June 30

This formula applies to each separate fund for which a budget is prepared. In preparing a budget using
this formula, the accepted principle in determining budget estimates is to conservatively estimate
revenues and adequately estimate expenditures. More details about the basic formula.

Over-estimating revenues and under-estimating expenditures will jeopardize the financial condition of the
local government, since it has no way to print money or borrow funds for current operations past June 30
of the current fiscal year. A soundly planned and financed budget is imperative to the local government’s
financial condition, especially when it must issue long-term bonds or notes.

Recommended Practice: Periodically during the budget process, prepare an Operational Statement for all
funds for the proposed budget.

Fund Balance Classifications-GASB Statement 54
Reference Number: CTAS-728
In February 2009, the Governmental Accounting Standards Board (GASB) issued Statement 54, Fund
Balance and Governmental Fund Reporting. This latest GASB standard substantially alters the focus and
terminology used for fund balance reporting. The purpose of the Statement is to improve financial
reporting by providing fund balance categories and classifications that will be more easily understood.
Three considerations led to the replacement of the previous components of governmental fund balance:

- The previous terminology (i.e., reserved, unreserved, designated) was not self-explanatory
  and frequently was misunderstood by financial statement users.
- The previous components were often applied inconsistently in practice.
- Some questioned whether the focus on availability for appropriation continued to best serve
  the needs of financial statement users.

While the Statement’s purpose is clear, only time will tell if the expected end result is realized once the
theory is applied to practice. Several factors will have to be considered about this new standard as the annual budget is prepared.

The Statement redefines the definitions of the five types of governmental funds. County management should review these definitions and ensure that all current and, especially, any proposed new governmental funds meet the definition to be a separate fund. As counties in Tennessee prepared annual budgets for the 2010-11 Fiscal Year, CTAS analyzed every county special revenue fund statewide and worked closely with the counties and State Comptroller to identify and close over 100 governmental funds, across the State, which no longer met the definition of a separate governmental fund. Therefore, counties should have few, if any, governmental funds that currently do not meet the standard to be separate funds. However, as county management may consider creating new governmental funds in the future, management should be aware of each of the governmental fund definitions.

**New governmental fund definitions**

**General Fund**--The general fund should be used to account for and report all financial resources not accounted for and reported in another fund. It is the principal operating fund of the county for governmental purposes.

**Special Revenue Funds**--Special revenue funds are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects. The term “proceeds of specific revenue sources” establishes that one or more specific restricted or committed revenues should be the foundation for a special revenue fund. The restricted or committed proceeds of specific revenue should be expected to continue to comprise a substantial portion of the inflows reported in the fund. Special revenue funds should not be used to account for resources held in trust for individuals, private organizations or other governments.

**Capital Project Funds**--Capital project funds are used to account for and report financial resources that are restricted, committed or assigned to expenditure for capital outlays, including the acquisition or construction of capital facilities and other capital assets. Capital project funds exclude those types of capital-related outflows financed by proprietary funds or for assets that will be held in trust for individuals, private organizations, or other governments.

**Debt Service Funds**--Debt service funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditure for principal and interest. Debt service funds should be used to report resources if legally mandated. Financial resources that are being accumulated for principal and interest maturing in future years also should be reported in debt service funds.

**Permanent Funds**--Permanent funds should be used to account for and report resources that are restricted to the extent that only earnings, and not principal, may be used for purposes that support the reporting government’s programs – that is, for the benefit of the government or its citizenry. Permanent funds do not include private-purpose trust funds, which should be used to report situations in which the government is required to use the principal or earnings for the benefit of individuals, private organizations, or other governments.

Besides clarifying the existing governmental fund type definitions, the objective of Statement 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied. No longer will reserves be reported in governmental fund balances and the term “undesignated fund balance” will also cease to be used. Because generally accepted accounting principles dictate that the financial report and the budget are inseparable elements in the financial administration process, county management must take the steps to ensure compliance with the new fund balance reporting requirements as they prepare the annual operating budget. Before converting existing fund balance classifications to be GASB Statement 54 compliant, county management (finance/budget officer) must become familiar with the new fund balance classifications and the definitions of each of these new terms.

**New fund balance classifications**

**Nonspendable Fund Balance**--Portion of fund balance that includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

**Restricted Fund Balance**--Portion of fund balance that reflects constraints placed on the use of resources (other than nonspendable items) that are either a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.
Committed Fund Balance--Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.

Assigned Fund Balance--Amounts that are constrained by the government’s intent to be used for specific purposes, but that are neither restricted nor committed (excluding stabilization arrangements). Assigned fund balance will be the minimum level of residual fund balance in all governmental funds except the county general fund and general purpose school fund.

Unassigned Fund Balance (formerly undesignated)--Residual classification for the general fund and the general purpose school fund. This classification represents fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund and general purpose school fund. While it is noted that the general purpose school fund is a special revenue fund, in Tennessee counties it is recognized as the general fund of the school component unit, and therefore, unassigned fund balance amounts are permissible per the State Comptroller.

Once county management (finance/budget officer) has become familiar with the new fund balance classifications, all existing governmental fund balances should be converted to the new fund balance classifications (preferably before the budget process for Fiscal Year Ending June 30, 2012 begins and no later than June 30, 2011). County management that finds a need for assistance with fund balance classification conversion pursuant to GASB Statement 54 should contact their CTAS field consultant.

GASB Statement 54 also encourages counties with fund balance policies to place these policies in writing and formally adopt them. However, a minimum fund balance policy is not required by the statement. Additionally, counties are encouraged to adopt formal spending prioritization policies (i.e. spend assigned amounts before committed). While GASB Statement 34 required counties to have a policy for determining whether restricted or unrestricted amounts were spent first, in practice very few counties have actually approved such policies. In counties that have not formally approved a spending prioritization policy, the Statement provides a “default” policy that stipulates that committed amounts would be reduced first, followed by assigned amounts, and then unassigned when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

While fund balance reserves will no longer be used in external financial reporting, numerous Tennessee state laws require counties to track certain restricted unspent funds (certain litigation taxes, sex offender fees, courtroom security, etc). Counties should be tracking the beginning and end of year reserve balances, with the yearly activity for these reserves already and posting to the general ledger at June 30th. CTAS recommends counties to maintain a simple subsidiary ledger for these reserves on a Microsoft Excel (or similar) spreadsheet and then convert these amounts at year end to the proper restricted equity accounts (per the uniform chart of accounts) and then post these end of year restricted balances to the general ledger on June 30th.

One of the more interesting aspects of GASB Statement 54 fund balance reporting was the discontinuance of reporting a reserve for encumbrances in the governmental funds. The GASB discussed the question of whether encumbrances meet the criteria to be included in the restricted, committed or assigned fund balance classifications and arrived at the conclusion that an encumbrance does not represent any further constraint on the use of amounts than is already communicated by the established Statement 54 fund balance classifications. With this in mind, the end of year encumbrance balance will be reclassified into restricted, committed or assigned fund balance. See Balance Sheet Governmental Funds.

However, for budgetary reporting purposes, the year-end encumbrance reserve will be reversed at the beginning of the next year (out of the restricted, committed or assigned fund balance classifications) and carried forward as a prior-year encumbrance reserve (along with any current year encumbrance reserves) for interim financial reporting purposes. County management (budget/finance officer) needs to be aware that when reviewing the prior year audited financial statements (after Statement 54 implementation) they will no longer see a reserve for encumbrances on the face of the financial statements. However, information about significant encumbrances should be disclosed in the notes to the financial statements in the audit report and management should be able to locate this information there.

Reserve Equity Accounts

Recommended Practice: Develop a series of spreadsheets for each common reserve prior to the end of the fiscal year. Review the prior year audit, the specific revenue and expenditure as noted in T.C.A. to calculate if any reserve exists. If one does, then ensure the accounting records reflect the reserve at year end closing.

Forms and Supplementary Schedules
Using the forms provided by the budget coordinator, departments should complete the documents with accurate information. Also, if the forms do not adequately present the needs of the department, supplementary schedules or information should be added to the standard forms. Though it may not seem to be of utmost importance relating to budgets, communication is at least the second greatest problem in adopting annual budgets. The use of appropriate forms and supplementary schedules can assist in keeping budgetary communications clear.

**Budgeting Formula, Fund Balances, Revenues and Expenditures**

A best method for projecting fund balances and reserves for the current fiscal year (which will be used as the beginning balances for the next fiscal year), is shown as follows:

\[
\text{Available fund balance (from previous audit)} + \text{Estimate adjusted current year revenues} = \text{Total estimated available funds} - \text{Estimate adjusted appropriation (expenditures)} = \text{Estimate current year ending fund balance}
\]

**NOTE:**

* The effect of legally restricted funds (beginning plus revenues) minus expenditures should be considered.

One should examine every line-item revenue and expenditure account. Each should be reviewed and adjusted to reflect the current budgetary conditions. After making these calculations, there will be a better understanding of the current budget and the best estimates of the beginning balances.

This formula calculates an ESTIMATE only. The calculation may or may not take into consideration reserves and designated fund. The calculation should be performed periodically during the development of the budget.

Sample of a fund balance formula.

**Recommended Practice:** Periodically during the budget development process, estimates should be prepared to reflect the projected ending fund balance. This calculation should be for each fund.

**Use of Fund Balances**

A government accumulates a rather large fund balance, usually because a new tax is added and amounts received exceed the original estimate. When this happens, should taxes be lowered? Should the excess fund balances be used to prevent a tax increase next fiscal year? Or, should these funds be held for future emergencies or new services? Often, a government will use these funds to prevent a tax increase for the immediate fiscal year; but when this action is taken, greater pressure results for the next fiscal year because these funds must be replaced with new taxes. Usually property taxes and additional taxes must be raised to cover the increased costs due to inflation. One idea is to spread the use of the fund balance over a 3 to 5 year period so that growth in other revenue sources might relieve the pressure; or the funds could be used for non-recurring expenditures such as capital improvements or equipment. An alternative use of excess fund balance would be the establishment or additional funding of capital improvement plan/project/budgets.

To develop a fund balance policy, determine

1. What an optimal fund balance should be for each fund.
2. Uses for the fund balance.
3. Steps to reach the optimal fund balance.
4. How the fund balance should be used if the balance is greater than needed.

GASB Statement 54 encourages counties with fund balance policies to place these policies in writing and formally adopt them. Additionally, surplus funds should not be placed in separate “rainy day” special
revenue funds. These funds do not meet the criteria to qualify as a special revenue fund as defined by Statement 54. The Statement defines excess funds that are held for potential revenue shortfalls or unexpected expenditure needs as “stabilization arrangements” and the use of such stabilization arrangements is seen as a positive indicator of a government’s fiscal management philosophy. County management should place stabilization funds in the county general fund and commit this portion of the fund balance by formal action of the county commission (i.e. resolution).

Recommended Practice: Develop a fund balance policy

Estimating Revenues

Reference Number: CTAS-730

A common method for projecting the next fiscal year’s estimates is to take the current year’s eight or nine months actual, divide by the number of months, and multiply by 12 for a full year’s estimate. This method assumes that the estimated three or four months’ average will be the same as the actual months of receipts. However, very few revenues follow an average, constant pattern. The operating budget includes revenues from many sources (local, state, and federal). To be more accurate in preparing estimates, the budget coordinator should review each revenue separately, and use a different method to project each revenue. The following two methods are suggested for the various revenue sources.

1. Revenue Estimates Based on Precise Factors. Revenues from the state and federal governments for specific or earmarked purposes are based on precise factors; therefore, each revenue source must be individually calculated based on these factors. Below are the revenue sources included in this category.
   - State grants
   - State reimbursements
   - State educational payments
   - Federal educational payments
   - Federal grants
   - Contracts with other local governments and citizen

2. Revenues That Fluctuate Monthly. This group of revenue fluctuates monthly based on the economy, collection procedures, or legally required payment deadlines. A best method to estimate revenue is to (1) compare the current year’s receipts for the same period of time for the previous year, (2) calculate the percentage increase or decrease, and (3) apply this percentage change to the uncollected months. The sum of this year’s actual plus the projected uncollected months will provide a reasonable estimate for the current year. For estimating next year’s receipts, use the current year’s revised estimates and add or decrease using your best judgment. The revenue sources which best fit this group are—
   - Current property taxes
   - Delinquent property tax
   - Litigation taxes
   - Pick-up taxes
   - Interest and penalties on property tax
   - Business taxes
   - Local option sales tax
   - Wholesale beer tax
   - Hotel/motel tax
   - In-lieu of tax payments
   - License and permits
   - Wheel tax
   - Fines
   - State beer tax
   - State alcoholic beverage tax
   - State gas and fuel taxes
   - State mixed drink tax
   - Charges for current services
• Ambulance charges
• Fees in-lieu of salary or excess fees collections
• Other similar revenues

Estimating Expenditures
Reference Number: CTAS-731
An approach to estimating expenditures for the next year is to recalculate the current year’s budget in January or February using the most recent information. While recalculating the current budget, a detailed analysis of cost elements for each account should be maintained and used for estimating next year’s expenditures. Using this budget analysis, expenditure estimates for the next fiscal year other than salaries and capital outlay needs can be calculated adjusting for changes in economy, etc.

Salary estimates should be projected using the percentage adjustment or changes in salary schedules based on the changes in the number of employees. Some jurisdictions figure what a one percent increase will cost and make any adjustment to all budgets upon deciding what a reasonable increase is.

Estimates for capital outlay needs should be based on projected needs and estimated costs for the next fiscal year.

If increases are requested in expenditures, clear and accurate justification should be presented with the budget document.

Factors When Developing Budget
Reference Number: CTAS-2155
Once an optimal fund has been achieved then it is a recommended practice that government’s establish a budget that will maintain the fund balance.

The GFOA states that the minimum fund balance should be "no less than two months of regular general fund operating revenues or regular general fund operating expenditures."

Strongly recommended that the county establish a minimum fund balance in the debt service funds of at least 6-13 months of expenditures.

GASB Statement requires a written adopted minimum fund balance policy if the county is maintaining a minimum fund balance.

Over-estimating revenues and under-estimating expenditures will jeopardize the financial condition of the local government.

If your county has gone through reappraisal confirm with the property assessor on the value of the penny and the certified tax rate. Also, confirm with the trustee on the percentage of prior year collections

Balancing Budget with Property Tax
Reference Number: CTAS-721
Whenever the estimated expenditures exceed the estimated available funds, the property tax rate must be increased or expenditures reduced. The property tax rate must be used to balance the budget because it is the only tax rate that the local government has complete authority to set. Therefore, it is very important that each local government official understand how the property tax revenue source is calculated.

1. Property Assessments Subject to Property Taxes. The county assessor of property determines the assessed values for all property except public utilities, which are determined by the Office of State Assessed Properties. There are two types of assessments: (1) real property and (2) personal property. The real and personal property are applied to four classifications of property: (1) commercial and industrial, (2) residential, (3) farm, and (4) public utilities.

In determining property assessments, a summary calculation could be made using the following form:

<table>
<thead>
<tr>
<th>Property Assessments</th>
<th>Real</th>
<th>Personal</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial and Industrial</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Residential</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Farm</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Public Utilities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Assessment Summary Example
Calculation of Property Tax Estimate
Sample property tax collection considering a variance factor

Three-Star Program
Reference Number: CTAS-2153
Developed in 1980, the Three-Star Program is designed to help communities take full advantage of
economic development opportunities. The goals are to preserve existing employment, create new
employment opportunities, increase Tennessee family income, improve quality of life, and create a strong
leadership base. Participating communities are guided through a comprehensive plan of essential criteria
developed by local economic development professionals and a cooperative collaboration of various state
and regional agencies. Communities are certified as Level I, II, or III Three-Star Communities based on
point values for completion of defined basic and optional program criteria.

Participation in the Three-Star Program is based on an annual evaluation and activity plan. Local
community leaders and Joint Economic and Community Development Boards are encouraged to
implement activities that will impact the community's competitiveness in a global economy. Participating
counties (and cities in these counties) will be eligible for a four percent discount (for eligible projects) on
both the business development and community development ability-to-pay calculations (CDBG and Fast
Track) each year the county fulfills the requirements of the Three-Star Program. Additionally, only cities
located in a county that is an active participant in the Three-Star Program will be eligible to participate in
the Tennessee Downtowns program. Finally, there is an annual grant for Tier 2 and Tier 3 counties to
serve as seed money for activities (not to offset general operating expenses) focused on improving at
least one of the measured areas of the program: health and welfare, public safety, and education and
workforce development.

Each year, ECD will provide participating counties with a scorecard that documents progress indicators in
the five focus areas. The scorecard and activity plan is designed to assess and reward each county on its
unique progress in the three scored areas identified in their Three-Star Activity Plan.

Fiscal Strength and Efficient Government
1. Annual budget adopted on time and filed with the Comptroller's Office by October 15.
2. Create and maintain an audit committee. Click here to download How to Create and
Maintain an Audit Committee.
   Click here to download the Annual Confirmation letter.
   • County commission and county mayor annual review of the debt management policy.
   • Annual acknowledgement by county mayor and county commission that an annual
cash flow forecast must be prepared and submitted to the Comptroller prior to
issuance of debt.

Budget Adoption
Reference Number: CTAS-2116
Hearings—Before final adoption of the budget, the law requires that the proposed annual operating
budget be published in a newspaper of general circulation in the county no later than five days after the
budget is presented to the county legislative body, if the newspaper is published daily. If such newspaper
is published less than daily, then it must be published in the first edition for which the deadline for such
publication falls after the budget is presented to the county legislative body. A county may also publish
the proposed annual operating budget on the county's web site, which will be accessible to the public on
the day the budget is presented to the county legislative body. The budget cannot be adopted until at
least 10 days after publication. The annual operating budget must contain a budgetary comparison for the
following four governmental funds: general, highway/public works, general purpose school fund, and debt
service (T.C.A. § 5-8-507). Sample newspaper notice.
Adoption—Any specific procedures for adopting the budget should be explained in the adopted rules of
procedure of the county legislative body.
   Requirements for an adopted budget
   • Appropriation resolutions (T.C.A. § 9-21-403(b))
• Tax levy resolutions (T.C.A.§ 9-21-403(b))
• Non-profit resolutions (does not affect schools)
• Notice in newspaper (put in newspaper by central finance) (T.C.A. § 5-8-507(c))
• Capital outlay note/bond note resolution (not required during the budget)
• Notify state director of local finance of approved budget (T.C.A. § 9-21-403 (c))

Other forms used in the budget process
• Budget preparation form
• Budget preparation form/personnel
• Letter of agreement
• Summary by fund account
• Operation of fund/fund balance
• Statement of estimated revenues from current property taxes
• Maintenance of effort test, schools
• Highway Certification Form

Continuation Budgets
Reference Number: CTAS-2199
2015 Public Chapter 170 amended T.C.A. §§ 5-9-404, 5-12-109, and 5-21-111 to provide that if a local fiscal body fails to adopt a budget by July 1, the operating budget and appropriation resolution for the preceding fiscal year will continue in effect without any further action by the body until a final operating budget is adopted. While the continuation budget is in effect, no agency or entity receiving county funds can encumber funds in any month in excess of the allotment for a comparable month in the preceding fiscal year without county legislative body approval. Any such approval must include a corresponding funding source to cover the excess expenditures.

The Comptroller's office has provided the following Guidance with regard to their approval of continuation budgets:

GUIDANCE FOR
COUNTY CONTINUATION BUDGETS AND EXTENSIONS PURSUANT TO
PUBLIC CHAPTER 170, ACTS OF 2015

 Counties budgeting pursuant to the General Law, County Budgeting Law of 1957, and Financial Management Act of 1981 may continue operations within the appropriations of the prior fiscal year if the county legislative body (the “CLB”) has not adopted an appropriation resolution for its current fiscal year by June 30th. Public Chapter 170, Acts of 2015. No action is required by the CLB to adopt a continuation budget if the budget is adopted prior to August 31st. An agency of a county, or other entity that receives county monies, can spend no more than the amount spent in the same month of the prior fiscal year while operating under a continuation budget. A county can amend a continuation budget according to the procedures for amending a final operating budget. A county must amend its continuation budget to provide for the payment of debt service and court-ordered expenditures. A final operating budget for each fiscal year must be adopted no later than August 31st. Under extraordinary circumstances, a county may request approval from the Office of State and Local Finance (OSLF) to adopt a continuation budget approval resolution that extends its prior fiscal year appropriation authority through September 30th.

Continuation Budget Extension

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

• Inability to reach a consensus on either the appropriation or property tax levy
• School Board not submitting a complete budget within 45 days of the date of final budget adoption by the CLB as required by State statutes
• Property reassessment
• Election year
• Financial statements not audited

To request an approval for an extension, the following steps need to be followed:

• Submit a request letter from the County Executive/Mayor on or before August 15th which includes:
• A statement that the county is in compliance with the balanced-budget law,
• An explanation of the extraordinary circumstances that necessitated the request for continuance,
• Whether these circumstances have occurred before, and, if so, how often.
• The county may be asked to provide additional information concerning its situation to obtain approval.

OSLF will respond to the CLB indicating approval of its request within seven (7) days after the receipt of the request and any supplemental documentation.

The CLB should set and properly advertise a meeting at which either a continuation budget extension resolution can be adopted or the appropriation resolution for its current fiscal year can be adopted. If the extension of a continuation budget is approved, the CLB must adopt the county’s appropriation resolution and tax levy resolution by September 30th. A county will not have authority to spend money after September 30th without an adopted budget. Adopting a budget and tax levy in September may delay the collection of taxes until after the property tax due and payable date of the first Monday in October.

Final Operating Budget Requirements

The CLB needs to take into account the following in determining when it will adopt the appropriation and tax levy resolutions:

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

Budget Management

Reference Number: CTAS-733

Not only is a good accounting system necessary to comply with state law, but it also is imperative for creating credibility with voters, taxpayers and government officials.

A uniform, double entry, encumbrance, budgetary accounting system should be the goal of each local government. With today’s affordable computers, the accounting system should be maintained on a current basis with monthly reporting provided to each member of the legislative body and department heads. Reports should be reviewed by various officials monthly since they serve as a deterrent to poor record keeping, dishonest acts, and inaccurate information.

County governments should encumber purchase orders and contracts against the budget upon the issuing of such documents. By posting purchase orders to the accounting system, a person could determine the budget balance at any time. This information becomes useful when one wants to charge new obligations upon the account.

Amendments

Reference Number: CTAS-734

After the original budget is approved, the county legislative body may not make transfers between the major funds, such as school, highway, general, and debt service, but it may make budget amendments within funds during the course of the fiscal year. T.C.A. § 5-9-407. Timely revisions must be made because of the ever-changing factors that make up a budget. Factors that influence decisions are (1) state and federal government programs that are added or terminated; (2) emergencies; and (3) higher cost items than originally estimated. When changes take place, the budget should be amended. These
amendments should be made prior to any expenditure of funds, unless there is an emergency that could affect the health or safety of the public or employees.

Once the budget has been adopted, the budget, including line items and major categories, may be amended by majority vote of the county legislative body under T.C.A. § 5-9-407(b).

There are two alternative methods for amending line items within a major category upon the written request of an official or department head. Under the first alternative, amendments to line items, except those affecting personnel costs or those affecting the administrative costs of the county legislative body, may be approved in writing by the county mayor under T.C.A. § 5-9-407(d)(1) and if the mayor fails to approve the request, either the budget committee or the county legislative body may approve it. The second alternative allows any line item amendment including personnel costs, and these requests are approved by the budget committee under T.C.A. § 5-9-407(d)(2); if the budget committee fails to approve the request, the county legislative body may approve it but the county mayor cannot. Amendments made by either alternative method must be reported to the county legislative body. These alternative methods cannot be used to approve an amendment that already has been rejected by the county legislative body.

It is recommended that budget amendments be presented to the legislative body or budget committee at least five working days before the meeting.

Under T.C.A. § 5-9-407(b)(3), the county legislative body has 40 days from the time it receives a proposed budget amendment from the local board of education to either approve or reject the amendment. This requirement does not apply to Davidson, Hamilton, Knox or Shelby counties. Recommended Practice: County commission should allow authority in the appropriation resolution to move funds within a department (except salaries) with department head or county mayor approval. Budget amendment forms vary from county to county. Check with your county mayor, budget director, or finance director.

If your county operates under the Local Option Budgeting Law of 1993, amendments to major categories may be made with the approval of the county mayor or mayor’s appointed committee and a majority approval vote of the county legislative body. In addition, if the mayor or mayor’s appointed committee declines the major categories amendments or fails to take action on the amendment within 7 calendar days after written submission of amendment to mayor, then such amendment may be subsequently approved by 2/3 vote of the county legislative body. Please see Public Chapter 697 for more information.

Recommended Practice: Check your financial management/budgeting law. Also, some counties are exempt from T.C.A. § 5-9-407. We recommend that you check the statute to be sure it applies in your county.

Allotments and Impoundments

Reference Number: CTAS-735

If the local government operates under the Acts of 1957, 1981, or private act, the legislative body can place departments on quarter allotments or impound funds in case of a financial crisis. If the local government operates under the general law, there is no provision for such allotments or impoundments. However, the legislative body could pass a resolution requesting the department or departments reduce their spending of budget appropriations so that they do not exceed anticipated available funds. Another possibility is to pass a resolution reducing the budget appropriations and directing the department or departments not to exceed the revised anticipated available funds.

Budget Document

Reference Number: CTAS-736

How does your local government’s budget document look? Many local governments place a high importance on the development and presentation of the budget document. Here are some ideas for compiling the official budget document.

1. Cover—The cover of the budget document reflects the public officials’ pride or confidence in their community; the community image they are trying to give to non-county officials, such as investors.

2. Contents—The following are required to be included in the budget document:
   - Summary statement of proposed operations by fund classification. This is a very important statement. It reviews the overall financial condition of the county, and the budget as approved.
   - Debt service requirements by fiscal year.
   - Individual fund budgets.
• Appropriation resolutions.
• Property tax levy resolution.
• Nonprofit charitable resolution.

Other recommendations to include in the budget document are
• Letter of transmittal. The operating department heads and the budget committee may want to summarize the needs and accomplishments of their department.
• Roster of county officials. This can also serve as the county directory.
• Members of the legislative body and committee assignments. This would be helpful in seeking information about the legislative body.
• Comparison of property assessments. This would compare the four major classifications of property assessments from the current year and the proposed year.
• Other statistical data.
• Five year average for highway revenue.

Recommended Practice: Annually publish a budget that includes information useful for current and future budget decisions.

Issues Affecting the Budgeting Process

Reference Number: CTAS-737
With pressure groups, the general public, and state and federal governments demanding greater services from local governments, planning ahead is an absolute must to prevent a financial crisis.

Communications

Reference Number: CTAS-738
Generally, people will react to problems and the solving of problems in a similar manner when they have the same information or knowledge of the problem and alternative solutions. The point is that some government officials feel that it is unnecessary to communicate all they know about a problem or how it can be solved. They expect the legislative body to raise taxes based on their recommendations without having sufficient information. To motivate the legislative body or other officials to change or solve a problem, sufficient data should be presented to them so that a reasonable decision can be achieved.

Basic Education Program (BEP)

Reference Number: CTAS-739
The Basic Education Program (BEP) was passed into law by then Governor Ned McWhorter and the General Assembly in 1994. The funds generated by the BEP are what the state has defined as sufficient to provide a basic level of education for Tennessee students. This basic level of funding includes both a state share of the BEP and a local share of the BEP.

The BEP has three major categories: instruction, classroom, and non-classroom. Each category is made up of separate components related to the basic needs of students, teachers, and administrators within a school system. BEP funding allocation example

There are 45 BEP components, most of which are based on student enrollment, also known as average daily membership (ADM). An example of these components are students per teacher, assistant principals per school, or dollars per student for textbooks. They are explained in the State of Tennessee BEP 2.0 brochure.

Funds generated in the instructional component must be spent on instructional salaries and benefits. In total the state funds up to 70% or higher depending on your fiscal capacity of the instructional component, and the local funds 30%.

Funds generated in the classroom components must be spent in either classroom components or in instructional components. State funding is 75% and 25% local.

Funds generated in the non-classroom component must be spent on non-classroom, classroom component or instructional. The state funds 50% of the non-classroom with local funds at 50% also.
Fiscal Capacity

Fiscal capacity is the ability of local governments to fund education from their own taxable sources. The state and local share for each school system is based on an equalization formula that is applied to the BEP. This equalization formula is the primary factor in determining how much of the BEP is supported by the state versus the local district.

There are 2 components in the formula for calculating fiscal capacity. One is TACIR (Tennessee Advisory Commission on Intergovernmental Relations); this is half (50%) of the equation. It uses local revenue, property tax, sales tax, per capita income, ratio of residential & farm to total assessment, and ratio of average daily membership to population.

The Fox model is based on the sum of property tax and sales tax. This new formula determines a county’s capacity to raise local revenues for education from its property and sales tax base. This came out of the change of the BEP formula when the BEP 2.0 was implemented. When applied locally, the state and local equalization shares for County System A would be the exact same state and local shares for the cities.

3% Fund Balance Test

Reference Number: CTAS-740

Public Chapter 223 materially changed the state statute regarding uses of unassigned fund balance; however, the 3% fund balance test will have to be met before a Local Education Association's budget will be approved.

There are provisions applicable after the operating budget is adopted that allow for the use of fund balance. It shall be available to offset shortfalls of budgeted revenues and shall be available to meet unforeseen increases in operating expenses, i.e., major increases in fuel prices or utility cost.

The accumulated fund balance in excess of three percent (3%) of the budgeted annual operating expenses for the current fiscal year may be budgeted and expended for any education purposes but must be recommended by the board of education prior to appropriation by the local legislative body.

Property Tax Freeze

Reference Number: CTAS-741

In November 2006, the voters of Tennessee approved an amendment to Article II, Section 6 of the Tennessee Constitution that gave the Tennessee General Assembly the authority to authorize cities and counties the option to implement a property tax freeze program for individuals 65 and older. As a result of the amendment to the Tennessee Constitution, the Tennessee General Assembly passed the "Property Tax Freeze Act" in June 2007, which was codified in T.C.A. § 67-5-705. Review the Tennessee Tax Freeze Jurisdictions. The program requirements, rules and regulations can be found on the Tennessee Comptroller of the Treasury – Division of Property Assessments' web site.

The enactment of this program will allow counties by resolution to freeze the amount of property taxes paid by those individuals 65 years of age or older who qualify to be frozen at their current level. If a county enacts this program, it will require the Assessor of Property, the Trustee and the Budget/Finance Director to work more closely than before because of the program requirements. The program’s requirements will require the county to calculate their penny using both their normal assessment total and their property tax freeze assessment totals. For example, County A who will start their budgetary process in February, will receive their initial assessment total from the Assessor. While the county is working on its initial budget, the tax freeze program is continuing for the Trustee and the Assessor. The deadline for the eligible participants to qualify is 35 days after the delinquency date. Once that deadline has passed, the Trustee has 15 days to compile that list and then turn the list over to the Assessor, who then has 60 days to certify the tax assessment base and turn the information over to the county.

Here is an example of how a county might be affected by the program. County A is calculating its penny from its initial assessment total provided by the Assessor of Property:

<table>
<thead>
<tr>
<th>Initial Assessment</th>
<th>Variance Rate</th>
<th>Penny Calculation</th>
<th>Net Penny</th>
</tr>
</thead>
<tbody>
<tr>
<td>$814,530,604</td>
<td>6%</td>
<td>$81,453- (4,487)</td>
<td>$76,966</td>
</tr>
</tbody>
</table>

If County A does not intend on raising their property tax rate, the county is in position to proceed with their budget process. Now as a result of County A having passed the resolution to participate in the Property tax Freeze Program, the following information is needed from both the Trustee and the Assessor of Property:

<table>
<thead>
<tr>
<th># of Participants</th>
<th>Assessment Total</th>
<th>New Assessment Total</th>
</tr>
</thead>
</table>
Now for County A who wants to raise its property tax rate, the following calculation is used:

<table>
<thead>
<tr>
<th>New Assessment</th>
<th>Variance Rate</th>
<th>Penny Calculation</th>
<th>Net Penny</th>
</tr>
</thead>
<tbody>
<tr>
<td>$792,972,147</td>
<td>6%</td>
<td>$72,297-(4,338)</td>
<td>$67,959</td>
</tr>
</tbody>
</table>

So the negative effect of the Property Tax Freeze Program will be a reduction in the assessment total, which will lead to a reduction in the county’s penny calculation. Instead of County A being able to use $76,966 per penny for any incremental property, the county now has to use $67,959—a net loss of $9,007 per penny for each incremental property tax increase. This reduction in turn can potentially limit County A’s ability to raise the amount of property needed to fund its operations. Upon the adoption of a property tax freeze, calculations must be made for additional penny values.

Example of property tax freeze calculations for tax aggregate freeze totals.

Operating Budget Resource Materials

Reference Number: CTAS-2080
Sample Letter of Agreement

County Budget Laws

Reference Number: CTAS-2114

Charters

<table>
<thead>
<tr>
<th>County</th>
<th>Budget Law</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shelby</td>
<td>Charter</td>
</tr>
<tr>
<td>Knox</td>
<td>Charter</td>
</tr>
<tr>
<td>Davidson</td>
<td>Metro Charter</td>
</tr>
<tr>
<td>Moore</td>
<td>Metro Charter</td>
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<tr>
<td>Trousdale</td>
<td>Metro Charter</td>
</tr>
</tbody>
</table>

1957 Act With Schools

<table>
<thead>
<tr>
<th>County</th>
</tr>
</thead>
<tbody>
<tr>
<td>Blount</td>
</tr>
<tr>
<td>Johnson</td>
</tr>
<tr>
<td>Loudon</td>
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<tr>
<td>Roane</td>
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</tbody>
</table>

1957 Act Without Schools

<table>
<thead>
<tr>
<th>County</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cheatham</td>
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<tr>
<td>Cocke</td>
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<tr>
<td>Dickson</td>
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<tr>
<td>Greene</td>
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<tr>
<td>Jackson</td>
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<tr>
<td>Lawrence</td>
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<tr>
<td>Montgomery</td>
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<tr>
<td>Overton</td>
</tr>
<tr>
<td>Smith</td>
</tr>
<tr>
<td>Washington</td>
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<tr>
<td>Williamson (with 1990 Budget Law)</td>
</tr>
</tbody>
</table>

Private Acts

<table>
<thead>
<tr>
<th>County</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benton</td>
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<tr>
<td>Dyer</td>
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<tr>
<td>Gibson</td>
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<tr>
<td>Grainger</td>
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<tr>
<td>Hardeman</td>
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<tr>
<td>Henry</td>
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<tr>
<td>Marshall</td>
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<tr>
<td>Maury</td>
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<tr>
<td>McNairy</td>
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<td>County</td>
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<tr>
<td></td>
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<tr>
<td>1981 Act County</td>
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</table>

1 All other counties are under general law budgeting provisions.

**Department Budget by Object Code**

Reference Number: CTAS-2081

Department Budget by Object Code

<table>
<thead>
<tr>
<th>Expenditures</th>
<th>55130 Ambulance</th>
<th>105 Supervisor/Director</th>
<th>162 Clerical Personnel</th>
<th>164 Attendants(EMT, PM)</th>
<th>196 In-service Training</th>
<th>201 Social Security</th>
<th>204 State Retirement</th>
<th>207 Employee Insurance</th>
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<tbody>
<tr>
<td></td>
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<td>42,000</td>
<td>21,000</td>
<td>504,000</td>
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<td>10,325</td>
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<td>Unemployment compensation</td>
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<tr>
<td>307</td>
<td>Communication</td>
<td>10,700</td>
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<td>308</td>
<td>Contracts w/Quality Care</td>
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<tr>
<td>320</td>
<td>Dues and Memberships</td>
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<td>Other Supplies (linens)</td>
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<td>Liability Insurance</td>
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<td>510</td>
<td>Trustee's Commission</td>
<td>13,372</td>
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<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>511</td>
<td>Vehicles &amp; Equipment Insurance</td>
<td>10,700</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>513</td>
<td>Workers' Comp. Insurance</td>
<td>36,870</td>
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<td></td>
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<tr>
<td>708</td>
<td>Communication Equipment</td>
<td>10,000</td>
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<tr>
<td>709</td>
<td>Data Processing Equipment</td>
<td>16,700</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>711</td>
<td>Furniture &amp; Fixtures</td>
<td>3,700</td>
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<tr>
<td>718</td>
<td>Motor Vehicles</td>
<td>184,000</td>
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<td>735</td>
<td>Health Equipment</td>
<td>72,600</td>
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</tr>
</tbody>
</table>

**Total Ambulance Service**  
1,212,686

---

**Line-item Budget**

Reference Number: CTAS-2081

**Partial Line Item Budget**

This is an excerpt from a county appropriation resolution. It reflects the ambulance service department budget, listed in the other exhibit by object code, as a line item within the Public Health and Welfare section.

**Public Health & Welfare**

<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ambulance Service</td>
<td>$1,212,686</td>
</tr>
<tr>
<td>Other Local Health Services</td>
<td>50,000</td>
</tr>
<tr>
<td>Regional Health Services</td>
<td>25,000</td>
</tr>
<tr>
<td>Appropriations to State</td>
<td>100,000</td>
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</tbody>
</table>

**General Welfare Assistance**  
$1,387,686
Sample Budget Calendar
Reference Number: CTAS-718

SAMPLE BUDGET CALENDAR

_________County
For the Fiscal Year 20__

PHASE ONE: Adoption of Budgeting System

<table>
<thead>
<tr>
<th>Dates</th>
<th>Responsibility</th>
<th>Procedures or Action To Be Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 1–January 1</td>
<td>Committee &amp; Department Heads</td>
<td>Develop procedures, budget forms and budget calendar</td>
</tr>
<tr>
<td>January 2–31</td>
<td>CountyLegislativeBody</td>
<td>Adopt budgeting process</td>
</tr>
<tr>
<td>February 1</td>
<td>Budget Coordinator</td>
<td>Transmit budget instructions, related statistical data, procedures, forms, and budget calendar to all department heads responsible for preparing the department’s budget</td>
</tr>
</tbody>
</table>

PHASE TWO: Departments Prepare Budgets

<table>
<thead>
<tr>
<th>Dates</th>
<th>Responsibility</th>
<th>Procedures or Action To Be Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>February 1</td>
<td>Department Heads</td>
<td>Prepare information for proposed budget</td>
</tr>
<tr>
<td>April 1–10</td>
<td>Department Heads</td>
<td>Provide complete information to budget coordinator</td>
</tr>
<tr>
<td>April 1</td>
<td>Budget Coordinator</td>
<td>Assemble information for presentation to county legislative body</td>
</tr>
<tr>
<td>April 10–15</td>
<td>Operating Department Heads</td>
<td>Present budgets to county legislative body</td>
</tr>
</tbody>
</table>

PHASE THREE: Review, Analysis and Recommendations

<table>
<thead>
<tr>
<th>Dates</th>
<th>Responsibility</th>
<th>Procedures or Action To Be Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>April 15</td>
<td>CountyLegislativeBody</td>
<td>Review budgets with department heads</td>
</tr>
<tr>
<td>May 15</td>
<td>Budget Committee</td>
<td>Analyze budgets; review alternatives and priorities as to funding and expenditures; prepare recommendations</td>
</tr>
<tr>
<td>May 15–30</td>
<td>Budget Coordinator</td>
<td>Prepare consolidated budgets and recommendations</td>
</tr>
</tbody>
</table>

PHASE FOUR: Review of Budget by County Legislative Body

<table>
<thead>
<tr>
<th>Dates</th>
<th>Responsibility</th>
<th>Procedures or Action To Be Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 1–20</td>
<td>CountyLegislativeBody</td>
<td>Review budgets</td>
</tr>
<tr>
<td>June 20–30</td>
<td>CLB</td>
<td>Negotiate budget changes and hold budget hearings</td>
</tr>
<tr>
<td>July 1 - August 31</td>
<td>CLB</td>
<td>Adopt budget</td>
</tr>
</tbody>
</table>

PHASE FIVE: Preparation and Dissemination of Adopted Budgets

<table>
<thead>
<tr>
<th>Dates</th>
<th>Responsibility</th>
<th>Procedures or Action To Be Taken</th>
</tr>
</thead>
<tbody>
<tr>
<td>June 30 - August 31</td>
<td>Budget Coordinator</td>
<td>Prepare adopted budget in printed form; disseminate budgets to department heads as their authority to receive and expend funds</td>
</tr>
</tbody>
</table>

Recommended Practice: Develop a Budget Calendar

Sample Budget Handbook
Reference Number: CTAS-2083

Budget Handbook
INSTRUCTIONS - BUDGET FORM A

Budget Form A (General Budget Preparation Form) is provided for each department or function within a fund. Already listed on the form will be the actual expenditures for FY 20___-__, current approved Budget FY 20___-__ and expenditures through 20___-__ for each line item (object code) within the department budget. Based on the information provided in columns (1), (2) and (3); along with current knowledge, you (official/department head) are requested to make an accurate projection of the Total Expenditures for FY 20___-__ and list them by line item under column (4). Due to the need to determine accurate year-end balances it is very important that your expenditure projections be as accurate as possible. Refer to Budget Form B for information in making projections relating to “Salary” and “Compensation” line items.

After completing column (4) “20___-__ Projected Expenditures”, review each of the line items, one by one, and calculate the required amount to be proposed for the Budget Year 20___-__. Enter these amounts by line item in column (5) “20___-__ Proposed Budget”. For salary and compensation line items, refer to the guidelines in the Budget Transmittal Letter and the instructions for completing Budget Form B prior to entering any figures on Form A. The total to be entered for each “Salary” line item on Budget Form A will be taken from the “FY 20___-__ Proposed Total Annual Compensation” column (8) of Budget Form B.

After completing the information required on Budget Form B and transferring the figures to the appropriate line items in column (5) of Budget Form A, please calculate the increases or decreases over FY 20___-__ approved budget [column (5) minus column (2)] and then list the difference under column (6) or (7). Increases for compensation, utilities, postage, supplies and other increases should be listed under column (6). Increases relating to new programs or expansion of existing programs should be listed under column (7) and explained on the attached separate sheet.

INSTRUCTIONS - BUDGET FORM B

Budget Form B (Budget Preparation Form/Personnel) is provided for each line item of a department or function with budgeted salaries or compensation for the Fiscal Year 20___-__. For assistance in preparing your budget, information is provided in column 2 through 5 relative to job title, employee name, current hourly, bi-weekly, or monthly rate and total annual compensation of each employee. The information listed in column (4) and (5) will include any experience/longevity step increases received by the employee to date. The totals for each account code for FY 20___-__ may not agree with the budgeted amount on Budget Form A for various reasons, although it does reflect the current levels of salary being charged. This will be your starting point for developing the proposed compensation for FY 20___-__ to be entered in column (8). Any new positions to be proposed will require information to be listed under column (2) – “Job Title”, column (6) – ”FY 20___-__ Proposed Annual Base” and column (8) ”Proposed 20___-__ Total Annual Compensation”. For any listed position that will not be filled in the fiscal year 20___-__ please write delete in column (8).

Refer to the attached Budget Transmittal Letter for guidelines to calculate proposed FY 20___-__ compensation amounts. The proposed rate for cost-of-living increases will be listed under section B. The first step will be to calculate the fiscal year 20___-__ annual base for each employee to be entered into column (6). The total of the amounts entered in this column should not exceed the FY 20___-__ Salary Budget plus the cost-of-living percentage. The department head/elected official will have the discretion to increase each employee the cost-of-living percentage (column 5 x cost-of-living percent) or to allocate the cost-of-living percentage pool based on the performance or some other basis.

The second step will be to add the amount entered in column 6 to the longevity/experience amount listed in column 7 to arrive at the Total Annual Compensation that you will list under column 8. Column 9 may be filled in if you desire, although it is not mandatory.

Sample Newspaper Notice

Reference Number: CTAS-2084

Notice for Newspaper

__________________ County, Tennessee
Proposed Budget
For the Fiscal Year Ending 20__
General Fund

Estimated Revenues & Other Sources

<table>
<thead>
<tr>
<th>Source</th>
<th>Actual 20__-__</th>
<th>Estimated 20__-__</th>
<th>Estimated 20__-__</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Taxes</td>
<td>$1,434,942</td>
<td>$1,678,558</td>
<td>$1,732,457</td>
</tr>
<tr>
<td>State of Tennessee</td>
<td>693,206</td>
<td>1,177,386</td>
<td>877,680</td>
</tr>
<tr>
<td>Federal Government</td>
<td>451,309</td>
<td>114,910</td>
<td>290,000</td>
</tr>
<tr>
<td>Other Sources</td>
<td>616,810</td>
<td>70,200</td>
<td>525,023</td>
</tr>
<tr>
<td>Total Estimated Revenues &amp; Other Sources</td>
<td>$3,196,267</td>
<td>$3,041,054</td>
<td>$3,425,160</td>
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Estimated Expenditures & Other Uses

<table>
<thead>
<tr>
<th>Category</th>
<th>Actual 20__-__</th>
<th>Estimated 20__-__</th>
<th>Estimated 20__-__</th>
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<tbody>
<tr>
<td>Salaries</td>
<td>$1,401,490</td>
<td>1,492,701</td>
<td>1,536,429</td>
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<tr>
<td>Other Cost</td>
<td>1,557,051</td>
<td>1,357,786</td>
<td>1,166,234</td>
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<td>Total Estimated Expenditures &amp; Other Uses</td>
<td>$2,958,541</td>
<td>$2,850,487</td>
<td>$2,702,663</td>
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</tbody>
</table>

Estimated Beginning Fund Balance-June1    | $599,926       | $837,652          | $1,028,219        |

Estimated Ending Fund Balance-June 30     | $837,652       | $1,028,219        | $1,750,716        |

Employee Positions                        | 50             | 51                | 53                |

Highway/Public Works Department

Estimated Revenues & Other Sources
<table>
<thead>
<tr>
<th>Source</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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</thead>
<tbody>
<tr>
<td>Local Taxes</td>
<td>$25,540</td>
<td>$21,668</td>
<td>$18,000</td>
</tr>
<tr>
<td>State of Tennessee</td>
<td>1,445,823</td>
<td>1,498,188</td>
<td>$1,530,181</td>
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<tr>
<td>Federal Government</td>
<td>530,951</td>
<td>124,395</td>
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<td>Total Estimated Revenue &amp; Other Sources</td>
<td>$2,002,314</td>
<td>$1,644,251</td>
<td>$1,548,181</td>
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**Estimated Expenditures & Other Uses**

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<thead>
<tr>
<th>Item</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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<tr>
<td>Salaries</td>
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<td>$521,021</td>
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<td>Other Cost</td>
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<td>$1,037,306</td>
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<td>Total Estimated Expenditures &amp; Other Uses</td>
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<td>$1,327,831</td>
<td>$1,558,327</td>
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<table>
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<tr>
<th>Item</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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<tr>
<td>Estimated Beginning Fund Balance-June 1</td>
<td>$171,303</td>
<td>$269,036</td>
<td>$585,456</td>
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<tr>
<td>Estimated Ending Fund Balance-June 30</td>
<td>$269,036</td>
<td>$585,456</td>
<td>$575,310</td>
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<td>Employee Positions</td>
<td>18</td>
<td>18</td>
<td>23</td>
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**General Purpose School Fund**

**Estimated Revenues & Other Sources**

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<th>Item</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
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</thead>
<tbody>
<tr>
<td>Local Taxes</td>
<td>$1,384,227</td>
<td>$1,350,361</td>
<td>$1,307,000</td>
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<tr>
<td>State of Tennessee</td>
<td>6,823,514</td>
<td>7,019,232</td>
<td>7,085,385</td>
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<tr>
<td>Federal Government</td>
<td>141,262</td>
<td>144,897</td>
<td>148,406</td>
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<tr>
<td>Total Estimated Revenue &amp; Other Sources</td>
<td>$8,349,003</td>
<td>$8,514,490</td>
<td>$8,540,791</td>
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### Estimated Expenditures & Other Uses

<table>
<thead>
<tr>
<th>Description</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Salaries</td>
<td>$5,407,698</td>
<td>$5,650,875</td>
<td>$5,941,797</td>
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<td>Other Cost</td>
<td>2,901,982</td>
<td>3,012,356</td>
<td>3,317,194</td>
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<tr>
<td>Total Estimated Expenditures &amp; Other Uses</td>
<td>$8,309,680</td>
<td>$8,663,231</td>
<td>$9,258,991</td>
</tr>
<tr>
<td>Estimated Beginning Fund Balance-June1</td>
<td>$1,226,002</td>
<td>$1,265,325</td>
<td>$1,116,584</td>
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<tr>
<td>Estimated Ending Fund Balance-June 30</td>
<td>$1,265,325</td>
<td>$1,116,584</td>
<td>$398,384</td>
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<tr>
<td>Employee Positions</td>
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<td>334</td>
<td>340</td>
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### Debt Service Fund

### Estimated Revenues & Other Sources

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<thead>
<tr>
<th>Description</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Taxes</td>
<td>$386,756</td>
<td>$373,995</td>
<td>$460,765</td>
</tr>
<tr>
<td>Other Sources</td>
<td>330,372</td>
<td>315,664</td>
<td>317,450</td>
</tr>
<tr>
<td>Total Estimated Revenue &amp; Other Sources</td>
<td>$717,128</td>
<td>$689,659</td>
<td>$778,215</td>
</tr>
</tbody>
</table>

### Estimated Expenditures & Other Uses

<table>
<thead>
<tr>
<th>Description</th>
<th>Year 1</th>
<th>Year 2</th>
<th>Year 3</th>
</tr>
</thead>
<tbody>
<tr>
<td>Debt Service Cost</td>
<td>$757,535</td>
<td>$806,018</td>
<td>$799,111</td>
</tr>
<tr>
<td>Estimated Beginning Fund Balance-June1</td>
<td>$209,585</td>
<td>$169,178</td>
<td>$52,819</td>
</tr>
</tbody>
</table>
Requirements for an Adopted Budget

Reference Number: CTAS-2085

The Comptroller of the Treasury sends out an Annual Budget Memo that includes the forms and procedures required for county budget appropriation resolutions. Counties are required to submit their budget with required supporting documents to the office of Local Government Finance (LGF) within 15 days of adoption. The Comptroller’s letter states that “The county and its officials, by submission of their budget to LGF, represent that their annual operating and capital budget as adopted is realistic and in compliance with all federal, state or local statutes for specific programs.” Counties that submit a budget with incorrect information may be required to submit monthly reports to LGF.

Local Government Finance

Appropriation Resolution

Reference Number: CTAS-2086

RESOLUTION NO. ______________

A RESOLUTION AUTHORIZING APPROPRIATIONS FOR THE VARIOUS FUNDS, DEPARTMENTS, INSTITUTIONS, OFFICES AND AGENCIES OF _______________ COUNTY, TENNESSEE

FOR THE FISCAL YEAR
BEGINNING JULY 1, 20___ AND ENDING JUNE 30, 20___

SECTON 1. BE IT RESOLVED by the Board of County Commissioners of _______________ County, Tennessee assembled in regular session on the ____ day of ____, 20___, that the amounts hereinafter set out are hereby appropriated for the purpose of meeting the expenses of the various funds, departments, institutions, offices and agencies of _______________ County, Tennessee. The amounts hereinafter set out are appropriated for the operating expenses, capital outlays, transfers, and for the payment of principal and interest on the County’s outstanding debt maturing during the year beginning July 1, 20___ and ending June 30, 20___, according to the following schedule:

<table>
<thead>
<tr>
<th>GENERAL FUND</th>
<th>164,300</th>
</tr>
</thead>
<tbody>
<tr>
<td>County Commission</td>
<td>164,300</td>
</tr>
<tr>
<td>Beer Board</td>
<td>1,940</td>
</tr>
<tr>
<td>County Mayor</td>
<td>401,304</td>
</tr>
<tr>
<td>County Attorney</td>
<td>167,000</td>
</tr>
<tr>
<td>Election Commission</td>
<td>644,206</td>
</tr>
<tr>
<td>Register of Deeds</td>
<td>276,239</td>
</tr>
<tr>
<td>Codes Compliance</td>
<td>169,950</td>
</tr>
<tr>
<td>County Buildings</td>
<td>2,953,039</td>
</tr>
<tr>
<td>Other Facilities</td>
<td>423,299</td>
</tr>
<tr>
<td>Property Assessor’s Office</td>
<td>156,934</td>
</tr>
<tr>
<td>County Trustee</td>
<td>435,076</td>
</tr>
<tr>
<td>County Clerk</td>
<td>935,566</td>
</tr>
<tr>
<td>Other Finance</td>
<td>734,600</td>
</tr>
<tr>
<td>Circuit Court</td>
<td>1,321,618</td>
</tr>
<tr>
<td>General Sessions</td>
<td>456,967</td>
</tr>
<tr>
<td>Drug Court</td>
<td>211,784</td>
</tr>
<tr>
<td>Chancery Court</td>
<td>348,899</td>
</tr>
<tr>
<td>Juvenile Court</td>
<td>223,300</td>
</tr>
<tr>
<td>Service</td>
<td>Amount</td>
</tr>
<tr>
<td>----------------------------------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Judicial Commissioners</td>
<td>148,366</td>
</tr>
<tr>
<td>Probation Services</td>
<td>52,700</td>
</tr>
<tr>
<td>Victim Assistance Program</td>
<td>305,375</td>
</tr>
<tr>
<td>Sheriff's Dept.</td>
<td>7,311,487</td>
</tr>
<tr>
<td>Jail</td>
<td>5,041,490</td>
</tr>
<tr>
<td>Workhouse</td>
<td>143,606</td>
</tr>
<tr>
<td>Juvenile Services</td>
<td>659,972</td>
</tr>
<tr>
<td>Commissary</td>
<td>360,000</td>
</tr>
<tr>
<td>Fire Prevention</td>
<td>968,940</td>
</tr>
<tr>
<td>Civil Defense</td>
<td>347,565</td>
</tr>
<tr>
<td>Other Emergency Services</td>
<td>168,627</td>
</tr>
<tr>
<td>County Coroner</td>
<td>254,900</td>
</tr>
<tr>
<td>Other Public Safety</td>
<td>1,044,000</td>
</tr>
<tr>
<td>Local Health Center</td>
<td>394,953</td>
</tr>
<tr>
<td>Ambulance Service</td>
<td>5,625,750</td>
</tr>
<tr>
<td>Other Local Health</td>
<td>74,800</td>
</tr>
<tr>
<td>General Welfare Assistance</td>
<td>5,000</td>
</tr>
<tr>
<td>Aid to Dependent Children</td>
<td>8,000</td>
</tr>
<tr>
<td>Other Public Health</td>
<td>1,527,400</td>
</tr>
<tr>
<td>Senior Citizens</td>
<td>84,170</td>
</tr>
<tr>
<td>Libraries</td>
<td>674,852</td>
</tr>
<tr>
<td>Parks &amp; Fairboards</td>
<td>5,354</td>
</tr>
<tr>
<td>Other Social &amp; Cultural</td>
<td>12,000</td>
</tr>
<tr>
<td>Agriculture Extension Srvs.</td>
<td>280,550</td>
</tr>
<tr>
<td>Forest Service</td>
<td>1,500</td>
</tr>
<tr>
<td>Soil Conservation</td>
<td>75,100</td>
</tr>
<tr>
<td>Airport</td>
<td>35,000</td>
</tr>
<tr>
<td>Veterans Services</td>
<td>112,123</td>
</tr>
<tr>
<td>Contributions to other Agencies</td>
<td>280,258</td>
</tr>
<tr>
<td>Employee Benefits</td>
<td>9,851,000</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>2,121,165</td>
</tr>
<tr>
<td>Transfers Out</td>
<td>0</td>
</tr>
<tr>
<td>TOTAL GENERAL FUND</td>
<td>48,002,024</td>
</tr>
</tbody>
</table>

**SOLID WASTE/SANITATION FUND**

<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sanitation Management</td>
<td>5,153,810</td>
</tr>
<tr>
<td>Other Waste Collection</td>
<td>0</td>
</tr>
<tr>
<td>Landfill Operation</td>
<td>145,000</td>
</tr>
<tr>
<td>Other Waste Disposal</td>
<td>955,000</td>
</tr>
<tr>
<td>Postclosure Care Costs</td>
<td>217,600</td>
</tr>
<tr>
<td>TOTAL SOLID WASTE</td>
<td>6,471,410</td>
</tr>
</tbody>
</table>

**DEBT SERVICE FUND**

<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital Outlay</td>
<td>903,990</td>
</tr>
<tr>
<td>Education Debt Service</td>
<td>10,228,803</td>
</tr>
<tr>
<td>Other Debt Service</td>
<td>362,000</td>
</tr>
<tr>
<td>Public Safety Projects</td>
<td>7,174,456</td>
</tr>
<tr>
<td>Transfers Out</td>
<td>12,000,000</td>
</tr>
<tr>
<td>TOTAL DEBT SERVICE</td>
<td>30,669,249</td>
</tr>
</tbody>
</table>

**SAMPLE COUNTY ROAD FUND**

<table>
<thead>
<tr>
<th>Service</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Administration</td>
<td>409,637</td>
</tr>
<tr>
<td>Highway &amp; Bridge Maint.</td>
<td>3,892,550</td>
</tr>
<tr>
<td>Fund</td>
<td>Amount</td>
</tr>
<tr>
<td>-------------------------------------</td>
<td>--------------</td>
</tr>
<tr>
<td>Operation &amp; Maint. Equip.</td>
<td>548,050</td>
</tr>
<tr>
<td>Other Charges</td>
<td>285,300</td>
</tr>
<tr>
<td>Capital Outlay</td>
<td>625,000</td>
</tr>
<tr>
<td><strong>TOTAL ROAD FUND</strong></td>
<td><strong>5,760,537</strong></td>
</tr>
<tr>
<td>CHILD NUTRITION FUND</td>
<td></td>
</tr>
<tr>
<td>Food Service</td>
<td>7,225,000</td>
</tr>
<tr>
<td>Operating Transfers</td>
<td>675,000</td>
</tr>
<tr>
<td><strong>TOTAL CHILD NUTRITION</strong></td>
<td><strong>7,900,000</strong></td>
</tr>
<tr>
<td>EXTENDED SCHOOL PROGRAM</td>
<td></td>
</tr>
<tr>
<td>Community Services</td>
<td>1,674,110</td>
</tr>
<tr>
<td><strong>TOTAL EXTENDED SCHOOL</strong></td>
<td><strong>1,674,110</strong></td>
</tr>
<tr>
<td>DRUG CONTROL FUND</td>
<td></td>
</tr>
<tr>
<td>Drug Enforcement</td>
<td>203,400</td>
</tr>
<tr>
<td><strong>TOTAL DRUG CONTROL</strong></td>
<td><strong>203,400</strong></td>
</tr>
<tr>
<td>INDUSTRIAL/ECONOMIC DEVELOPMENT</td>
<td></td>
</tr>
<tr>
<td>Development</td>
<td>13,800</td>
</tr>
<tr>
<td>Industrial Development</td>
<td>1,114,650</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>0</td>
</tr>
<tr>
<td>Transfers Out</td>
<td>103,925</td>
</tr>
<tr>
<td><strong>TOTAL INDUSTRIAL FUND</strong></td>
<td><strong>1,232,375</strong></td>
</tr>
<tr>
<td>CAPITAL PROJECTS FUND</td>
<td></td>
</tr>
<tr>
<td>County Buildings</td>
<td>16,067,000</td>
</tr>
<tr>
<td><strong>TOTAL CAPITAL PROJECTS</strong></td>
<td><strong>16,067,000</strong></td>
</tr>
<tr>
<td>PRESERVATION OF RECORDS FUND</td>
<td></td>
</tr>
<tr>
<td>Preservation of Records</td>
<td>104,000</td>
</tr>
<tr>
<td><strong>TOTAL OF PRESERVATION OF RECORDS</strong></td>
<td><strong>104,000</strong></td>
</tr>
<tr>
<td>OTHER SPECIAL REVENUE FUND</td>
<td></td>
</tr>
<tr>
<td>Preservation of Records</td>
<td>700</td>
</tr>
<tr>
<td><strong>TOTAL OF PRESERVATION OF RECORDS</strong></td>
<td><strong>700</strong></td>
</tr>
<tr>
<td>SPORTS AND RECREATION FUND</td>
<td></td>
</tr>
<tr>
<td>Parks and Fairboards</td>
<td>1,293,320</td>
</tr>
<tr>
<td>Other Social Recreation</td>
<td>166,150</td>
</tr>
<tr>
<td><strong>TOTAL OF SPORTS AND RECREATION FUND</strong></td>
<td><strong>1,459,470</strong></td>
</tr>
<tr>
<td>COMMUNITY DEVEL. FUND</td>
<td></td>
</tr>
<tr>
<td>Development</td>
<td>154,100</td>
</tr>
<tr>
<td><strong>TOTAL OF COMMUNITY DEVELOPMENT FUND</strong></td>
<td><strong>154,100</strong></td>
</tr>
<tr>
<td>GENERAL PURPOSE SCHOOL FUND</td>
<td></td>
</tr>
<tr>
<td>Regular Instruction Program</td>
<td>49,344,425</td>
</tr>
<tr>
<td>Alternative Instruction</td>
<td>688,785</td>
</tr>
<tr>
<td>Special Instruction Program</td>
<td>10,926,736</td>
</tr>
<tr>
<td>Vocational Education Program</td>
<td>2,090,091</td>
</tr>
<tr>
<td>Adult Education Program</td>
<td>0</td>
</tr>
</tbody>
</table>
SECTION 2. BE IT FURTHER RESOLVED that the budget for the School Federal Projects Fund shall be the budget and all amendments approved for separate projects within the Fund by the Tennessee Department of Education and the local Board of Education.

SECTION 3. BE IT FURTHER RESOLVED that there are also hereby appropriated certain portions of the commissions and fees for collecting taxes and licenses and for administering other funds which the Trustee, County Clerk, Circuit Court Clerk, Clerk & Master, Register and the Sheriff and their officially authorized deputies and assistants may severally be entitled to receive under State laws heretofore or hereafter enacted. Expenditures out of commissions and/or fees collected by the Trustee, County Clerk, Circuit Court Clerk, Clerk & Master, Register and the Sheriff may be made for such purposes and in such amounts as may be authorized by existing law or by valid order of any court having power to make such appropriations. Any such excess commissions and/or fees collected over and above the expenditures duly and conclusively authorized shall be paid over to the Trustee and converted into the General Fund as provided by law. If any fee officials, as enumerated in Tenn. Code Ann. § 8-22-101, operate under provisions of Tenn. Code Ann. § 8-22-104, provisions of the preceding paragraph shall not apply to those particular officials.

SECTION 4. BE IT FURTHER RESOLVED that any appropriations made by this resolution which cover the same purpose for which a specific appropriation is made by statute is made in lieu of but not in addition to said statutory appropriation. The salary, wages, or remuneration of each officer, employee or agent of the County shall not be in excess of the amounts authorized by this resolution. Provided, however, that appropriations for such salaries, wages, or other remuneration hereby authorized shall in no case be construed as permitting expenditures for an office, agency, institution, division, or department of the County in excess of the appropriation made herein for such appropriation shall constitute the limit to the expenditures of any office, agency, institution, division or department for the year ending June 30, 201__,. The aggregate expenditures for any item of appropriation shall in no instance be more than the amount herein appropriated for such item.

SECTION 5. BE IT FURTHER RESOLVED that any amendment to the budget shall be approved as provided in Tenn. Code Ann. § 5-9-407. One copy of each amendment shall be filed with the County Clerk, one copy with the Chairman of the Budget Committee, one copy with each divisional or departmental head concerned. A description of the amendment, including its purpose and why it is needed during the current fiscal year; a statement disclosing the cost of the amendment by budget line item with subclassifications that shows each specific cost element, and the source of funding for the expenditure itemized by type must be included in the language of the amendment resolution. One copy of each amendment shall be submitted to the Comptroller’s Division of Local Government Finance after its
adoption. This section shall in no case whatsoever be construed as authorizing transfer from one fund to another but shall apply solely to transfer within a certain fund.

**SECTION 6.** BE IT FURTHER RESOLVED that any resolution which may hereafter be presented to the Board of County Commissioners providing for appropriations in addition to those made by this Budget Appropriation Resolution shall specifically provide sufficient revenue or other funds, to be provided during the year in which the expenditure is to be made, to meet such additional appropriation. Said appropriating resolution shall be submitted to the Comptroller’s Division of Local Government Finance after its adoption as provided by Tenn. Code Ann. § 9-21-406.

**SECTION 7.** BE IT FURTHER RESOLVED that the County is hereby authorized to borrow money on tax and revenue anticipation notes, provided such notes are first approved by the Comptroller’s Division of Local Government Finance, to pay for the expenses herein authorized until the taxes and other revenue for the fiscal year 20__ - 20__ have been collected. The proceeds of loans for each individual fund shall not exceed 60% of the appropriations of each individual fund and shall be used only to pay the expenses and other requirements of the fund for which the loan is made. The loan shall be paid out of revenue from the fund for which money is borrowed. The notes evidencing the loans authorized under this section shall be issued under the applicable sections of Tennessee Code Annotated Title 9, Chapter 21. Said notes shall be signed by the County Mayor and countersigned by the County Clerk and shall mature and be paid in full without renewal no later than June 30, 20__.

**SECTION 8.** BE IT FURTHER RESOLVED that the delinquent County Property taxes for the year 20__, and prior years and the interest and penalty thereon collected during the year ending June 30, 20__ shall be apportioned to the various County Funds according to the subdivision of the tax levy for the year 20___. The Clerk and Master and the Trustee are hereby authorized and directed to make such apportionment accordingly.

**SECTION 9.** BE IT FURTHER RESOLVED that all unencumbered balances of appropriations remaining at the end of the year shall lapse and be of no further effect at the end of the year June 30, 20___.

**SECTION 10.** BE IT FURTHER RESOLVED that any resolution or part of a resolution which has heretofore been passed by the Board of County Commissioners which is in conflict with any provision in this resolution be and the same is hereby repealed.

**SECTION 11.** BE IT FURTHER RESOLVED that this resolution shall take effect from and after its passage and its provisions shall be in force from and after July 1, 20___.

PASSED THIS _________ of ______________, 20___.

____________________________________
_________________________, County Mayor

Attest:

____________________________________
_________________________, County Clerk

**Tax Levy Resolution**

Reference Number: CTAS-2087

RESOLUTION FIXING THE TAX LEVY IN ___________COUNTY, TENNESSEE FOR THE YEAR BEGINNING JULY 1, 20__

**SECTION 1.** BE IT RESOLVED by the Board of County Commissioners of ___________County, Tennessee, assembled in regular session on this 18th day of July, 20__, that the combined property tax rate for ___________County, Tennessee for the year beginning July 1, 20__, shall be $1.5341 on each $100 of taxable property, which is to provide revenue for each of the following funds and otherwise conform to the following levies:
FUND | Rate
--- | ---
General | $0.5568
General Purpose School | 0.6987
General Debt Service | 0.0855
Rural Debt Service | $0.1931
Total | $1.5341

SECTION 2. BE IT FURTHER RESOLVED that there is hereby levied a gross receipts tax as provided by law. The proceeds of the gross receipts tax herein levied shall accrue to the General Fund.

SECTION 3. BE IT FURTHER RESOLVED, that all resolutions of the Board of County Commissioners of __________ County, Tennessee, which are in conflict with this resolution are hereby repealed.

SECTION 4. BE IT FURTHER RESOLVED, that this resolution take effect from and after its passage, the public welfare requiring it. This resolution shall be spread upon the minutes of the Board of County Commissioners.

Passed this ___ day of _____________, 20__.

Non-profit Resolution

Reference Number: CTAS-2088

SAMPLE RESOLUTION MAKING APPROPRIATIONS TO NON-PROFIT CHARITABLE ORGANIZATIONS OF ____________ COUNTY, TENNESSEE FOR THE YEAR BEGINNING July 1, 20__, AND ENDING June 30, 20__.

WHEREAS, Section 5-9-109, Tennessee Code Annotated, authorizes the __________ County Legislative Body to make appropriations to various nonprofit charitable organizations; and

WHEREAS, the __________ County Legislative Body recognizes the various nonprofit charitable organizations providing services in ____________ County have great need of funds to carry on their nonprofit charitable work.

NOW, THEREFORE, BE IT RESOLVED by the Board of County Commissioners of __________ County, on this the __ day of __________, 20__.

SECTION 1. That five hundred eighteen thousand, one hundred ninety-four ($518,194) be appropriated to nonprofit organizations in ____________ County as reflected below.

<table>
<thead>
<tr>
<th>No.</th>
<th>Agency</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>101-51710-309</td>
<td>Partnership for Economic Development</td>
<td>$20,000</td>
</tr>
<tr>
<td>101-54310-399</td>
<td>Fire Prevention and Control</td>
<td>191,863</td>
</tr>
<tr>
<td>101-55110-316</td>
<td>Health Department</td>
<td>75,000</td>
</tr>
<tr>
<td>101-55190-309</td>
<td>American Legion</td>
<td>500</td>
</tr>
<tr>
<td>101-55190-309</td>
<td>Lions Club</td>
<td>500</td>
</tr>
<tr>
<td>101-55190-310</td>
<td>Caring Incorporated</td>
<td>65,000</td>
</tr>
<tr>
<td>101-55190-310</td>
<td>County Speech &amp; Hearing</td>
<td>10,000</td>
</tr>
<tr>
<td>101-56500-316</td>
<td>Library</td>
<td>134,331</td>
</tr>
<tr>
<td>101-56700-316</td>
<td>Parks &amp; Fair Boards</td>
<td>18,000</td>
</tr>
<tr>
<td>101-58300-316</td>
<td>Veterans Service</td>
<td>3,000</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>$518,194</td>
</tr>
</tbody>
</table>

BE IT FURTHER RESOLVED that all appropriations enumerated in Section 1 above are subject to the following conditions:

1. That the non-profit charitable organization to which funds are appropriated shall file with the County Clerk and the disbursing official a copy of an annual report of its business affairs and transactions and the proposed use of the County’s funds. Such annual report shall be prepared and certified by the Chief Financial Officer of such non-profit organization in accordance with Section 5-9-109(c), Tennessee Code Annotated.

2. That said funds must only be used by the named non-profit charitable organization in furtherance of
their non-profit charitable purpose benefiting the general welfare of the residents of the
___________County.

3. That it is the expressed interest of the County Commission of ___________ County providing these
funds to the above named non-profit charitable organizations to be fully in compliance with Section
5-9-109 of Tennessee Code Annotated and any and all other laws which may apply to County
appropriations to non-profit organizations and so this appropriation is made subject to compliance with
any and all of these laws and regulations.

BE IT FURTHER RESOLVED that this resolution shall take effect from and after its passage and its
provisions shall be in force from and after July 1, 20__. This resolution shall be spread upon the minutes
of the Board of County Commissioners

Passed this ___ day of ____________, 20__.

General Budget Preparation Form

Reference Number: CTAS-2089

Budget Preparation Form/Personnel

Reference Number: CTAS-2090
LETTER OF AGREEMENT
COMPENSATION OF EMPLOYEES
_______________ COUNTY, TENNESSEE

Pursuant to Tennessee Code Annotated, Section 8-20-101, this agreement by and between 
(Official/Office) ___________ and ___________ (County Executive/Mayor) ___________,
is for the purpose of establishing the number of employees and the authorized salaries 
for the ______ (Office) _______. The parties named herein have agreed and 
do hereby enter into this agreement according to the provisions set forth herein:
A. The term of this agreement will be from ________ (Beginning Date) to ________ (Ending Date).
B. In order to insure the efficient operation of this office, it is agreed that the official is 
authorized to employ the following employees at salaries not to exceed the specified amounts:

<table>
<thead>
<tr>
<th>Number of Employees</th>
<th>Job Classification</th>
<th>Annual Salary for Each Employee in Job Classification not to Exceed</th>
</tr>
</thead>
</table>
C. It is furthered agreed that part time help may be employed at a rate of up to $________
an hour with a total not to exceed $________ for the terms of this agreement.

D. The parties agree to the following special provisions: _____________________________________________
_____________________________________________________________________________________
_____________________________________________________________________________________

E. It is further agreed that in no event shall the amount of this agreement exceed $___________.

IN witness whereof, the parties have set their signatures.

_______________________________ ___________________________ (Date)
OFFICIAL

_______________________________ ___________________________ (Date)
COUNTY EXECUTIVE/MAYOR

Operation of Fund
Reference Number: CTAS-2092
## Operation of Fund/Fund Balance

### County Mayor Budget

<table>
<thead>
<tr>
<th>Date 01/31/</th>
<th>Per Audit Beginning Designation Reserve</th>
<th>Per Audit Estimated Fund Balance 7/1/26</th>
<th>Estimated Revenue</th>
<th>In Transfers</th>
<th>Total Available Funds</th>
<th>Proposed Expenditures</th>
<th>OUT Transfers</th>
<th>Ending Designation Reserves</th>
<th>Est Fund Bal w/Reserves 6/30/20</th>
<th>Est Fund Bal w/o Reserves 6/30/20</th>
<th>Recomm Property Tax</th>
<th>Effect on FND BAL</th>
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<tr>
<td>General Fund</td>
<td>83,881</td>
<td>447,745</td>
<td>3,356,391</td>
<td>0</td>
<td>3,888,017</td>
<td>3,445,283</td>
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<td>83,881</td>
<td>442,734</td>
<td>358,853</td>
<td>0.05</td>
<td>(88,892)</td>
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<tr>
<td>101 General</td>
<td></td>
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<td></td>
<td></td>
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<tr>
<td>Special Revenue Funds</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>119 Ambulance</td>
<td>0</td>
<td>326,785</td>
<td>978,023</td>
<td>0</td>
<td>1,311,707</td>
<td>1,107,175</td>
<td>0</td>
<td>311,635</td>
<td>711,858</td>
<td>0.10</td>
<td>(127,128)</td>
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<td>122 Drug Control</td>
<td>0</td>
<td>7,001</td>
<td>6,000</td>
<td>0</td>
<td>13,001</td>
<td>0</td>
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<td>13,001</td>
<td>13,001</td>
<td>0.00</td>
<td>(6,000)</td>
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<td>131 Highway/Public Works</td>
<td>0</td>
<td>423,638</td>
<td>1,754,823</td>
<td>0</td>
<td>2,188,461</td>
<td>1,901,343</td>
<td>0</td>
<td>287,118</td>
<td>287,118</td>
<td>0.00</td>
<td>(135,520)</td>
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<td>141 General Purpose Sch.</td>
<td>503,510</td>
<td>0</td>
<td>16,765,207</td>
<td>0</td>
<td>17,271,717</td>
<td>16,768,207</td>
<td>0</td>
<td>503,510</td>
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<td>0.00</td>
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<tr>
<td>142 School Federal Corp.</td>
<td>0</td>
<td>2,241,830</td>
<td>2,241,830</td>
<td>0</td>
<td>2,241,830</td>
<td>2,241,830</td>
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<td>0</td>
<td>0</td>
<td>0.00</td>
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<tr>
<td>143 School Food Service</td>
<td>0</td>
<td>1,188,500</td>
<td>0</td>
<td>0</td>
<td>1,188,500</td>
<td>1,188,500</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0.00</td>
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<tr>
<td>Debt Services Fund</td>
<td>151 General Debt Service</td>
<td>0</td>
<td>1,313,657</td>
<td>1,035,732</td>
<td>0</td>
<td>2,349,389</td>
<td>943,823</td>
<td>0</td>
<td>1,405,769</td>
<td>1,405,769</td>
<td>0.21</td>
<td>91,912</td>
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<tr>
<td>Capital Projects Fund</td>
<td>172 Industrial/Economic Dev.</td>
<td>7,601</td>
<td>312,303</td>
<td>172,200</td>
<td>0</td>
<td>485,104</td>
<td>220,000</td>
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<td>272,104</td>
<td>272,104</td>
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<td>TOTAL FUNDS</td>
<td>594,592</td>
<td>2,843,909</td>
<td>27,508,694</td>
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<td>30,247,265</td>
<td>27,811,114</td>
<td>0</td>
<td>83,881</td>
<td>3,153,471</td>
<td>3,052,590</td>
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<td>(302,430)</td>
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2/17/2011
Estimated Revenues from Current Property Taxes

Reference Number: CTAS-2094

Statement of Estimated Revenues from Current Property Taxes
20__ Assessments Based upon Estimated
Assessed Valuation of $640,870,000

<table>
<thead>
<tr>
<th>Fund</th>
<th>Beginning Spendable Fund Balance</th>
<th>Revenues</th>
<th>Debt Proceeds</th>
<th>Transfers-In</th>
<th>Estimated Receipts</th>
<th>Available Fund</th>
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</thead>
<tbody>
<tr>
<td>General Fund</td>
<td>$1,008,376</td>
<td>$531,950</td>
<td>$85,000</td>
<td></td>
<td>$616,950</td>
<td>$1,622,420</td>
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<tr>
<td>Highway Fund</td>
<td>132,415</td>
<td>287,090</td>
<td>-</td>
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<td>287,090</td>
<td>419,804</td>
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<tr>
<td>Solid Waste Fund</td>
<td>192,400</td>
<td>204,620</td>
<td>-</td>
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<td>204,620</td>
<td>397,820</td>
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<td>Drug Fund</td>
<td>1,041,621</td>
<td>1,673,000</td>
<td>-</td>
<td></td>
<td>1,673,000</td>
<td>2,714,221</td>
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<tr>
<td>General Purpose School   Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
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<td></td>
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</tr>
<tr>
<td>School Cafeteria Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>School Federal Projects Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water &amp; Sewer Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>General Debt Service Fund</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Totals</strong></td>
<td><strong>$2,374,812</strong></td>
<td><strong>$2,696,660</strong></td>
<td><strong>$85,000</strong></td>
<td><strong>-</strong></td>
<td><strong>$2,781,660</strong></td>
<td><strong>$5,158,730</strong></td>
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Debt Service

<table>
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<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Budgeted Debt Payments</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>$126,734</td>
<td>$126,734</td>
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<tr>
<td>Difference</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
<td>$126,734</td>
<td>$126,734</td>
</tr>
</tbody>
</table>

| Fund: Water & Sewer Fund        |           |          |              |                                   |                              |                              |                              | $25,500    | $25,500    |
| Schedule of Outstanding Debt    |           |          |              |                                   |                              |                              |                              | $25,500    | $25,500    |
| Less: Budgeted Debt Payments    |           |          |              |                                   |                              |                              |                              | $25,500    | $25,500    |
| Difference                      |           |          |              |                                   |                              |                              |                              | $25,500    | $25,500    |

| Fund: Highway Fund              |           |          |              |                                   |                              |                              |                              | $128,934   | $128,934   |
| Schedule of Outstanding Debt    |           |          |              |                                   |                              |                              |                              | $128,934   | $128,934   |
| Less: Budgeted Debt Payments    |           |          |              |                                   |                              |                              |                              | $29,521    | $29,521    |
| Difference                      |           |          |              |                                   |                              |                              |                              | $158,455   | $158,455   |

Estimated Revenues from Current Property Taxes

Reference Number: CTAS-2094

Statement of Estimated Revenues from Current Property Taxes
20__ Assessments Based upon Estimated
Assessed Valuation of $640,870,000

Fund                          | Proposed Tax Rate | Amount of Tax Levy | Reserve for Delinquency 9.0% | Net Estimated Collection of Taxes |
-------------------------------|-------------------|--------------------|-------------------------------|-----------------------------------|
General                        | $0.5568           | $3,568,044         | $321,124                      | $3,246,920                        |
General Purpose School         | $0.6987           | $4,477,841         | $403,006                      | $4,074,835                        |
General Debt Service           | $0.0855           | $548,182           | $49,336                       | $498,845                          |
### Statement of Estimated Revenues from Current Property Taxes
20___ Assessments Based upon Estimated Assessed Valuation of $640,870,000

<table>
<thead>
<tr>
<th>Fund</th>
<th>Proposed Tax Rate</th>
<th>Amount of Tax Levy</th>
<th>Reserve for Delinquency 9.0%</th>
<th>Net Estimated Collection of Taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td>$0.5568</td>
<td>$3,568,044</td>
<td>$321,124</td>
<td>$3,246,920</td>
</tr>
<tr>
<td>General Purpose School</td>
<td>$0.6987</td>
<td>$4,477,841</td>
<td>$403,006</td>
<td>$4,074,835</td>
</tr>
<tr>
<td>General Debt Service</td>
<td>$0.0855</td>
<td>$548,182</td>
<td>$49,336</td>
<td>$498,846</td>
</tr>
<tr>
<td>Rural Debt Service (inside city or SSD)</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Rural Debt Service (outside city or SSD)</td>
<td>$0.2000</td>
<td>$1,237,360</td>
<td>$111,362</td>
<td>$1,125,998</td>
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<tr>
<td>Total</td>
<td>$1.5410</td>
<td>$9,831,427</td>
<td>$884,828</td>
<td>$8,946,599</td>
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</tbody>
</table>

**Notes:**

1. The Assessment for the Rural Debt Service Fund tax rate is $618,680,000 – excludes SSD or city assessment
2. ADA Proration:
   - General Purpose School Fund: 93.50% $3,809,971
   - City or Special School District: 6.50% $264,864
   - Total: 100.00% $4,074,835
3. Rate of $0.00 for __________ Special School District

**Maintenance of Effort Test**

Reference Number: CTAS-2095
Highway Certification Form
Reference Number: CTAS-2096

Example County
Highway Certification Worksheet

*Enter amounts for accounts in which you received revenue. Enter ZERO (0) for accounts in which you did not.

I. Calculate Average

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>40110</td>
<td>Current Property Tax</td>
<td>18,344,000</td>
<td>15,920,000</td>
<td>15,925,000</td>
<td>15,813,211</td>
<td>11,208,099</td>
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<tr>
<td>40120</td>
<td>Teachers' Collections - Prior Year</td>
<td>835,000</td>
<td>850,000</td>
<td>650,000</td>
<td>647,647</td>
<td>(2,358)</td>
<td>(5,022)</td>
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<tr>
<td>40130</td>
<td>Circuits/Classroom Collections - Prior Year</td>
<td>90,000</td>
<td>75,000</td>
<td>75,000</td>
<td>136,375</td>
<td>61,335</td>
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<tr>
<td>40140</td>
<td>Int and Penalty</td>
<td>100,000</td>
<td>100,000</td>
<td>80,000</td>
<td>105,008</td>
<td>5,008</td>
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</tr>
<tr>
<td>40150</td>
<td>Pupil Taxes</td>
<td>80,000</td>
<td>80,000</td>
<td>85,000</td>
<td>123,061</td>
<td>33,061</td>
<td></td>
</tr>
<tr>
<td>40161</td>
<td>Payments in Lieu of Taxes - T.V.A.</td>
<td>13,000</td>
<td>13,000</td>
<td>13,000</td>
<td>12,172</td>
<td>828 **</td>
<td></td>
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<tr>
<td>40162</td>
<td>Payments in Lieu of Taxes - Local Utilities</td>
<td>110,000</td>
<td>105,000</td>
<td>105,000</td>
<td>138,121</td>
<td>34,111</td>
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<tr>
<td>40163</td>
<td>Payments in Lieu of Taxes - Other</td>
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<td>0</td>
<td>0</td>
<td>57,483</td>
<td>57,483</td>
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<tr>
<td>40170</td>
<td>Local Option Sales Tax</td>
<td>6,427,000</td>
<td>10,000,000</td>
<td>10,000,000</td>
<td>9,529,423</td>
<td>996,000</td>
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<tr>
<td>40270</td>
<td>Business Tax</td>
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<td>417,703</td>
<td>76,703</td>
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<tr>
<td>40330</td>
<td>Overlays/Local Option Taxes</td>
<td>9,000</td>
<td>9,000</td>
<td>9,000</td>
<td>9,783</td>
<td>(2,130)</td>
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<tr>
<td>40520</td>
<td>Bank Excise Tax</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>142,952</td>
<td>142,952</td>
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</tr>
<tr>
<td></td>
<td>Total County Taxes</td>
<td>24,188,000</td>
<td>37,450,000</td>
<td>37,448,000</td>
<td>27,184,809</td>
<td>(274,028)</td>
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<td>40110</td>
<td>Marriage Licenses</td>
<td>4,700</td>
<td>6,000</td>
<td>4,900</td>
<td>5,000</td>
<td>1,900 **</td>
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<td>40140</td>
<td>Cable TV Franchise</td>
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<td>0</td>
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<td>Investment Income</td>
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<td>Lease Rental</td>
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<td>28,233</td>
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<td>Misc. Drink Tax</td>
<td>40,000</td>
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<td>40,000</td>
<td>44,082</td>
<td>(4,082)</td>
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<td>40170</td>
<td>Local Option Sales Tax</td>
<td>1,511,000</td>
<td>1,116,000</td>
<td>1,116,000</td>
<td>1,297,116</td>
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<td>Total Local Revenue per School Year</td>
<td>30,480,700</td>
<td>30,843,000</td>
<td>30,843,000</td>
<td>29,093,000</td>
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<td>Cap Outlay</td>
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<td>Debl Outlay</td>
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<td>0</td>
<td>0</td>
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<tr>
<td></td>
<td>Total Adjusted Local Revenue</td>
<td>30,480,700</td>
<td>30,843,000</td>
<td>30,843,000</td>
<td>29,093,000</td>
<td>250,000</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Local Government Revenue</td>
<td>30,480,700</td>
<td>30,843,000</td>
<td>30,843,000</td>
<td>29,093,000</td>
<td>250,000</td>
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</tr>
<tr>
<td></td>
<td>Per Pupil Revenue</td>
<td>3,524</td>
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<td>3,524</td>
<td>3,524</td>
<td>3,524</td>
<td></td>
</tr>
</tbody>
</table>

* An explanation is required when actual revenue collected are less than 96% of budgeted revenue.
** An explanation is required when proposed budget estimates exceed prior year's budget/amended budget by more than 5%
Proposed budget passes Maintenance of Effort

Comments

https://www.k-12.state.tn.us/eReporting/MoreReport.aspx?reportcode=MOE (1 of 2) [12/10/201 1:32:53 PM]
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<th>Description</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>40110 Current Property Tax</strong></td>
<td>615,300</td>
<td>626,127</td>
<td>630,826</td>
<td>636,074</td>
<td>651,735</td>
<td>650,421</td>
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<td><strong>40115 Discount on Property Taxes</strong></td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td><strong>40120 Trustee's Collections - Prior Year</strong></td>
<td>31,400</td>
<td>27,944</td>
<td>33,243</td>
<td>25,942</td>
<td>24,333</td>
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<td><strong>40125 Trustee's Collections - Bankruptcy</strong></td>
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<td><strong>40130 Circuit/Clerk &amp; Master Collections - Prior Years</strong></td>
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<td>16,956</td>
<td>22,314</td>
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<tr>
<td><strong>40140 Interest and Penalty</strong></td>
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<td>17,953</td>
<td>9,644</td>
<td>7,700</td>
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<tr>
<td><strong>40150 Pick-up Taxes</strong></td>
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<td>0</td>
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<tr>
<td><strong>40161 Payments in Lieu of Taxes - T.V.A.</strong></td>
<td>222</td>
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<td>194</td>
<td>194</td>
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<td>222</td>
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<tr>
<td><strong>40162 Payments in Lieu of Taxes - Local Utilities</strong></td>
<td>188</td>
<td>104</td>
<td>163</td>
<td>165</td>
<td>174</td>
<td>100</td>
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<tr>
<td><strong>40163 Payments in Lieu of Taxes - Other</strong></td>
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<tr>
<td><strong>40220 Hotel/Motel Tax</strong></td>
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</tr>
<tr>
<td><strong>40240 Wheel Tax</strong></td>
<td>114,367</td>
<td>114,356</td>
<td>114,059</td>
<td>116,633</td>
<td>105,688</td>
<td>125,000</td>
</tr>
<tr>
<td><strong>40250 Litigation Tax - General</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td><strong>40260 Litigation Tax - Special Purpose</strong></td>
<td>0</td>
<td>0</td>
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<td><strong>40270 Business Tax</strong></td>
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<tr>
<td><strong>40280 Mineral Severance Tax</strong></td>
<td>36,622</td>
<td>56,145</td>
<td>58,297</td>
<td>59,544</td>
<td>33,682</td>
<td>69,000</td>
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<tr>
<td><strong>40285 Adequate Facilities/Development Tax</strong></td>
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<td>0</td>
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<td>0</td>
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<td>0</td>
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<tr>
<td><strong>40290 Other County Local Option Taxes</strong></td>
<td>0</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>40320 Bank Excise Tax</strong></td>
<td>7,158</td>
<td>6,973</td>
<td>3,387</td>
<td>344</td>
<td>91</td>
<td>3,300</td>
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<tr>
<td><strong>40330 Wholesale Beer Tax</strong></td>
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<td><strong>40331 Beer Privilege Tax</strong></td>
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<td><strong>40340 Coal Severance Tax</strong></td>
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<tr>
<td><strong>40350 Interstate Telecommunications Tax</strong></td>
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<tr>
<td><strong>44990 Other Local Revenues</strong></td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>Total Local Revenue</strong></td>
<td>843,200</td>
<td>866,400</td>
<td>884,213</td>
<td>862,485</td>
<td>833,569</td>
<td>924,993</td>
</tr>
</tbody>
</table>

Average = Total of 5 years total local revenue divided by 5
*estimate if audit figures are unavailable

**Five-Year Average** 857,973
### Description Table

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Current Property Tax</td>
<td>615,300</td>
<td>626,127</td>
<td>630,826</td>
<td>636,074</td>
<td>651,735</td>
<td>3,160,062</td>
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<td>Trustee’s Collections - Prior Year</td>
<td>31,440</td>
<td>27,944</td>
<td>33,243</td>
<td>25,942</td>
<td>24,333</td>
<td>142,902</td>
<td>32,000</td>
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<td>Trustee’s Collections - Bankruptcy</td>
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<td>41</td>
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<td>Circuit/Clerk &amp; Master Collections - Prior Years</td>
<td>19,634</td>
<td>16,956</td>
<td>22,314</td>
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<td>8,088</td>
<td>76,998</td>
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<td>Interest and Penalty</td>
<td>14,382</td>
<td>13,610</td>
<td>17,953</td>
<td>9,644</td>
<td>7,700</td>
<td>63,289</td>
<td>19,000</td>
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<td>Payments in Lieu of Taxes - T.V.A.</td>
<td>222</td>
<td>222</td>
<td>194</td>
<td>194</td>
<td>194</td>
<td>1,026</td>
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<td>Payments in Lieu of Taxes - Local Utilities</td>
<td>188</td>
<td>104</td>
<td>163</td>
<td>165</td>
<td>174</td>
<td>794</td>
<td>100</td>
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<td>Payments in Lieu of Taxes - Other</td>
<td>3,887</td>
<td>3,963</td>
<td>3,736</td>
<td>3,939</td>
<td>1,799</td>
<td>17,324</td>
<td>3,900</td>
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<tr>
<td>Wheel Tax</td>
<td>114,367</td>
<td>114,356</td>
<td>114,059</td>
<td>116,633</td>
<td>105,688</td>
<td>565,103</td>
<td>125,000</td>
</tr>
<tr>
<td>Mineral Severance Tax</td>
<td>36,622</td>
<td>56,145</td>
<td>58,297</td>
<td>59,544</td>
<td>33,682</td>
<td>244,290</td>
<td>69,000</td>
</tr>
<tr>
<td>Bank Excise Tax</td>
<td>7,158</td>
<td>6,973</td>
<td>3,878</td>
<td>344</td>
<td>91</td>
<td>17,953</td>
<td>3,3008</td>
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<tr>
<td>Interstate Telecommunications Tax</td>
<td>85</td>
<td>85</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Local Revenue</td>
<td>843,200</td>
<td>866,400</td>
<td>884,213</td>
<td>862,485</td>
<td>833,569</td>
<td>4,289,867</td>
<td>924,993</td>
</tr>
</tbody>
</table>

Average = Total of 5 years total local revenue divided by 5

### Five-Year Average

| Five-Year Average | 857,973 |

---

THE UNDERSIGNED OFFICIALS OF EXAMPLE COUNTY, TN DO HEREBY CERTIFY THAT $924,993 HAS BEEN APPROPRIATED AND ALLOCATED FOR COUNTY HIGHWAY PURPOSES FROM FISCAL YEAR 2018-2019 LOCAL REVENUE SOURCES AS COMPARED TO $857,973 THAT REPRESENTS THE AVERAGE OF THE MOST RECENT 5 YEARS OF LOCAL REVENUE SOURCES ALLOCATED AND RECEIVED FOR EXAMPLE COUNTY HIGHWAY PURPOSES, PURSUANT TO TENNESSEE CODE ANNOTATED 67-3-901.

---

NAME, COUNTY MAYOR

---

NAME, HWY CHIEF ADMIN OFF

### Basic Formula

Reference Number: CTAS-2097

Estimated Beginning Fund Balance + $1,000,000 (A)

Estimated Revenue + 5,000,000 (B)

Transfer Into the Fund + 0 (C)

Total Available Funds = 6,000,000 (A+B+C=D)

Estimated Expenditures - 5,500,000 (E)

Transfer Out of the Fund - 0 (F)

Estimated Ending Fund Balance = 500,000 (D-E-F=G)

**Effect on Fund Balance** (Est Revenues + Transfers In Less Est Exp + Transfers Out) (500,000) ((B+C)-(E+F)=H)

Assuming 1 penny generates $50,000

$500,000/$50,000 = $0.10

Assuming $1 million dollars is the optimal fund balance desired, divide the effect on fund balance by the value of the penny. This determines the tax increase needed.
## Assessment Summary

Reference Number: CTAS-2098

### ASSESSMENT SUMMARY EXAMPLE

#### LOCALLY ASSESSED PROPERTY

<table>
<thead>
<tr>
<th>Classification</th>
<th>Assessment</th>
<th>Parcels</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Utility @ 55%</td>
<td>$0</td>
<td>0</td>
</tr>
<tr>
<td>Industrial @ 40%</td>
<td>$93,144,520</td>
<td>93</td>
</tr>
<tr>
<td>Commercial @ 40%</td>
<td>$736,886,440</td>
<td>3,898</td>
</tr>
<tr>
<td>Residential @ 25%</td>
<td>$2,122,837,325</td>
<td>59,473</td>
</tr>
<tr>
<td>Homebelt @ 25%</td>
<td>$321,325</td>
<td>5</td>
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<tr>
<td>Farm @ 25%</td>
<td>$37,192,425</td>
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<tr>
<td>Agricultural @ 25%</td>
<td>$89,528,050</td>
<td>1,730</td>
</tr>
<tr>
<td>Forest @ 25%</td>
<td>$27,775,400</td>
<td>729</td>
</tr>
<tr>
<td>Open Space @ 25%</td>
<td>$0</td>
<td>0</td>
</tr>
<tr>
<td>Mineral @ 40%</td>
<td>$2,360</td>
<td>2</td>
</tr>
<tr>
<td>Total Real Property</td>
<td>$3,107,686,845</td>
<td>66,325</td>
</tr>
</tbody>
</table>

#### TANGIBLE PERSONAL PROPERTY

<table>
<thead>
<tr>
<th>Classification</th>
<th>Assessment</th>
<th>Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Utility @ 55%</td>
<td>$0</td>
<td>0</td>
</tr>
<tr>
<td>Industrial @ 30%</td>
<td>$217,487,861</td>
<td>60</td>
</tr>
<tr>
<td>Commercial @ 30%</td>
<td>$142,480,374</td>
<td>5,838</td>
</tr>
<tr>
<td>Residential @ 5%</td>
<td>$0</td>
<td>0</td>
</tr>
<tr>
<td>Farm @ 5%</td>
<td>$0</td>
<td>0</td>
</tr>
<tr>
<td>Appraisal Ratio</td>
<td>0.9081</td>
<td></td>
</tr>
</tbody>
</table>

#### INTANGIBLE PERSONAL PROPERTY

<table>
<thead>
<tr>
<th>Classification</th>
<th>Assessment</th>
<th>Accounts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commercial @ 40%</td>
<td>$0</td>
<td>0</td>
</tr>
<tr>
<td>Total Personal</td>
<td>$359,968,235</td>
<td>5,900</td>
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</table>

#### STATE ASSESSED PROPERTY

<table>
<thead>
<tr>
<th>Classification</th>
<th>Assessment</th>
<th>Accounts</th>
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</thead>
<tbody>
<tr>
<td>Public Utilities &amp; Transportation @ 55%</td>
<td>$130,880,876</td>
<td>102</td>
</tr>
</tbody>
</table>

#### ASSESSMENT TOTALS

- Real Property                          | $3,107,686,845 |
- Tangible Personal Property             | $359,968,235  |
- Intangible Personal Property           | $0            |
- Public Utilities & Transportation      | $130,880,876  |

**TOTAL ASSESSED VALUE**                  | **$3,598,535,956** |

---

## Assessment Valuation History

Reference Number: CTAS-2098
# Assessment Valuation History

<table>
<thead>
<tr>
<th>For Budget Year</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
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</thead>
<tbody>
<tr>
<td>Property Tax Year</td>
<td>1997</td>
<td>1998</td>
<td>1999</td>
<td>2000</td>
<td>2001</td>
<td>2002</td>
<td>Budget</td>
<td>Proposed</td>
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<tr>
<td>Public Utilities</td>
<td>5,629,083</td>
<td>5,322,612</td>
<td>5,141,234</td>
<td>5,477,555</td>
<td>5,004,177</td>
<td>5,899,465</td>
<td>5,802,776</td>
<td>5,802,776</td>
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<tr>
<td>Total Assessed Valuation</td>
<td>121,995,469</td>
<td>124,191,876</td>
<td>130,797,237</td>
<td>134,629,717</td>
<td>139,381,455</td>
<td>182,380,667</td>
<td>186,934,811</td>
<td>193,500,761</td>
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</tbody>
</table>

F/R = Financial Report

Value of 1 penny $19,350

Est Collection 0.95

Budget Value of 1 penny $18,383
Total Assessed Value  $3,568,242,202
Apply Previous Year Tax Rate  $0.0247
Property Tax Collection at 100%  $88,135,582
Actual Property Tax Collected  $83,728,803
Actual Collection Percentage  95%

Current Year Assessments
Real Property  $3,107,686,845
Tangible Personal Property  $359,968,235
Intangible Personal Property  $0
Public Utilities & Transportation  $130,880,876
Total Assessed Value  $3,598,535,956
Apply Current Year Tax Rate  $0.0247
Property Tax Collection at 100%  $88,883,838
Apply Historical Collection Percentage  95%
Property Tax Collection Estimate  $84,439,646

Net Penny Calculation
Property Tax Collection Estimate  $84,439,646
(Using Historical Collection Percentage)
Divide by 100  $844,396

Determining the Yield of One Cent of the Property Tax Rate
Total Assessed Value  $3,598,535,956
Divide by $100  $35,985,359
Multiply by one cent ($0.01)  $359,853
Multiply by historical collection percentage  95%
What one-cent yields from a one cent rate  $341,860

Balance Sheet Governmental Funds
Reference Number: CTAS-2102
### Balance Sheet

**Governmental Funds**

#### ASSETS

<table>
<thead>
<tr>
<th>Description</th>
<th>General</th>
<th>Highway/ Public Works</th>
<th>General Debt Service</th>
<th>Education Capital Projects</th>
<th>Education Capital Projects</th>
<th>Other Governmental Funds</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash</td>
<td>$325</td>
<td>$818,418</td>
<td>$718,367</td>
<td>$9,021,338</td>
<td>$2,202,130</td>
<td>$133,757</td>
<td>$8,545,212</td>
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<tr>
<td>Equity in Pooled Cash and Investments</td>
<td>$2,004,717</td>
<td>$858,418</td>
<td>$718,367</td>
<td>$9,021,338</td>
<td>$2,202,130</td>
<td>$133,757</td>
<td>$8,545,212</td>
</tr>
<tr>
<td>Accounts Receivable</td>
<td>69,149</td>
<td>1,005,133</td>
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<td>38,090</td>
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<td>1,048,362</td>
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<td>Allowance for Uncollectible</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Due from Other Governments</td>
<td>648,639</td>
<td>0</td>
<td>825,735</td>
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<td>Due from Other Funds</td>
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<td>0</td>
<td>30,663</td>
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<td>Due from Component Units</td>
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<td>46,461</td>
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<td>0</td>
<td>46,461</td>
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<tr>
<td>Property Taxes Receivable</td>
<td>7,260,724</td>
<td>712,858</td>
<td>556,377</td>
<td>1,008,434</td>
<td>0</td>
<td>0</td>
<td>9,893,804</td>
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<td>Allowance for Uncollectible Property Taxes</td>
<td>(225,363)</td>
<td>(22,126)</td>
<td>(17,269)</td>
<td>(31,300)</td>
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<td>(357,067)</td>
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<td>0</td>
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<td>Accrued Interest Receivable</td>
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<td><strong>Total Assets</strong></td>
<td>$9,818,273</td>
<td>$2,150,777</td>
<td>$2,087,810</td>
<td>$11,852,180</td>
<td>$2,202,130</td>
<td>$8,211,135</td>
<td>$37,811,215</td>
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</table>

#### LIABILITIES AND FUND BALANCES

<table>
<thead>
<tr>
<th>Description</th>
<th>General</th>
<th>Highway/ Public Works</th>
<th>General Debt Service</th>
<th>Education Capital Projects</th>
<th>Education Capital Projects</th>
<th>Other Governmental Funds</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accounts Payable</td>
<td>$68,720</td>
<td>$20,997</td>
<td>$3,710</td>
<td>$7,927</td>
<td>$5,773</td>
<td>138,190</td>
<td>208,000</td>
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<td>Accrued Payroll</td>
<td>102,910</td>
<td>29,507</td>
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<td>0</td>
<td>0</td>
<td>0</td>
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<tr>
<td>Payroll Deduction Payable</td>
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<td>11,696</td>
<td>8,997</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>93,382</td>
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<tr>
<td>Due to Other Funds</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Deferred Revenue - Current Property Taxes</td>
<td>6,728,465</td>
<td>660,601</td>
<td>515,591</td>
<td>934,509</td>
<td>0</td>
<td>0</td>
<td>9,167,855</td>
</tr>
<tr>
<td>Deferred Revenue - Delinquent Property Tax</td>
<td>285,238</td>
<td>28,005</td>
<td>21,857</td>
<td>39,616</td>
<td>0</td>
<td>0</td>
<td>388,660</td>
</tr>
<tr>
<td>Other Deferred Revenues</td>
<td>89,500</td>
<td>458,134</td>
<td>150,861</td>
<td>18,340</td>
<td>0</td>
<td>0</td>
<td>716,851</td>
</tr>
<tr>
<td><strong>Total Liabilities</strong></td>
<td>$7,347,530</td>
<td>$1,208,940</td>
<td>$701,016</td>
<td>$992,405</td>
<td>$404,574</td>
<td>10,654,525</td>
<td>($Continued)</td>
</tr>
</tbody>
</table>
To calculate the property tax, first determine what has been the percent applicable to the collections of property taxes for the last three years. Usually this rate will be 85 to 95 percent. Then follow the steps:

### Liabilities and Fund Balances (Cont.)

<table>
<thead>
<tr>
<th>Fund Balances</th>
<th>General</th>
<th>Ambulance Service</th>
<th>Highway/Public Works</th>
<th>General Debt Service</th>
<th>Education Capital Projects</th>
<th>Education Capital Projects</th>
<th>Dibrell</th>
<th>Morrison</th>
<th>Other Governmental Funds</th>
<th>Total Governmental Funds</th>
</tr>
</thead>
<tbody>
<tr>
<td>Restricted for General Government</td>
<td>$197,872</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ 197,872</td>
</tr>
<tr>
<td>Restricted for Administration of Justice</td>
<td>242,497</td>
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<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>19,383</td>
<td>261,880</td>
</tr>
<tr>
<td>Restricted for Public Safety</td>
<td>14,670</td>
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<td>$8,211,055</td>
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<td>$1,488,910</td>
<td>$37,811,135</td>
<td>$37,811,135</td>
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</tr>
</tbody>
</table>

The notes to the financial statements are an integral part of this statement.
Determining Yield of One-Cent Property Tax Rate.

Since many decisions must be made concerning the increase in the property tax rate, local governments use what a one-cent rate will yield in revenues. Use the following calculation to determine your local government’s one-cent yield.

Total property assessments $  
Divide by $100*  
Multiply by one cent  
Multiply by _____ percent of collections  
What one cent yields from a one-cent rate*** $  

NOTE:
***In most counties, this will range from $5,000 to $100,000.

Reserve Equity Accounts

Reference Number: CTAS-2100

EQUITY
34000 Fund Balances ---------------------------------- Control Account  
34100 Encumbrances ---------------------------------- Description Account

COUNTY UNIFORM CHART OF ACCOUNTS
Revised – Jul-10
Acct No. Description  
34110 Encumbrances - Current Year  
34120 Encumbrances - Prior Year  
(These are non-reporting accounts – for internal purposes only)  
34200 Nonexpendable ------------------ Description Account  
34210 Endowments  
34220 Inventory  
34230 Long-term Notes Receivable  
34240 Prepaid Expenses  
34500 Restricted ------------------ Description Account  
34510 Restricted for General Government  
34515 Restricted for Finance  
34520 Restricted for Administration of Justice  
34525 Restricted for Public Safety  
34530 Restricted for Public Health and Welfare  
34535 Restricted for Social, Cultural, and Recreational Services
34540 Restricted for Agriculture and Natural Resources
34545 Restricted for Other Operations
34550 Restricted for Highways/Public Works
34555 Restricted for Education
34560 Restricted for Instruction
34565 Restricted for Support Services
34570 Restricted for Operation of Non-Instructional Services
34575 Restricted for Capital Outlay
34580 Restricted for Debt Service
34585 Restricted for Capital Projects
34590 Restricted for Other Purposes
34600 Committed -------------------------------------------------------- Description Account
34610 Committed for General Government
34615 Committed for Finance
34620 Committed for Administration of Justice
34625 Committed for Public Safety
34630 Committed for Public Health and Welfare
34635 Committed for Social, Cultural, and Recreational Services
34640 Committed for Agriculture and Natural Resources
34645 Committed for Other Operations
34650 Committed for Highways/Public Works
34655 Committed for Education
34660 Committed for Instruction
34665 Committed for Support Services
34670 Committed for Operation of Non-Instructional Services
34675 Committed for Capital Outlay
34680 Committed for Debt Service
34685 Committed for Capital Projects
34690 Committed for Other Purposes
34700 Assigned ----------------------------------------------------------- Description Account
34710 Assigned for General Government
34715 Assigned for Finance
34720 Assigned for Administration of Justice
34725 Assigned for Public Safety
34730 Assigned for Public Health and Welfare
34735 Assigned for Social, Cultural, and Recreational Services
34740 Assigned for Agriculture and Natural Resources
34745 Assigned for Other Operations
34750 Assigned for Highways/Public Works
34755 Assigned for Education
34760 Assigned for Instruction
34765 Assigned for Support Services
34770 Assigned for Operation of Non-Instructional Services
34775 Assigned for Capital Outlay
34780 Assigned for Debt Service  
34785 Assigned for Capital Projects  
34790 Assigned for Other Purposes  
39000 Unassigned  
39100 Net Assets ———————————————————————————————————— Control Account  
39110 Invested in Capital Assets, Net of Related Debt  
39111 Invested in Capital Assets  
39120 Net Assets – Restricted ———————————————————— Description Account  
39121 Restricted for Purpose No. 1  
39122 Restricted for Purpose No. 2  
39123 Restricted for Purpose No. 3  
39124 Restricted for Purpose No. 4  
39125 Restricted for Purpose No. 5  
39126 Restricted for Purpose No. 6  
39127 Restricted for Purpose No. 7  
39128 Restricted for Purpose No. 8  
39129 Restricted for Purpose No. 9  
39130 Restricted for Purpose No. 10  
39131 Restricted for Purpose No. 11  
39132 Restricted for Purpose No. 12  
39133 Restricted for Purpose No. 13  
39134 Restricted for Purpose No. 14  
39135 Restricted for Purpose No. 15  
39900 Net Assets - Unrestricted  

**Fund Balance Formula**

Reference Number: CTAS-2101

Unassigned Fund Balance (from audit) + 524,300 (A)  
Estimated Current Budget Revenue + 5,000,000 (B)  
Adjustments to Revenue (additional revenue) + or - 125,000 (C)  
Total Estimated Available Funds = 5,649,300 (A+B+C=D)  
Appropriation (Expenditure Budget) - 5,100,000 (E)  
Adjustment to Expenditures (aprop not spent) + or - (225,000) (F)  
Estimated Current Year Ending Fund Balance = 774,300 (D-E-F=G)  

**Sample Budget Resolution**

Reference Number: CTAS-2103  
A **RESOLUTION** Amending the Ambulance Service Fund 118 in order to more accurately reflect Revenues and Expenditures.  
WHEREAS, the Typical County Commission voted to operate the Ambulance Service for the citizens of Typical County, and  
WHEREAS, the Typical County Commission adopted a 2011-2012 Budget for the Ambulance Service
Fund, and
WHEREAS, the proposed Budget included a six month contract with an outside vendor and anticipated the county government operating for six month, and
WHEREAS, the county shall be operating the Ambulance Service for approximately 11 months, and
WHEREAS, being that it will be Typical County’s first year in operating a County Ambulance Service it was anticipated that the budget would be reviewed and amended throughout the fiscal year, and
WHEREAS, it is recommended that the Ambulance Service Fund 118 be hereby amended to reflect more accurately the anticipated revenues and expenditure from their operations.

SECTION 1. NOW THEREFORE BE IT RESOLVED, that the Ambulance Service Fund 118 is amended as follows:

[SEE EXHIBIT V SPREADSHEET]

SECTION 2. BE IT FURTHER RESOLVED, that all Resolutions of the County Commission of Typical County, Tennessee, which are in conflict with this Resolution, are hereby repealed.

SECTION 3. BE IT FURTHER RESOLVED, that this Resolution takes effect from and after this passage, the public welfare requiring it. This Resolution shall be spread upon the minutes of the County Commission. Passed this the _____ day of _______________________, 2011.

Sample Budget Amendment
Reference Number: CTAS-2104

Budget Amendments: Fund 118 Ambulance Service

Typical County

<table>
<thead>
<tr>
<th>40000 Local Taxes</th>
<th>2010 Approved Budget</th>
<th>1/20/2011 Amendments</th>
<th>Amended Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>40110 Current Property Taxes</td>
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<tr>
<td>40130 Clerk and Master’s Pr Yr</td>
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<tr>
<td>40140 Interest and Penalty</td>
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<tr>
<td>40161 TVA In Lieu of Tax</td>
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<td>0</td>
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<tr>
<td>40162 Local Utilities In Lieu of Tax</td>
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<td><strong>Total Local Revenue</strong></td>
<td><strong>188,000</strong></td>
<td><strong>0</strong></td>
<td><strong>188,000</strong></td>
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</tbody>
</table>

| 43000 Charges for Services | | |
|-----------------------------| | |
| 43120 Ambulance Charges | 648,000 | (100,000) | 548,000 |
| INSUR | 0 | 0 |
| MCAID | 0 | 0 |
| MCARE | 0 | 0 |
| PRIV | 0 | 0 |
| **Total Charges for Services** | **648,000** | (100,000) | **548,000** |
| **Total Revenue** | **836,000** | (100,000) | **736,000** |

| 49000 Other Sources | | |
|---------------------| | |
| 49100 Bond Proceeds | 0 | 0 |
| 49200 Notes Proceeds | 301,200 | (10,000) | 291,200 |
| 49900 Residual Equility Transfer | 200,000 | 200,000 |
| **Total Other Sources** | **501,200** | (10,000) | **491,200** |
| **Total Revenue & Other Sources** | **1,337,200** | (110,000) | **1,227,200** |

**FUND BALANCE**

| 35110 Designated for Purpose 1 | 0 | 0 |
| 39000 Beginning Fund Balance | 0 | 0 |
## Budget Amendments: Fund 118 Ambulance Service

### Typical County

### EXPENDITURES

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<tr>
<th>Code</th>
<th>Description</th>
<th>2010 Approved Budget</th>
<th>1/20/2011 Amendments</th>
<th>Amended Budget</th>
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### Budget Amendments: Fund 118 Ambulance Service

### Typical County

### EXPENDITURES

<table>
<thead>
<tr>
<th>Code</th>
<th>Description</th>
<th>2010 Approved Budget</th>
<th>1/20/2011 Amendments</th>
<th>Amended Budget</th>
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**Total Ambulance Service** 1,314,686 (102,000) 1,212,686

<table>
<thead>
<tr>
<th>Account</th>
<th>Description</th>
<th>Cost</th>
<th>Change</th>
<th>New Cost</th>
</tr>
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</table>

**TOTAL EXPENDITURES & TRANSFERS** 1,314,686 (102,000) 1,212,686

**TOTAL REVENUE w/o Other Sources** 836,000 (100,000) 736,000

**TOTAL EXPENDITURES AND TRANSFERS** 1,314,686 (102,000) 1,212,686

Less 700 account # (Capital Items) 301,200

**Net Expenditure less (Capital Items)** 1,013,486 925,686

**Net Profit or (Loss)- Net Revenue-Net Expenditures** (177,486) (189,686)

**BEGINNING OF YEAR BALANCE** 0 0

**ESTIMATED END OF YEAR BALANCE** 22,514 (8,000) 14,514

---

**BEP Funding Allocation Example**

Reference Number: CTAS-2105

Volunteer County
Basic Education Program Allocation
2010-2011
June Estimate

**Instructional Funding**

Total Full Funding - Instructional $34,060,000
Less: Required Local Matching Funds 30.98% 10,552,000
State Share of Instructional Funding 69.02% (1) $23,508,000

**Classroom Funding**

Total Full Funding - Classroom $8,954,000
Less: Required Local Matching Funds 26.81% 2,401,000
State Share of Classroom Funding 73.19% (2) $6,553,000

**Non-Classroom Funding**

Total Full Funding - Non-Classroom $17,311,000
Less: Required Local Matching Funds 54.50% 9,434,000
State Share of Non-Classroom Funding 45.50% (3) $7,877,000

Total State BEP Funding Allocation (1+2+3) $37,941,000
Total Required Local Matching Funds $22,387,000
Total BEP Funding – State and Local $60,328,000
Additional Information

Student Counts (Weighted average of months 2, 3, 6, 7)

<table>
<thead>
<tr>
<th>Category</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total ADMs</td>
<td>10,429</td>
</tr>
<tr>
<td>Career and Technical ADMs Served</td>
<td>311</td>
</tr>
<tr>
<td>Special Education ADMs Identified and Served</td>
<td>2,149</td>
</tr>
<tr>
<td>Basic Education Program Instructional Salary</td>
<td>$38,000</td>
</tr>
</tbody>
</table>

Fiscal Capacity Indices

<table>
<thead>
<tr>
<th>Index</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>TACIR Index</td>
<td>1.13%</td>
</tr>
<tr>
<td>CBER/Fox Index</td>
<td>1.13%</td>
</tr>
<tr>
<td>TACIR 50% &amp; CBER 50%</td>
<td>1.13%</td>
</tr>
</tbody>
</table>

State of Tennessee BEP 2.0 Brochure

Reference Number: CTAS-2106

TENNESSEE
BASIC EDUCATION PROGRAM BEP 2.0
2010-11

State Board of Education
9th Floor, Andrew Johnson Tower
710 James Robertson Parkway
Nashville, TN 37243-1050
October, 2010

This booklet lists the Basic Education Program (BEP) components and the cost specifications for each component. The components include both operating and capital outlay costs.

The BEP components serve as the basis for calculating the level of funding for each school system. These components represent the level of support necessary for our schools to succeed. The components serve as the basis for calculating the level of BEP funding for each school system; the BEP does not prescribe specific levels of expenditures for individual components. Actual costs of the essential components are monitored and updated from year to year. Total costs are calculated by applying cost specifications to schools census data.

Equity adjustments (cost of operations adjustment and fiscal capacity adjustment) equalize responsibility among the local school systems based on variations in the cost of delivering services to students and in relative fiscal capacity.

STATE BOARD OF EDUCATION
Mr. Fielding Rolston, Chairman
  Mr. Jim Ayers
  Mr. Flavius Barker
  Ms. Vernita Justice
Miss Mary Katherine McMillan (student member)
  Ms. Carolyn Pearre
  Mr. Richard Ray
  Dr. Jean Anne Rogers
  Dr. Valerie Rutledge
  Ms. Teresa Sloyan
  Dr. Melvin Wright, Sr.
**SALARIES USED IN BEP CALCULATIONS**

**Teachers and Other Licensed Personnel**

The BEP allocation for salaries for each school system is based on:
- The number of each type of position generated by the cost components
- The current salary unit cost for instructional personnel = 38,000
- Average annual superintendent salary = $91,600 per county

**Other Personnel**
- Average annual library/instructional assistant salary = $19,000
- Average annual custodian salary = $20,500
- Average annual school secretary salary = $26,800
- Average annual system secretary salary = $34,300

**FOOTNOTES**

* If a system within a county having more than one system does not have enough pupils to qualify for a position, the relevant county totals are used and each system receives a pro rata share based on its proportion of total relevant enrollment. If county totals are not sufficient to generate a position, the county is allocated one position and each system is allocated a pro rata share of the position based on its proportion of the relevant enrollment.

**Elementary schools < 100 are not allocated a principal.

***One superintendent is allocated for each county. If there is more than one school system in a county, each system receives a pro rata share based on its proportion of total county ADM.

****For purposes of calculating benefits and insurance: for maintenance add 60% of sq. ft. cost to salary allocation; for pupil transportation add 45% of amount to salary allocation. Apply calculated rate (ins, FICA, TCRS) for classified personnel as specified to 50% or 45% of allocation, respectively.

**INSTRUCTIONAL COMPONENTS (STATE SHARE = 70%)**

<table>
<thead>
<tr>
<th>COMPONENT</th>
<th>FUNDING LEVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>PRINCIPALS</td>
<td>.5 per school &lt; 225**</td>
</tr>
<tr>
<td></td>
<td>1 per school &gt; 225</td>
</tr>
<tr>
<td>ASSISTANT PRINCIPALS ELEMENTARY</td>
<td>.5 per school 660-879</td>
</tr>
<tr>
<td></td>
<td>1 per school 880-1,099</td>
</tr>
<tr>
<td></td>
<td>1.5 per school 1,100-1,319</td>
</tr>
<tr>
<td></td>
<td>2 per school &gt; 1,320</td>
</tr>
<tr>
<td>ASSISTANT PRINCIPALS SECONDARY</td>
<td>.5 per school 300-649</td>
</tr>
<tr>
<td></td>
<td>1 per school 650-999</td>
</tr>
<tr>
<td></td>
<td>1.5 per school 1,000-1,249</td>
</tr>
<tr>
<td></td>
<td>2 per school &gt; 1,250 (+ 1 per add’l 250)</td>
</tr>
<tr>
<td>SYSTEM-WIDE INSTRUCTIONAL</td>
<td>1 per &lt; 500 total ADM</td>
</tr>
<tr>
<td>SUPERVISORS</td>
<td>2 per 500-999 total ADM</td>
</tr>
<tr>
<td></td>
<td>3 per 1,000-1,999 total ADM</td>
</tr>
<tr>
<td></td>
<td>3 per &gt; 2,000 total ADM (+ 1 per add’l 1,000)</td>
</tr>
<tr>
<td>SPECIAL EDUCATION SUPERVISORS</td>
<td>1 per 750 special education I &amp; S</td>
</tr>
<tr>
<td>VOCATIONAL EDUCATION SUPERVISORS</td>
<td>1 per 1,000 vocational education FTEADM</td>
</tr>
<tr>
<td>SPECIAL EDUCATION ASSESSMENT</td>
<td>1 per 600 special education I &amp; S</td>
</tr>
<tr>
<td>PERSONNEL</td>
<td></td>
</tr>
<tr>
<td>SOCIAL WORKERS</td>
<td>1 per 2,000 total ADM*</td>
</tr>
<tr>
<td>PSYCHOLOGISTS</td>
<td>1 per 2,500 total ADM*</td>
</tr>
</tbody>
</table>
SPECIAL EDUCATION EARLY INTERVENTION

Early intervention services for 3-year-old children with disabilities. Now allocated through count of special education I & S

STAFF BENEFITS AND INSURANCE

$4,665.26 per BEP position for insurance; plus 7.65% of BEP salary for FICA. Add 9.05% of BEP salary per licensed position OR 10.52% of BEP salary per classified position for TCRS

CLASSROOM COMPONENTS (STATE SHARE = 75%)

<table>
<thead>
<tr>
<th>COMPONENT</th>
<th>FUNDING LEVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>K-12 AT-RISK CLASS SIZE REDUCTION</td>
<td>Based on 1:15 class size reduction for grades K-12, estimated at $509.46 per identified at-risk ADM. Funded at 100% at-risk.</td>
</tr>
<tr>
<td>DUTY-FREE LUNCH</td>
<td>$10.25 per total ADM</td>
</tr>
<tr>
<td>TEXTBOOKS</td>
<td>$76.75 per total ADM</td>
</tr>
<tr>
<td>CLASSROOM MATERIALS &amp; SUPPLIES (includes fee waiver)</td>
<td>$72.00 per regular ADM $157.75 per vocational education FTEADM $35.50 per special education I &amp; S $35.75 per Academic exit exam (12th grade) $11.25 per Technical exit exam (1/4 voc ed) $64.25 per regular ADM $99.75 per vocational education FTEADM $13.25 per special education I &amp; S $10.75 per regular ADM $21.50 per vocational education FTEADM $15.25 per special education I &amp; S</td>
</tr>
<tr>
<td>INSTRUCTIONAL EQUIPMENT</td>
<td>$64.25 per regular ADM $99.75 per vocational education FTEADM $13.25 per special education I &amp; S $10.75 per regular ADM $21.50 per vocational education FTEADM $15.25 per special education I &amp; S</td>
</tr>
<tr>
<td>CLASSROOM RELATED TRAVEL</td>
<td>$10.75 per regular ADM $21.50 per vocational education FTEADM $15.25 per special education I &amp; S</td>
</tr>
<tr>
<td>VOCATIONAL CENTER TRANSPORTATION</td>
<td>For participating systems to transport students to vocational center attended part of the day</td>
</tr>
<tr>
<td>TECHNOLOGY</td>
<td>$TBD per total ADM (Approx. $21.08) $20 M distributed on ADM basis</td>
</tr>
<tr>
<td>NURSES</td>
<td>1 per 3,000 total ADM (min. + 1 per system)</td>
</tr>
<tr>
<td>INSTRUCTIONAL ASSISTANTS</td>
<td>1 per 75 ADM K-6</td>
</tr>
<tr>
<td>SPECIAL EDUCATION ASSISTANTS</td>
<td>1 per 60 special education I &amp; S in Options 5,7,8</td>
</tr>
<tr>
<td>SUBSTITUTE TEACHERS</td>
<td>$56.00 per total ADM</td>
</tr>
</tbody>
</table>
ALTERNATIVE SCHOOLS

$ 3.30 per total ADM K-12 plus $28.25 per ADM 7-12 (including voc ed)

NON-CLASSROOM COMPONENTS (STATE SHARE = 50%)

<table>
<thead>
<tr>
<th>COMPONENT</th>
<th>FUNDING LEVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>SUPERINTENDENT</td>
<td>1 per county***</td>
</tr>
<tr>
<td>SYSTEM SECRETARIAL SUPPORT</td>
<td>1 per system &lt; 500</td>
</tr>
<tr>
<td>TECHNOLOGY COORDINATORS</td>
<td>1 per system with one additional for each 6,400 ADM</td>
</tr>
<tr>
<td>SCHOOL SECRETARIES</td>
<td>.5 per school &lt; 225</td>
</tr>
<tr>
<td>MAINTENANCE &amp; OPERATIONS</td>
<td>110 square feet per total 5-8 ADM</td>
</tr>
<tr>
<td>NON-INSTRUCTIONAL EQUIPMENT</td>
<td>$18.75 per total ADM</td>
</tr>
<tr>
<td>PUPIL TRANSPORTATION</td>
<td>Allocated to systems that provide transportation. Formula established by Commissioner of Education. Based on number of pupils transported, miles transported, and density of pupils per route mile</td>
</tr>
<tr>
<td>STAFF BENEFITS AND INSURANCE</td>
<td>$4,354.24 per classified BEP position for insurance; plus 7.65% of BEP salary for FICA, Add 9.05% of BEP salary per Superintendent and technology coordinator OR 10.52% of BEP salary per classified position for TCRS</td>
</tr>
<tr>
<td>CAPITAL OUTLAY</td>
<td>Add equipment (10% of sq ft cost) Add architect’s fee (5% of sq ft cost) Add debt service (20 yrs @ 6.00%) Divide total by 40 yrs = annual amount</td>
</tr>
</tbody>
</table>

INSTRUCTIONAL COMPONENTS (STATE SHARE = 70%)

<table>
<thead>
<tr>
<th>COMPONENT</th>
<th>FUNDING LEVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>REGULAR EDUCATION</td>
<td>1 per 20 ADM K-3</td>
</tr>
<tr>
<td>VOCATIONAL EDUCATION</td>
<td>1 per 16.67 vocational education FTEADM (Caseload Allocations)</td>
</tr>
<tr>
<td>SPECIAL EDUCATION</td>
<td>Option 1 91 Option 2 73 Option 3 46 Option 4 25 Option 5 15 Option 6 2 Option 7 10 Option 8 6 Option 9 0 Option 10 10</td>
</tr>
<tr>
<td>ELEMENTARY GUIDANCE</td>
<td>1 per 500 ADM K-6*</td>
</tr>
<tr>
<td>SECONDARY GUIDANCE</td>
<td>1 per 350 ADM 7-12 (including voc ed)*</td>
</tr>
<tr>
<td>ELEMENTARY ART</td>
<td>1 per 525 ADM K-6</td>
</tr>
<tr>
<td>ELEMENTARY MUSIC</td>
<td>1 per 525 ADM K-6</td>
</tr>
<tr>
<td>ELEMENTARY PHYSICAL EDUCATION</td>
<td>1 per 265 ADM 5-6</td>
</tr>
<tr>
<td>ELEMENTARY LIBRARIANS (K-8)</td>
<td>.5 per school &lt; 265</td>
</tr>
<tr>
<td>SECONDARY LIBRARIANS (9-12)</td>
<td>1 per school 300-999 2 per school 1,000-1,499</td>
</tr>
</tbody>
</table>
Tennessee Tax Freeze Jurisdictions
Reference Number: CTAS-2107

Tennessee Tax Freeze Jurisdictions
as of October 31, 2011

The following counties and cities in Tennessee have adopted the local option Property Tax Freeze program. In order to qualify, an applicant’s principal residence must be located within one of these jurisdictions.

<table>
<thead>
<tr>
<th>County</th>
<th>Year Adopted</th>
<th>City</th>
<th>Year Adopted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Anderson</td>
<td>2007</td>
<td>Bartlett</td>
<td>2008</td>
</tr>
<tr>
<td>Bledsoe</td>
<td>2011</td>
<td>Clarksville</td>
<td>2008</td>
</tr>
<tr>
<td>Blount</td>
<td>2007</td>
<td>Clinton</td>
<td>2008</td>
</tr>
<tr>
<td>Bradley</td>
<td>2007</td>
<td>Collierville</td>
<td>2008</td>
</tr>
<tr>
<td>Campbell</td>
<td>2008</td>
<td>Dyersburg</td>
<td>2008</td>
</tr>
<tr>
<td>Coffee</td>
<td>2008</td>
<td>Fairview</td>
<td>2008</td>
</tr>
<tr>
<td>Davidson</td>
<td>2007</td>
<td>Gallatin</td>
<td>2008</td>
</tr>
<tr>
<td>Franklin</td>
<td>2008</td>
<td>Goodlettsville</td>
<td>2008</td>
</tr>
<tr>
<td>Hamblen</td>
<td>2007</td>
<td>Gordonsville</td>
<td>2008</td>
</tr>
<tr>
<td>Hancock</td>
<td>2010</td>
<td>Greenbrier</td>
<td>2008</td>
</tr>
<tr>
<td>Hickman</td>
<td>2008</td>
<td>Hendersonville</td>
<td>2008</td>
</tr>
<tr>
<td>Knox</td>
<td>2007</td>
<td>Jackson</td>
<td>2009</td>
</tr>
<tr>
<td>Montgomery</td>
<td>2008</td>
<td>Manchester</td>
<td>2007</td>
</tr>
<tr>
<td>Roane</td>
<td>2007</td>
<td>Memphis</td>
<td>2008</td>
</tr>
<tr>
<td>Robertson</td>
<td>2008</td>
<td>Millington</td>
<td>2008</td>
</tr>
<tr>
<td>Rutherford</td>
<td>2008</td>
<td>Oak Ridge</td>
<td>2010</td>
</tr>
<tr>
<td>Sevier</td>
<td>2008</td>
<td>Piperton</td>
<td>2008</td>
</tr>
<tr>
<td>Shelby</td>
<td>2008</td>
<td>Portland</td>
<td>2008</td>
</tr>
<tr>
<td>Smith</td>
<td>2008</td>
<td>Smyrna</td>
<td>2009</td>
</tr>
<tr>
<td>Sumner</td>
<td>2008</td>
<td>South Carthage</td>
<td>2008</td>
</tr>
<tr>
<td>Williamson</td>
<td>2008</td>
<td>Spring Hill</td>
<td>2009</td>
</tr>
<tr>
<td>Wilson</td>
<td>2007</td>
<td>Springfield</td>
<td>2008</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Tullahoma</td>
<td>2009</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Westmoreland</td>
<td>2008</td>
</tr>
<tr>
<td></td>
<td></td>
<td>White House</td>
<td>2011</td>
</tr>
<tr>
<td></td>
<td></td>
<td>25 Cities Total</td>
<td></td>
</tr>
</tbody>
</table>

Source: State of Tennessee, Comptroller of the Treasury, Division of Property Assessments

Tax Freeze Calculation Worksheet
Reference Number: CTAS-2108
Fund Balance Policy Example

Reference Number: CTAS-2110

Sample County, Tennessee

Fund Balance Policy

Purpose

The County hereby establishes and will maintain reservations of fund balance as defined herein in accordance with Governmental Accounting Standards Board Statement No. 54 Fund Balance Reporting
and Governmental Fund Type Definitions and with regards to guidance from the Government Finance Officers Association (GFOA) GAAFR. This Policy shall apply to the County’s General Fund and General Debt Service Fund. Governmental fund balance may be composed of restricted, committed, assigned, non-spendable and unassigned amounts per GASB Statement 54.

**Minimum Level of Unassigned Fund Balance – General Fund**

The General Fund unassigned fund balance will be maintained at a level sufficient to provide for the required resources to meet operating cost needs, to allow for unforeseen needs of an emergency nature, and to permit orderly adjustment to changes resulting from fluctuations of revenue sources. Given that current property tax collections do not begin until the fourth month of the fiscal year, Sample County will maintain at least Fifteen Percent (15.0%) of the next year’s budget in the unassigned fund balance of the General Fund.

Any amounts remaining in the fiscal year-end unassigned fund balance in excess of Fifteen (15.0%) of the approved subsequent year’s budget will be available for appropriation by the County Commission to cover such items as revenue shortfalls and unanticipated expenditures, and to ensure stable tax rates. The County Commission will attempt whenever possible to avoid appropriating such funding for recurring expenses.

**Minimum Level of Fund Balance – General Debt Service Fund**

It is the practice of the County to pay the principal and interest requirements on the County’s debt obligations from the Debt Service Fund. Each year the budget committee of the County shall determine or estimate the principal and interest requirements of the County and recommend sources of revenues to meet these actual or projected requirements. Additionally, it shall be the policy of the County to begin each fiscal year with a balance of cash or investments in the Debt Service Fund in a conservatively calculated amount adequate to meet (1) cash flow needs, (2) budgeting contingencies, (3) emergency contingencies, (4) variable rate volatility contingencies plus (5) future forecasted needs.

**Cash flow Requirement Component:** The majority of local County revenues come from property taxes. Property taxes levied for a specific fiscal year are generally collected in the second half of that fiscal year. For this reason, it is common for the County to expend more than it collects during the first half of the fiscal year. For this reason, it shall be the policy of the County to begin each fiscal year with a sum of cash or investments equal to the debt service fund requirements scheduled to be expended during the first six months of the next fiscal year. This amount will typically equal six months of interest expense on the County’s total indebtedness unless the County schedules principal payments in the first six months of the fiscal year. Generally, except for short-term capital outlay notes, the County will not schedule principal payments in the first six months of the fiscal year.

**Annual Review and Determination of Fund Balance Reserve Amounts**

Compliance with the provisions of this policy shall be reviewed as a part of the annual budget adoption process and amounts of restricted, committed, assigned, non-spendable, the minimum level of unassigned fund balance in the General Fund and the minimum level of fund balance in the Debt Service Fund shall be determined during this process.

**Capital Budgets**

**Reference Number: CTAS-1696**

Capital projects include purchases of land, buildings, and equipment; construction of buildings, roads, and bridges; renovation of buildings; and other such improvements that last for many years. Just as in the business world, governmental financing of capital projects involves short-term financing in the form of notes and permanent financing in the form of long-term notes or bonds. In some rare cases, counties levy taxes to fund capital projects. Regardless of the type of financing, the county legislative body must authorize the funding of such projects. Once the method of financing the capital project is approved, the county legislative body must establish a means of paying the principal and interest on the debt created. This process involves establishing of a debt service fund (sometimes referred to as a debt retirement or sinking fund) and imposing a tax or taxes, frequently the property tax or local option sales tax, to retire the debt.

The Tennessee State Funding Board requires counties issuing debt after January 1, 2012 to adopt a written debt management policy that must contain certain minimum requirements. This guidance is intended to guide counties in complying with the State Funding Board's requirement. The minimum topics required are-

- debt,
- transparency and disclosure,
• conflicts of interest,
• costs, and
• professionals.

Several steps are involved in initiating a capital project, often beginning with an architect or engineer. When a county decides that a capital project is necessary, the county legislative body may adopt a resolution authorizing funds to contract with an architect, engineer, or consultant service to prepare preliminary plans and cost estimates. According to T.C.A. § 62-2-107, all contracts for construction and maintenance exceeding $50,000 must be under the supervision of a licensed architect or engineer.

Unless the county has the staff and expertise, the services of a financial advisor or bond fiscal agent may be helpful. T.C.A. § 9-21-110. An agent of this type can be of assistance to the county in preparing financial statements, legal opinions, and proper resolutions, in advertising the sale of the notes or bonds, in assisting the county in the timing of the issue, and in seeking bids for issuance. Financial advisors, bond placement agents and underwriters are required to file with the county an estimate of the cost of any debt issuance, including financial advisory fees and related fees and costs before the placement agent or underwriter enters into a bond purchase agreement or bond placement agreement with the county. T.C.A. § 9-21-151. If a county wishes to engage the services of a financial advisor, it is recommended that the county use a Request for Proposals (RFP); CTAS staff can assist the county with preparation of the RFP and solicitation of proposals.

If the county authorizes funding of bonds or notes without the assistance of a financial advisor, the county should call upon the director of local finance in the state comptroller's office or the CTAS county government consultant to provide assistance with the necessary resolutions to authorize the funding. CTAS staff may help the county in the planning stage to determine the projected cost of a debt retirement plan and projected funding sources to retire the debt.

There are many statutes authorizing both long-term notes and bonds, as well as short-term financing notes. Counties must review their financing requirements to determine which type of bonds or notes would be best for the capital project being considered. However, before considering any bond or note issue, counties are urged to seek the assistance of a financial advisor, the director of local finance in the state comptroller's office, or the CTAS county government consultant for the area.

What is a Capital Improvements Plan?
Reference Number: CTAS-1697

What is a capital improvements plan (CIP)? Why implement a capital improvements plan? Initially, local governments are required by the state or federal government or pressured by citizens to provide a service which entails purchasing or constructing what is known as a capital asset or improvement. These capital improvements are generally buildings, equipment, and land which have high costs and long lives. Capital improvements are often used to provide new services or as a replacement for existing services. Due to the large expenses and long expected asset life, the local government should develop a plan for additions and replacement of the capital assets. Investments in capital improvements are generally expensive and in most cases the local government will issue debt to pay for capital improvements. The related debt will be paid for over a number of years in a debt service operating budget. Capital improvements generally are accounted for in a capital improvements budget as opposed to the annual operating budgets.

Operating Budget
The operating budget is an annual budget developed and approved by local government for receipt and expenditures of funds that generally have a life expectancy timeframe of less than one year. These funds are revenues, received from federal, state, and local sources and expenditures for the various services provided by the government. The expenditures would include salaries, supplies and materials, interest and principal on outstanding debt, and other current period (fiscal year) operating expenses. This budget would account for revenues and expenditures for a 12 month period referred to as a fiscal year.

Capital Improvements Budget
The capital improvements budget is a finance plan and program to purchase or contract for capital improvements—land, buildings, and other capital improvements that are considered large expenses and have a long life expectancy. Generally the funding for these capital improvements comes from the issuance of debt by bonds or notes and in some cases other revenues such as property tax and operating transfers. Generally a capital improvement budget exceeds 12 months and always extends to the completion of a specific project.
Definitions for Capital Budgets

Reference Number: CTAS-1698

- Capital Improvements—Facilities and equipment that are either required by law or necessary for public interest. Generally expensive and have long useful lives. Includes land, buildings, and equipment.
- Capital Improvements Plan (CIP)—A multi-year document used to identify needed additions and replacement improvements to your capital assets.
- Capital Improvements Financing—The mechanism that is used to provide funds to purchase improvements to your facilities. Generally funds are provided by long term bonds/notes or additional funding from recurring or excessive revenues in operating budgets.
- General Obligation (G.O.) Bonds—Debt created by local governments in the form of bonds not exceeding 40 years. Bonds are backed by the full faith and credit of the local government. Most G.O. bonds do not exceed 30 years.
- Capital Outlay Notes—Debt created by local governments not exceeding 12 years.
- Bond Anticipation Notes—Debt that does not exceed two years. Used for the purpose of delaying the issue of long term bonds in anticipation of better market conditions.
- Local Government Pools—Funds borrowed by a local government organization which is then loaned to local governments.
- Fixed Asset Accounting—An organized process of maintaining the inventory and historical costs of the capital assets of the government.
- Financial Advisor—A consultant used to assist the local government in understanding their financial plan and financial needs.
- Construction Manager—A person or firm used to assist the local government in overseeing a capital project. The manager can be an outside firm or an employee of the local government.
- Owner’s Representative—Similar to a construction manager; however, generally is engaged earlier in the project’s development and assists in the project’s initial planning and scheduling and with the procurement of construction contracts.
- Capital Project Fund—An accounting system used to account for the revenues and expenses of the capital projects.

Advantages of a Capital Improvements Plan (CIP)

Reference Number: CTAS-1699

Some of the major advantages of a CIP are—

1. A CIP creates orderly and systematic planning for the acquisition, financing, and use of capital improvements.
2. An organized CIP provides for a more effective evaluation of alternatives and solutions than the crisis-decision process.
3. A CIP allows for a more in-depth consideration of hidden costs which affect the operating budgets.
4. A CIP provides for funding of projects on a priority basis and keeps a governmental unit within its financial bounds.
5. A CIP can provide for stable payments and tax rates over a period of time.
6. Since a CIP requires different kinds of information and involves multiple-fiscal years for project completion, a CIP developed at a different time than the operating budgets will provide for a better understanding of needs and alternatives.
7. A good CIP will promote better planning and installation or construction since the acquisition will be before the crisis time.

Disadvantages of a Capital Improvements Plan (CIP)

Reference Number: CTAS-1700

The main disadvantage of a CIP is that it requires time and effort of local government officials and staff.
However, a large number of local governments in the United States feel that the effort and time is necessary to properly and efficiently manage the local government and its services.

**Legal Authority for a Capital Improvements Plan (CIP)**

Reference Number: CTAS-1701

Under general law each operating department is required to prepare and submit an annual operating budget to the county mayor on or before April 1 of each year or on another date specified by the county legislative body (T.C.A § 5-9-402). There is no statutory requirement for a capital improvements budget. However, under the County Powers Relief Act of 2006 public chapter 953 (T.C.A § 67-4-2901) a county could be required to adopt a Capital Improvement Plan. This law is activated if a county desires to levy a tax on the privilege of residential development known as a county schools facilities tax (T.C.A § 67-4-2904). In summary, the law states a county is required to adopt a capital improvement program before passing the school facilities tax. Further the Tennessee General Assembly has recognized the needs for county governments to understand and begin documenting their infrastructure needs and has put into law public acts 1996 public chapter 817 codified as T.C.A. § 4-10-109—Inventory of Public Infrastructure Needs.

Recommended Practice: Complete and annually review the TACIR’s Public Infrastructure Needs Inventory Form.

**Reasons for a Capital Improvements Plan (CIP)**

Reference Number: CTAS-1702

One of the primary reasons for a CIP is that the stakes are high because the projects are usually very large and very expensive. A second reason is that decisions made will impact the county financially for years. A third reason is that spending will vary from year to year because needs vary from year to year. A fourth reason is that the asset service life is long and should meet the citizens’ needs for the life expectancy of the asset. A secondary reason for a CIP is that the implementation of the projects will take time because of potential financing and purchasing or construction time.

In summary, reasons for a CIP include:

1. Projects are large and expensive
2. Debt financing is often used and extends for years
3. Spending varies from year to year
4. Decisions have impact for years
5. Implementation takes time and happens in stages

As of 2008, 91 of the 95 counties in Tennessee were in debt. This indebtedness is the result of capital improvements made within those counties. As of 2008, at least sixteen counties have a specific revenue source that annually funds a capital improvement fund(s). This is an increase of seven additional counties since 2006. Both of these statistics confirm that capital projects will continue to be a part of the annual operations of counties and should be considered in the overall planning process of a county’s finances.

It is highly recommended that a county develop a Capital Improvement Plan.

**Factors Creating the Need for a Capital Improvements Plan (CIP)**

Reference Number: CTAS-1703

Initially, the local government is required by the state or federal government or pressured by citizens to provide a service. To provide these mandated services, buildings, equipment, and land must be purchased by the local government. Since these capital improvements do not last forever, local government should develop a plan to replace them or make necessary additions on a timely basis when they are needed.

What factors create the need for capital improvements?

**Physical Obsolescence**—The physical quality of a capital improvement will deteriorate over a period of time. Buildings usually last from 30 to 50 years while equipment will last from 5 to 10 years. Land should last forever. Since this physical obsolescence can be projected, the local government should have a plan to replace or restore the item when it reaches the time and condition for replacement or restoration.

**Functional Obsolescence**—In many cases, buildings and equipment become functionally obsolete before they become physically obsolete. For example, a three story school building may be a sound physical
structure, but it does not meet the requirements of handicapped children and fire safety. To correct these
deficiencies may not be cost-effective since the building will have to be replaced before the debt created
to fund the improvements is paid. Another example would be that a building may be 35 years old and
require $2 million to renovate with the new debt retirement over a 20 year period. At the end of 10 years,
less than half the debt will be paid, but the local government will have a 45 year old building with a state
or federal mandate requiring the replacement.

Sometimes the population shifts from one area to another in the same local government jurisdiction
resulting in the land location and improvements being functionally obsolete to best serve the people.
Some equipment may have a life of more than 10 years; however, the maintenance cost may be too
expensive compared to a new replacement or new equipment may result in greater productivity.
Whenever an item is basically sound physically but not economically, a governmental service would be
functionally obsolete.

Population Growth—Because of population growth in many counties and cities, capital improvements must
be added to adequately provide services. Working closely with local planning departments, local
governments can analyze and project population growth which can be used to project future capital
improvement needs. Also, data in the county property assessor's office, local electric departments, and
school attendance records will provide information relative to population growth and its location. A state or
federal mandate has often created issues related to functional obsolescence or population type issues such
as reduction in pupil teacher ratios.

State and Federal Mandated Services—When the state or federal government mandates new services or
the expansion of current services, the local government must plan for required capital improvements.
Examples of such mandates are kindergarten education, elementary guidance counselors, ambulance
service, sanitation landfills, and jail standards including additional courts, accessibility for the
handicapped, bus safety standards, reduction in teacher pupil ratios, and many others.

Citizens' Pressure for Optional Services— In many cases local citizens demand optional services such as
libraries, parks, civic centers, ambulance services and fire protection.

Changes in the Economic Base—The change from an agriculture and industrial economic base to a high
technology base will require local governments to expand capital improvements to attract businesses.
These improvements will include facilities for re-training citizens and providing facilities for management
by high tech businesses. The results of a recent survey by the University of Tennessee as published in the
Business Location Determinants in Tennessee indicate that local governments must prepare the
community to compete for new businesses. Of the fifteen major determinants, five would be the
responsibility of the local government:

<table>
<thead>
<tr>
<th>Factors Essential in Choice of Location</th>
<th>Responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Existing production facilities</td>
<td>Business</td>
</tr>
<tr>
<td>2. Less union influence</td>
<td>State</td>
</tr>
<tr>
<td>3. Right to work laws</td>
<td>State</td>
</tr>
<tr>
<td>4. Pro-business of state government</td>
<td>State</td>
</tr>
<tr>
<td>5. Worker productivity (training, experience, &amp; ability)</td>
<td>Local*</td>
</tr>
<tr>
<td>6. Access to current markets</td>
<td>Location</td>
</tr>
<tr>
<td>7. Skilled work force (training, experience, &amp; ability)</td>
<td>Local*</td>
</tr>
<tr>
<td>8. Availability of credit</td>
<td>Business</td>
</tr>
<tr>
<td>9. Low taxes</td>
<td>State &amp; Local</td>
</tr>
<tr>
<td>10. Open new markets</td>
<td>Business</td>
</tr>
<tr>
<td>11. Cheap and available energy</td>
<td>Location</td>
</tr>
<tr>
<td>12. Government support for building construction</td>
<td>Local*</td>
</tr>
<tr>
<td>13. Quality of life</td>
<td>Local*</td>
</tr>
<tr>
<td>14. Water supply</td>
<td>Location</td>
</tr>
<tr>
<td>15. Cheap and available land</td>
<td>Local*</td>
</tr>
</tbody>
</table>

*All of the Local responsibilities either directly or indirectly are affected by capital
improvements.

The CIP Cycle

Reference Number: CTAS-1704
The following graph depicts the CIP Cycle. The steps are identifying a need, structuring a plan, securing
funding for a project, purchasing or constructing a project, monitoring the construction, giving public
recognition, and finally using the asset.
Establishing a Capital Improvements Plan

Reference Number: CTAS-1705
We have identified 16 steps to developing a CIP and various policy considerations within these steps. The ultimate goal for a CIP is the establishment and maintenance of credibility among departments, elected officials, and the public.

**Step One—Study Committee of Legislative Body and Department Heads**
Starting the process, the legislative body could appoint a committee of its members, elected officials, and local government staff to formulate a basic plan and resolution authorizing the capital improvements plan.

**Step Two—Authorization Establishing the CIP**
The county legislative body should authorize the capital improvements plan. This authorization is by an approved resolution. Sample Authorizing Resolution.

**Step Three—CIP Committee**
Since local government usually involves many elected officials and various agencies, it is recommended that a committee be established with the authority to set policies and implement procedures for the CIP. The committee could be made up of legislative body members and key department heads.

**Step Four—Coordinator and Staff Assignments**
A person should be assigned the task of coordinating the CIP and sufficient staff should be assigned to assist the coordinator in administering the CIP.

**Step Five—Annual Calendar for CIP Preparation**
Below is a suggested annual calendar for preparing the capital improvement program and submitting it for approval.

<table>
<thead>
<tr>
<th>MONTH</th>
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</tr>
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<tbody>
<tr>
<td>September 1</td>
<td>Distribute CIP manual, forms, and computer work sheets</td>
</tr>
<tr>
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Consolidate all requests into a master plan

CIP committee reviews and prepares recommendations

CIP committee presents CIP to legislative body for review

Legislative body holds hearings for department heads and public

Master plan developed with modifications

Legislative body approves plan and funding

Departments begin implementing plan

Step Six—CIP Forms

In order to analyze the cost and priority of each capital improvement project request submitted, a form should be developed itemizing the major factors to be considered. Sample CIP Request Form; the top portion or front of the form provides detailed cost and description and the bottom or back of the form provides a means to evaluate and set a priority for each project.

Step Seven—Public Involvement

The degree and amount of public involvement will depend on local conditions; however, if the project will result in a major tax increase, it is recommended that the public be involved from the beginning of the planning and evaluation. It seems that the more knowledge a person has of the problem, the more likely he or she will respond positively to a solution. The public’s involvement can be achieved by issuing a Public Survey.

Step Eight—Needs Analysis—Capital Investment Records

How can you make an intelligent decision unless the facts are available relative to quantity, quality, and age of facilities and equipment? Few local governments have historically maintained adequate records of capital improvements, and of these only several have all the facts readily available for use in planning the replacement of buildings and equipment. This section of your plan should show how a records and information systems could be maintained. The threshold dollar amount may vary from government to government depending on the policies they have established.

Step Nine—Consolidated Capital Improvement Project Schedule

A schedule for consolidating all capital improvement requests for the year showing the estimated cost and possible funding sources is suggested. This schedule could be used as the master listing of all projects for evaluation by the CIP Committee and legislative body. A schedule for presenting all projects closed out during the last fiscal year and all current projects is also suggested.

Step Ten—Prioritizing Projects

No perfect system has been developed for evaluating and prioritizing capital improvement projects; however the county legislative body should develop a system of prioritization which would include issues related to safety, legal, education, value of life, and conveniences.

Step Eleven—Financial Analysis and Impact

After developing a capital improvements plan or receiving a request for capital improvements, the CIP committee and local legislative body must determine how much the local government can afford and how it will pay for the improvement. This section of your plan should discuss the logical steps in analyzing current debt requirements and funding sources. CTAS’s Debt Management Workshop class discusses issues related to the county’s current operating debt payments and projects future payments in a multi-year budget plan.

Public hearings and news articles seem to be the most used means of communicating with the public, but regardless of the means, the information should be correct and complete. Credibility should never be compromised by intentionally misleading the public or providing inaccurate information.

Step Twelve—CIP Committee’s Report and Recommendations to Legislative Body

When all the input and documents from department heads, staff, and public have been analyzed, a report and recommendations should be given to the legislative body.

Step Thirteen—Legislative Body Consideration and Adoption

The legislative body’s task is to weigh the necessity of the projects with the availability of funds and the amount of tax increase, if needed. After serious deliberations and consideration of all the facts, the adoption process of the legislative body involves three phases:

Phase One. CIP Document—The first phase is the adoption of the CIP multi-year planning document, with tentative approval of project scheduling in the second year and thereafter. It must be clear to the legislative body that the CIP document is a planning document with budget authorization and funding included in the second and third phases.

Phase Two. Capital Budget and Financing—In this phase, a capital budget is approved for various capital project funds for different departments. This authorization is for new projects to begin in the current or ensuing fiscal year,
and the budget format would be similar to an operating budget except using different account numbers. Once this budget is approved, the department may begin bids and signing contracts for the projects authorized by the capital budget. A second part of this phase is to authorize funding either by issuing capital outlay notes and/or bonds. Once the capital outlay notes or bonds are approved, the local government may issue the notes or bonds immediately using a financial advisor, in most cases, or the local government may borrow temporary cash by either issuing revenue (tax) anticipation notes or bond anticipation notes. The borrowing of temporary cash is similar to construction loans used by private businesses.

Phase Three. Capital Improvement Included in Operating Budgets—In-lieu of authorizing separate capital budgets using capital project funds, the legislative body may approve the purchase of capital improvements in the operating budget for the specific department. Usually this is done when the amount of expenditure is small, and/or when funding is from accumulated funds or excess revenues in the operating budget. In some cases when the expenditure is small, capital outlay notes will be issued and the proceeds placed in the operating budget. If the expenditure is authorized in an operating budget, then the department must wait until the operating budget is approved, or a specific resolution for the expenditure is approved by the legislative body.

Step Fourteen—CIP Financial Plan

Capital funding sources include

- **Pay-As-You-Go**
  - Annual Revenue – Local Taxes
  - Reserves - one time revenue as one time transfer
  - Earmarked Revenue
  - Special Assessments
  - Impact Fees
  - Grants/Donations

- **Debt**
  - General Obligation Bonds
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  - Capital Leases
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  - Loan Pools

For additional information, see the Capital Funding Sources and Debt Financing page in e-Li.

Step Fifteen—Implementation, Monitoring, Follow-up and Final Inspection

This may be the most important step since it determines the quality of the project which in some cases could last fifty years or longer. The success of this step and project lies mainly with the department head or official; however, it should be a joint effort of the legislative body, CIP Committee, and the department head. The general areas of concern in this step, which determine the success and quality if properly and extensively managed, are the following:

1. Complete and clear specifications
2. Proper bidding and awarding of the contract
3. Complete contract with surety bond requirements
4. Constant monitoring of specifications and contract with inspection of projects
5. Monthly reporting of project progress and financial condition
6. Encumbrance (obligation) accounting, for the contract and change orders
7. Final inspection and approval by the department head, CIP Committee, and other officials responsible for the operation

Step Sixteen—Use the Asset

Finally, after all is done, the asset is ready for use.

CIP Steps 1 - 5

Reference Number: CTAS-1706

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<td>Feb. 1 to Feb. 28</td>
<td>Legislative body holds hearings for department heads and public</td>
</tr>
<tr>
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<td>Master plan developed with modifications</td>
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**CIP Steps 6 -10**

Reference Number: CTAS-1707

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CIP Steps 11-16
Reference Number: CTAS-1708

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7. Final inspection and approval by the department head, CIP Committee, and other officials responsible for the operation

Step Sixteen—Use the Asset
Finally, after all is done, the asset is ready for use.

Capital Improvements Plan Policy Considerations

Reference Number: CTAS-1709
A number of software packages are available to assist the local government in establishing and maintaining a Capital Improvement Plan. By implementing new accounting standards over the last number of years, counties have better and more accessible data related to their capital assets. With the use of fixed asset accounting and related software, along with insurance policies and the schedule of the insured capital assets, local officials have a baseline start on what assets are in use by the county, the age of the assets, and the intended use of the assets. A county would need to make certain that their insured assets are correctly identified and dated, and then evaluate their future life expectancy.

The process establishing a CIP program and related policy considerations vary from local government to local government based on capital improvement future needs, prior capital needs met and procedures used to meet those needs. A program identified and periodically reviewed assists the county leaders in keeping the policy makers aware of issues, needs, and considerations related to capital improvement and asset management.

Recommended Practice: Develop a CIP program by reviewing insured and inventoried assets, accounting general ledger records, and performing a simple walk around evaluation of assets and services provided by the government.

Budgeting and Accounting for Capital Improvements

Reference Number: CTAS-1710
The budget and accounting structures differ for operating budgets and capital budgets. The comptroller of the Tennessee treasury issues a uniform chart of accounts for county governments. Operating budgets include the General Fund and Fund account (101), Special Revenue Funds (111-149), and Debt Service Funds (151-159).

Capital project funds include funds for education, highways, and other general needs. These fund numbers are 171 through 189. The How a County Budget is Organized graph is a pictorial representation of the accounting structure for county governments. As such, the county government is like one company with
multi-independent companies operating to create the one company. These individual companies are referred to as funds. The diagram shows the funds that have annual revenue must adopt annual budgets. Whereas capital project funds may not have annual revenue and thus annual budgets are not required. However, project budgets are highly recommended. Any issuance of debt represents approval for a project budget. If a county does put annual revenue in a capital projects fund, annual budgets must be approved.

Revenue and expenses also differ for these two budgets. Annual county revenue can contribute to all funds, mainly general, special revenue and debt service. However, capital project funds are generally funded by debt, such as capital outlay notes (CON), bonds, and grants.

Flow of Money
Reference Number: CTAS-1711
One common misconception when budgeting capital projects is the difference in the flow of money between capital funds and debt service funds. Almost always revenue for debt service will come from property taxes and other county money. As we have already noted, most money for capital projects funds are borrowed from financial institution (banks) by capital outlay notes and bonds are deposited into the respective capital project fund.

The outflow of money from debt service funds and capital project funds is also different. The outflow of money from the debt service fund is to pay back the bank for the expenditures of annual principal and interest. The outflow of money from the capital projects fund is for the expenditures on projects such as paying the vendors.

Capital Accounting by Sub-Funds
Reference Number: CTAS-1712
Accounting for capital projects begins with fund number 171. The Accounting for Capital Projects diagram shows an example of accounting for capital projects by sub-funds within Fund 177. For each fund number, there is a balance sheet, statement of revenues, and statement of expenditures. Within this fund there can be sub-funds noted by three letters or numbers. Each sub-fund will also have a balance sheet, statement of revenues, and statement of expenditures. This allows for appropriate organization and documentation when maintaining the capital projects budget. Sub-fund accounting allows the managers of each project to have a separate accounting for their project and allows a separate reporting of the project to department heads, county commission, school boards, and the public. Sub-funds are often used to help insure the cost credibility of each project by not commingling funds from different projects. It is recommended that counties consider using sub-fund accounting for large individual projects and smaller projects by yearly sub-funds. Various examples are as follows:

1. A county has fire marshal deficiencies in various schools that total $2 million dollars— the county may consider establishing a FIR sub-fund for all fire marshal improvements in their
1. A county is building a new high school estimated at $50 million dollars and a new middle school estimated at $25 million dollars—the county may establish a HS sub-fund with $50 million and MS sub-fund with $25 million.

2. A county has a group of 20 small projects, some of which may take two years to complete. The total estimated cost of these projects is $500,000 dollars. The county may establish a sub-fund 009 for these 20 projects noting that they are 2009 projects. Then the next year have a group of 2010 projects sub-fund 010. During this next year the county could still have 009 open and 010 open. A further recommendation would be that a small sub-fund be closed after the second year and any remaining funds be used for the new sub-fund year, such as 2011 or sub-fund 011.

Recommended Practice: Establish sub-funds within a Capital Project Fund if your county has a number of separate projects.

Recommended Practice: If your county has a number of capital improvement grants, you should consider establishing a Capital Project Fund and related sub-funds for the grants.

Encumbrances

Reference Number: CTAS-1713
An encumbrance is an obligation of a contract of the county’s money to a vendor. Counties may have encumbrances for capital projects that will take years to complete. However, counties should encumber all of that money for the current budget year.

Accounting Procedures for Capital Improvement Projects

Reference Number: CTAS-1714
The local government accounting department should use a fund accounting system with general accounting, budgetary, and encumbrance features in order to account for capital projects.

When a contract is awarded, it should be encumbered against the authorized appropriations (budget), and when "change orders" are authorized, these should also be reflected in the accounting records. The procedures used should reflect the original approved amount for the project as a budget, the amount of contract as encumbered and any change orders for additional encumbrances, the amount paid to-date, the amount unpaid, and the unencumbered amount (available budget). Since capital projects often exceed the fiscal year, a manual accounting generally is required to reestablish the available budget and encumbrances after a fiscal year has been closed. The accountants may need to discuss specific posting with their auditors.

Status reports for the Capital Project Fund and related sub-funds should be prepared and distributed to the appropriate department heads and local legislative bodies as needed.

At stake in this process is the credibility for future projects.

Recommended Practice: File Capital Project Fund and sub-fund financial reports with the county legislative body at least quarterly for inclusion in the commission minutes. Financial credibility is at stake.

Capital Funding Sources and Debt Financing

Reference Number: CTAS-1715
When dealing with funding a capital projects program, the government should consider available funding sources. Potential sources available would be 1) annual revenue, 2) an unexpected surplus of funds a county may have from a prior year, 3) earmarking certain revenues for capital projects such as park and recreation fees, 4) impact or user fees which would be specific revenues for a specific project, and 5) grants and/or donations and debt related instruments. Most capital projects use debt related instruments to fund the projects. These instruments consist of 1) capital outlay notes (CON), 2) revenue bonds, 3) capital leases, 4) special obligation bonds, and 5) general obligation bonds. The predominant debt instruments are capital outlay notes and general obligation bonds.

It is a recommended practice that governments establish a debt financing policy which considers per capital debt ratios, multi-year debt service budgets, fund balance policies, and other ratios and statistics related to debt management. Below are various terms and definitions which the government agency should be aware.

Limit on Amount of Outstanding Debt
Since nearly all services rendered by the county are required by the state and require sizeable investments in capital improvements, counties are not limited as to the amount of indebtedness. T.C.A. § 9-21-103. However, when a county's debt ratio of outstanding debt to property values exceeds the state average or a national standard recognized by firms who trade municipal bonds, the county may pay a higher interest rate or be unable to issue additional bonds. When a county faces this problem, the county's financial advisor can offer alternatives to fund proposed projects.

**Bonds Issued Under Local Government Public Obligations Act of 1986**

Reference Number: CTAS-1720

This act is codified in T.C.A. §§ 9-21-101 through 9-21-1017. Its purpose was to consolidate statutes pertaining to debt obligations of the county and to provide a uniform and comprehensive statutory framework authorizing any local government to issue long-term debt to fund costly capital improvement projects.

Authorized purposes for issuing notes and bonds are listed under T.C.A. § 9-21-105(20). Also, any local government may issue general obligation bonds under this act for certain unfunded pension obligations if approved by the state funding board after receiving a recommendation by the comptroller or the comptroller's designee. T.C.A. § 9-21-127. The powers of local governments are described in T.C.A. § 9-21-107. All interest income received by investors buying notes or bonds issued under this act is generally exempt from federal income taxes, and by statute, exempt from all state, county, and municipal taxation except inheritance, transfer, and estate taxes. T.C.A. § 9-21-117. However, there are federal restrictions regarding earnings from borrowed funds, so it is important for counties to consult with a financial advisor regarding these arbitrage regulations.

All notes issued under this act must first be authorized by resolution adopted by the county legislative body and then approved by the state director of local finance, a division of the state comptroller of the treasury. Before the director of local finance will approve notes, the county must adopt a balanced budget, which must also be approved by this same director. T.C.A. §§ 9-21-403, 9-21-404.

The bonds and notes that can be issued under the Local Government Public Obligations Act are described on the pages below.

**General Obligation (G.O.) Bonds**

Reference Number: CTAS-1716

G.O. bonds are usually issued for buildings and other major improvements when the life of the capital improvement will last longer than 12 years. Depending on the amount to be issued in a calendar year and current Internal Revenue Service regulations, the bonds may be exempt from federal income tax. The estimated rate of interest will be from four percent to six percent at the time of the writing of this publication. The rate will also depend on maturity of the issue and the credit rating of the issuer.

Upon the issuance of a general obligation (GO) bond, the county pledges the full faith, credit, and unlimited taxing power of the county as to all taxable property in the county or a designated portion of the county. T.C.A. § 9-21-201. These bonds may be issued with a maturity of up to 40 years; however, investors usually prefer 15 to 20 years. T.C.A. § 9-21-213(a). Counties are generally mandated to provide various services and are given the power to provide funding for these services, with certain restrictions. Under this act, registered voters may petition the county for an election on the issuance of the proposed bonds. T.C.A. § 9-21-207. Also, the county legislative body may hold a voluntary election. T.C.A. § 9-21-208. Refer to T.C.A. §§ 9-21-101 through 9-21-216 or T.C.A. §§ 49-3-1001 through 49-3-1007 for school bonds.

**Capital Outlay (C.O.) Notes**

Reference Number: CTAS-1721

Capital outlay notes are used by local governments to fund many types of capital improvement projects. The notes may be issued initially for a period not to exceed the end of the third fiscal year following the fiscal year in which the notes were issued, then renewed for two more such periods not exceeding three years each with the approval of the state director of local finance. At least one-ninth of the original principal amount of these notes must be retired each year, unless this requirement is waived by the state director of local finance. T.C.A. § 9-21-604. Notes also may be issued for more than three but no longer than the 12th fiscal year following the fiscal year in which the notes were issued. T.C.A. § 9-21-608. Issues of 12-year notes totaling less than $2 million may be sold at competitive sale or through the
informal bid process described in the statute; notes totaling more than $2 million must be sold by
competitive sale. T.C.A. § 9-21-608. A major advantage of issuing capital outlay notes is that the service
of a fiscal advisor may not be needed. The notes are subject to the same restrictions as G.O. bonds for
exemption from federal income taxes. These notes may be issued under T.C.A. §§ 9-21-601 through
9-21-610 depending on the maturity.

Bond Anticipation Notes
Reference Number: CTAS-1722
If the market conditions are not favorable to issue G.O. bonds, a local government may issue bond
anticipation notes not to exceed two two-year terms. These are obligations of the local government just
like other bonds and notes; however, when the G.O. bonds are issued and the proceeds are received,
these notes will be retired from the G.O. proceeds. These notes are subject to the same restrictions as
G.O. bonds for exemption from federal income taxes. These notes are similar to construction loans in the
business world. Using these notes allows the county time to wait for better interest rates or marketing
conditions. These notes may be issued under T.C.A. §§ 9-21-501 through 9-21-505.

Revenue Bonds
Reference Number: CTAS-1723
If the capital improvement is for income producing services, such as water and sewer, the local
government should consider the issuance of revenue bonds. When revenue bonds are issued, the income
or revenues from the project are pledged to secure the debt. The debt will be retired from revenues or
income from the user charges. These bonds may be issued under T.C.A. §§ 9-21-301 through 9-21-316.

Refunding Bonds - General Obligation and Revenue
Reference Number: CTAS-1724
When general obligation or revenue bonds are issued at high interest rates, they will have a callable
feature allowing the county to recall the unpaid bonds or notes. In order to have funds to recall these
bonds or notes, the county may issue refunding bonds. These bonds use the same pledge for security and
replace the original issue with a lower rate of interest. By issuing the refunding bonds at a lower rate of
interest, the county will save by paying less interest over the remaining term of the issue. T.C.A.
§§ 9-21-901 through 9-21-1017.

Grant Anticipation Notes
Reference Number: CTAS-1725
Whenever the county has a contract to receive a grant from the federal or state government, the county
can issue grant anticipation notes of up to three years, or for longer specified periods with the approval of
the state director of local finance, secured by the funds to be received under the grant. T.C.A.
§§ 9-21-701 through 9-21-705.

Tax (Revenue) Anticipation Notes
Reference Number: CTAS-1726
Whenever cash flow is not sufficient to meet current expenses, which usually occurs as a result of
inadequate accumulated fund balances, the county may issue revenue anticipation notes, subject to the
approval of the state director of local finance. An important point: These notes must be paid off by
June 30th of the fiscal year in which they are issued. This requirement insures against the approval of a

School Bonds
Reference Number: CTAS-1731
While bonds for school capital purposes can be issued under the Local Government Public Obligations Act,
many school bonds are issued under the authority of the school laws. T.C.A. §§ 49-3-1001 through
49-3-1110. These bonds can be issued for almost any school capital project: to purchase property, to
erect or repair school buildings, to furnish and equip school buildings, and to refund, call, or make
payments of principal and interest on previously issued bonds, as well as to contribute or make grants to state education facilities within the county or in neighboring counties. T.C.A. § 49-3-1004. They may also be issued for the purchase of buses. T.C.A. § 49-3-1006.

These bonds are general obligation bonds, backed by the full faith and credit of the county and by its taxing authority. T.C.A. § 49-3-1005. Only one resolution of the county legislative body is necessary to authorize the issuance of this type of bond. T.C.A. § 49-3-1002. School bonds are not subject to a referendum upon petition as are general obligation bonds under the Local Government Public Obligation Act; however, the county legislative body has the authority to call for a referendum by resolution to ascertain the will of the people regarding the issue. T.C.A. § 49-2-101(5). But, since the county is required to provide public education according to state laws and regulations and is frequently under a mandate to correct deficiencies, such a referendum may serve no real purpose.

School bonds may be issued for a period of up to 40 years; however, market conditions often dictate that the bonds mature in 15 to 20 years.

The law requires counties containing city schools or special school districts to distribute the proceeds from a bond issue for school capital purposes on an average daily attendance basis, unless a tax district outside the city or special school district is established. T.C.A. §§ 49-3-1003, 49-3-1005. If a tax district is not established, city systems and special school districts are entitled to a proportional share of the proceeds of a school bond issue, or they may waive their rights to such a share. T.C.A. §§ 49-3-1003, 49-3-1005. If a tax district is established so that the school bonds are payable only from funds collected outside the city or special district, then the city or special school districts do not share in the proceeds. T.C.A. § 49-3-1005(b)(2). The same sharing rules now apply to capital outlay notes and bonds issued for school capital purposes under the Local Government Public Obligations Law. However, the disposition of proceeds of any capital outlay notes issued prior to January 15, 1998, without sharing is valid unless the disposition was challenged in court before January 15, 1998. T.C.A. §§ 9-21-120, 9-21-129.

Users of a project or school credit bond project financed pursuant to the Tennessee State School Bond Authority Act (T.C.A. § 49-3-1201 et seq.) are prohibited from making any changes to a project or program that would affect the tax-exempt status of the bonds or notes unless the change is approved by the office of state and local finance in the office of the comptroller and the Authority. Failure to get prior approval renders the change void. T.C.A. § 49-3-1207.

Tennessee Local Development Authority Loans

Reference Number: CTAS-1727

The Tennessee Local Development Authority (T.C.A. § 4-31-101 et seq.) – made up of the governor, secretary of state, state treasurer, comptroller of the treasury, and commissioner of finance and administration – has statutory authority to borrow money in the name of the state and on the credit of the state, allowing it to lend funds to local governments for the following purposes:

1. Correctional facilities. T.C.A. §§ 4-31-102(5), 4-31-401 through 4-31-415.
2. Construction of sewage treatment works. T.C.A. §§ 4-31-102(5), 4-31-401 through 4-31-415.
3. Waterworks. T.C.A. §§ 4-31-102(5), 4-31-401 through 4-31-415.
5. Solid waste resource recovery facilities. T.C.A. §§ 4-31-102(5), 4-31-401 through 4-31-415.
6. Agriculture development. T.C.A. §§ 4-31-201 through 4-31-206.
7. Industrial development. T.C.A. §§ 4-31-301 through 4-31-308.
8. Rural fire protection equipment. T.C.A. §§ 4-31-501 through 4-31-516.
10. Health facilities. T.C.A. §§ 4-31-201(5), 4-31-401 through 4-31-415, 4-31-701 through 4-31-711.

In order to borrow from the state, a local government is required to pledge its allocation of state-shared taxes to the state for the annual interest and principal payments in case the county defaults on its obligation to pay.

The Tennessee Local Development Authority, in conjunction with the Tennessee Department of Education, is authorized to develop an enhancement program whereby the authority lends funds to eligible local governments for education capital outlay purposes. Each local government issuing debt under this
program, as well as any local education agency for which such debt is issued, is empowered to assign or pledge to the authority for the repayment of the loan available local capital outlay funds, including the state share of the capital outlay portion of the nonclassroom component of BEP funding.

Users of capital projects financed by the Tennessee Local Development Authority, such as counties, are prohibited from making any changes to a project or program that would affect the tax-exempt status of the bonds or notes unless the change is approved by the office of state and local finance in the office of the comptroller and the Authority. Failure to get prior approval renders the change void. T.C.A. § 4-31-120.

**Economic Development Bonds**

Reference Number: CTAS-1732

There are several statutes that provide for commercial or industrial development within counties through the issuance of county bonds. Counties may use the Local Government Public Obligations Act to issue such bonds. T.C.A. § 9-21-101 et seq. However, counties frequently use the authority granted to industrial development corporations or through the Industrial Building Bond Act of 1955.

**Industrial Development Corporations—Bonds**

Reference Number: CTAS-1733

Most bonds for economic development at the city and county level are issued under the authority of industrial development corporations. The statutory authority for this type of bond issue is T.C.A. §§ 7-53-101 through 7-53-311. It is important to note that the Federal Tax Reform Act of 1986 limited the use of economic development bonds, which exempt interest from federal income taxation. See also T.C.A. §§ 9-20-101 through 9-20-106 for the state law on allocation of private activity bonds.

A county may authorize an industrial development corporation through a resolution of the county legislative body. T.C.A. §§ 7-53-201 through 7-53-204. Then the county legislative body appoints at least seven directors to the county-sponsored board who are responsible for authorizing all industrial development bonds and notes. T.C.A. § 7-53-301. An officer of a municipality, city manager, or other comparable chief administrative officer of a municipality may serve on the board of directors of a joint industrial development corporation, however, no other employee is eligible to serve.

The county is not liable for the principal or interest on any bonds issued through the corporation; however, the county may pledge its full faith and credit as surety on a bond issue, provided three-fourths of the county's voters approve the pledge. T.C.A. § 7-53-306. The pledge cannot exceed 10 percent of the total assessed valuation of the property of the county. T.C.A. § 7-53-307. Additionally, industrial development corporations may secure debt or obligations of their lessees. T.C.A. § 7-53-302.

After the corporation is established, a business or manufacturer desiring to move to the county or expand its facilities there contacts the industrial development board, usually through an attorney. Normally this contact is made after the business has a commitment from a financial institution to authorize the issuance of notes or bonds. Then, with the approval of the financial institution, a trustee is set up to receive the proceeds from the issue and to disburse the funds for the intended purpose. Once the project is completed, the borrower business makes regular payments to the trustee to amortize the principal and interest. The reason for issuing the bonds through a nonprofit governmental corporation is that the interest income to the lender is tax exempt. This feature will reduce the cost to the business for interest expense.

The business seeking the loan may borrow the principal through the corporation as a loan, or it may lease the property through the corporation. T.C.A. § 7-53-101. If the business borrows the principal through the industrial development corporation, then the property is owned in the name of the business, and property taxes are paid by the business as with any other commercial or industrial taxpayer. If it is a lease arrangement, the ownership of the property may be transferred to the business upon payment of the outstanding debt. In a lease arrangement through the corporation, the business does not pay real property taxes since the property is owned by the tax-exempt industrial development corporation, although the county may receive payments in lieu of property taxes. T.C.A. § 7-53-305.

Industrial development bonds may be issued for almost any industrial or business purpose as long as it complies with federal Internal Revenue regulations and T.C.A. § 7-53-101(13), and with the allocation limitation established by the state Department of Economic and Community Development under federal guidelines for income tax exempt bonds.

Industrial development corporations are required to maintain an aggregate listing of current debt, including conduit debt obligations and to file the listing with the state funding board at the end of each
fiscal year. Industrial development corporations must also file notice of default on any debt obligations with the state funding board within 15 days of the default. T.C.A. § 7-53-304.

Industrial Building Bond Act of 1955

Reference Number: CTAS-1734
Bonds issued under this act are general obligation bonds of the county for which the full faith and credit and unlimited taxing power of the county are pledged in the event that rental income from the business is not sufficient to retire the debt. T.C.A. § 7-55-111. Before the bonds are issued, however, they must be approved by a three-fourths majority of the county's registered voters. T.C.A. § 7-55-107. The authority for this type of bond issue is found in T.C.A. §§ 7-55-101 through 7-55-116.

Industrial Building Revenue Bond Act

Reference Number: CTAS-1735
This act, found in T.C.A. §§ 7-37-101 through 7-37-116, allows the county to issue industrial bonds by pledging only the rental income from the business. Although there is no liability to the county, the voters must approve the issue by a three-fourths majority.

Federal Loans

Reference Number: CTAS-1728
Loans may be available to some local governments from various federal agencies, such as Farmers Home Administration. The local government is advised to check to see if such loans are available because the interest rates may be lower than the general market.

Lease/Purchase Agreements

Reference Number: CTAS-1729
Local governments may contract for the purchase of capital improvements using a contract, lease, or lease/purchase arrangement. T.C.A. § 7-51-901 et seq. The conditions and interest rates should be checked closely since the plan may cost more than the issuance of notes or bonds. Also, follow restrictions as prescribed in the state law authorizing the use of such agreements. Contracts should contain a "funding out" clause in the event funds are not appropriated in subsequent years. Leases for capital improvement property cannot exceed 40 years or the useful life of the project and must be approved by the county governing body. T.C.A. §§ 7-51-902 through 7-51-904. If the term of any lease exceeds five years, public notice of the meeting at which the project will be discussed must be given at least seven days prior to the meeting. T.C.A. § 7-51-904.

Recommended Practice: Use of Lease/Purchase Agreement should be carefully considered and generally not used.

The Uniformity in Local Government Lease Financing Act

Reference Number: CTAS-2479
Although the Uniformity in Local Government Financing Act became effective April 22, 2021, the terms of the Act apply to lease financing authorized by the local governing body on or after January 1, 2022, and are described below.

Pursuant to T.C.A. § 9-24-102((5), lease financing is defined as any lease under which (1) the rental payments by the public entity include an identifiable interest component; or (2) the lessee has a right to purchase the property subject to the lease price that is not based upon the fair market value of the property at the time of purchase.

Exempt lease financing is lease financing with a principal amount not exceeding $100,000 and does not include a lease financing if the principal amount of that lease financing together with the principal amount of all exempt lease financing issued by the public entity previously in the same fiscal year exceeds ($100,000); See T.C.A. § 9-24-102((1).

Local governments and other public entities, as defined by T.C.A. § 9-24-104, must adhere to the following requirements in connection with approving and entering into any lease financing that is not exempt:
1. Before entering any lease financing, a local government is required to get approval from the comptroller of treasury or comptroller's designee (comptroller) according to the procedures described below. Once approved by the comptroller, the proposed lease financing must be submitted to the governing body for consideration;

2. The weighted average maturity of the principal payments under the lease financing must not exceed the estimated weighted average life of the property financed through the lease financing;

3. Local governments are not permitted to enter into a lease financing concerning property unless authorized by applicable law to incur indebtedness to finance such property, and the term of any lease financing must not exceed the maximum term of debt that the local government could issue to finance the property being leased;

4. If the indebtedness of the local government is only payable according to applicable law from all or any portion of the revenues of the local government, the payments under the lease financing must only be payable from such revenues; and

5. If the lease payments under the lease financing are payable from or secured by ad valorem taxes of the local government and the term exceeds the maximum term of a capital outlay note that the local government may issue under chapter 21, part 6 of the Tennessee Code Annotated, the local government is not permitted to enter into the lease financing without adopting and publishing an initial resolution for the lease financing in the manner described in chapter 21, part 2 of the Tennessee Code Annotated, if an initial resolution is required for the type of property being financed, and, if required by the terms of such part, undertaking an election for the lease financing in the manner required by that part.

Requesting Approval from the Comptroller — When requesting approval, a local government must submit a plan of lease financing to the comptroller of the treasury. The comptroller may request any additional information required to properly review the proposed plan of lease financing. The comptroller will evaluate each plan of lease financing based on the plan’s particular circumstances and approve the plan only if a determination is made that the repayment terms are in the public’s interest. The comptroller will report the approval or disapproval of the plan of lease financing to the governing body within fifteen (15) business days after receipt of the plan, and all requested supplemental documentation. T.C.A. § 9-24-104.

The governing body may act on the proposed plan of lease financing, (1) after receiving the approval of the comptroller; or (2) after the expiration of fifteen (15) business days from the date the plan of lease financing is received by the comptroller and no disapproval having been reported by the comptroller, whichever date is earlier, the governing body may take such action concerning the proposed plan of lease financing as it deems advisable in accordance with T.C.A. § 9-24-104.

All property leased by a local government is deemed property owned by the local government for purposes of and such property is exempt from taxation to the extent property owned by the local government is otherwise exempt from taxation.

Other Bonds

Reference Number: CTAS-1730

There are many other statutes that authorize the county to issue bonds. The list below includes many of them:

17. Road Improvement Districts. T.C.A. §§ 54-12-101 through 54-12-426.
21. Urban Type Public Facilities (Sewer lines, incinerators, water pipelines, and docks). T.C.A. § 5-16-106.

Consult with a financial advisor because legal and market conditions will dictate the best method of financing the project.

**Capital Construction Management**

Reference Number: CTAS-1717
The project has finally been funded and it's time to go to your purchasing department to requisition work to be done. Make sure you follow your local purchasing procedures and laws regarding the hiring of engineering professionals, construction managers, and contractors. Credibility is at stake when purchasing.

For information on purchasing procedures for hiring engineering professionals and construction managers, view the Purchasing topic in e-Li.

**Construction Manager/Owner’s Representative**

Reference Number: CTAS-1718
Credibility and the availability of money are the two most important factors in current and future capital improvement plans. By credibility we mean that the project was needed, accounted for in a manner that everyone understood the cost, and that the project was completed on a timely basis meeting the scope of the proposed contract. By scope of the proposed contract we mean that the county received the quality of work for which they contracted. Therefore, when dealing with millions of dollars, it is advisable to hire a construction manager or supervisor to be an overseer and liaison to architects, contractors, and the county.

The construction manager also insures the quality of construction and helps in understanding the need for change orders and the process to get change orders approved. The construction manager should keep detailed notes of the construction process. Construction managers, engineering departments, and contractors often use Gantt Charts to reflect the timeline of projects. It is highly recommended that Gantt Charting be used in construction projects. A Gantt chart is a bar chart depicting the beginning and end date of a project, all related major (and some minor) components of the project, and how those components may interface. For example, a Gantt chart would show that excavation must take place before concrete forming and preparation for concrete pouring, but rough-in plumbing and rough-in electrical must also be completed before concrete pouring. Each component would have start and finish dates.

An Owner’s Representative is an option in lieu of the use of a Construction Manager. An Owner’s Representative is a person or firm who works with the county officials in some of the first steps in planning the project. The Owner’s Representative becomes the county advocate for identifying the project characteristics and objectives, selecting and performing site analysis, preparing budgets and related budget controls, insuring proper procurement and identifying work scope and scheduling. If engaged at the beginning of a project, the Owner’s Representative can assist in insuring that contract documents are “owner friendly” and can focus on critical preconstruction activities.

The main players in construction management are the architects, contractors, planners, engineers, and
the construction manager/owner’s representative. The construction manager/owner’s representative focuses attention and provides work assessment on the project at hand. He/she will also incorporate quality control and provide alternate configurations of design if needed. A construction manager can be a construction management firm, a government staff member, or an outside individual hired to help oversee the project and report the day to day activities to the appropriate government official(s). A county should consider a construction manager/owner’s representative when managing a capital improvement project. The county should demand Gantt charts for large capital improvement projects from their construction manager/owner’s representative.

Recommended Practice: Have a Construction Manager/Owner’s Representative overseeing your capital projects.

Recommended Practice: Gantt chart your capital projects.

Project Budget

Reference Number: CTAS-1719

There are several things to know in the management of a construction capital project as it relates to the budget. Was debt issued to fund the project? If so were the bonds or notes sold at a discount? Were debt issuance expenses considered? When will cash funds be available? Were contingencies and changes orders budgeted? Was interest earning anticipated? The answers to these questions are beneficial in knowing how much money is or will be available and when.

The capital project budget should include costs for bond issuance, architecture, engineering, land, and furnishings if applicable. The capital budget and accounting should be what is referred to as “Turn Key.” Turn Key means all costs to start the project and costs up until the government can use the new assets. The builder locks the door (turns the key) and hands the owner the keys. In some instances the county has started a capital project out of their operating budget with the intent to repay these expenses back to the operating budget once money is borrowed. The accounting department needs to insure that proper accounting is made to incur all cost in the capital projects fund for historical and correct accounting purposes. This budget should have all accounting set up to properly segregate funds such as the retainage account. If a county anticipated a capital improvement project and will be spending funds exploring their options, it is recommended to go ahead and establish the capital projects fund and expend money from the capital project fund instead of from an operating fund.

Recommended Practice: Establish your Capital Project Fund during the planning stage of the project, making sure all costs associated with the project have been captured.

Debt Management

Reference Number: CTAS-1746

Terminology, Theories, Philosophy and Beliefs

Reference Number: CTAS-1747

In understanding and developing a debt management program we must have a basic comprehension of the terminology used in the financial industry, as well as the theories, philosophies and our personal beliefs of how we view debt. You may not agree with all of the theories, philosophies, and even our assumptions and related conclusions of debt management, but you must be able to reconcile your understandings about debt management with that of your fellow policy makers.

Terminology

Reference Number: CTAS-1748

- **Backloaded, Balloon or Bullet Debt** - Considered debt that a borrower would pay, predominately interest, the first number of years before any reduction in principal would be made. This type of financing would cause higher interest cost over the time of a loan as compared to straight-line amortization or advanced payment of principal.
- **Balance Sheet** - An accounting statement that reflects the assets, liabilities and net worth of an entity at a point in time.
• **Bond Counsel** - A firm or lawyer who insures that the local government complies with the legal obligation of issuing debt.

• **Capital Projects Committee** - An advisory committee established by the county commission to develop policies and advise the commission, county mayor/executive and finance department on the matters of long-term asset management and replacement.

• **Capital Improvement Policy** - A formal statement, generally an adopted county commission resolution, which states how the county government intends to identify, acquire, maintain and replace assets that have a high cost and long life expectancy.

• **Capital Improvement Plan/Budget** - A formal or informal written statement and/or series of spreadsheets that depict an anticipated cost in acquiring, maintaining, and replacing high cost and long life expectancy assets. The plan or budget notes specific revenue to support the anticipated cost of the new asset.

• **Conflicts of Interest** - Occur in situations where parties in a transaction have multiple interests or relationships that could possibly corrupt the motivation to act. The presence of a conflict of interest indicates the potential for divided loyalty and does not automatically indicate wrong doing.

• **Costs** - Means fees and expenses of professionals and service providers and other similar fees and expenses, whether or not payable at the time the debt is incurred. “Costs” also means recurring and nonrecurring fees and expenses during the life of the debt.

• **Credit Rating** - An assignment of risk or quality of a loan or security placed on certain debt by rating agencies (Moody’s, Standard and Poor's and Fitch). The higher rating of the loan would indicate a lower risk, thus a lower interest rate.

• **Credit Enhancements** - A separate insurance or letter of credit that would be purchased to insure a higher credit rating, thus a lower interest rate.

• **Credit Reviews** - The process used to examine a potential debt issuance risk and then the assignment of a debt credit rating. Credit reviews generally look at two broad areas: (1) quantitative analysis (audit opinions, fund balances, debt levels and ratios) and (2) qualitative factors (management experience, political and economic climate, and policy and procedures).

• **Debt** - Means indebtedness lawfully issued, executed or assumed by a public entity. Debt is created when a public entity agrees to pay over time to someone else, in exchange for receiving an upfront payment or loan or for acquiring an asset. “Security” refers both to debt that can be transferred or delivered to another party, as well to property or assets pledged as collateral for a debt. Common instruments or evidence of debt are:

  - **Bonds** - Debt instruments issued for a period of one year or longer, usually for permanent financing.

  - **Notes** - Debt instruments issued for a short period of time, often for interim financing. Notes may be rolled to bonds. Examples are Capital Outlay Notes, Tax and Revenue Anticipation Notes, Bond Anticipation Notes, and Grant Anticipation Notes.

  - **Capital leases or a lease purchase** - Written agreements allowing the use of property in exchange for payment of funds.

  - **Loans** - Debt agreements usually with a financial institution such as a local bank or an organized loan program such as the Tennessee Municipal Bond Fund or the State Revolving Loan Program. Loans are also internal loans between funds within the entity or seller financed loans.

  - **Debt Committee** - An advisory committee established by the county commission to develop policies and advise the commission, county mayor/executive, and finance department on debt management policies and practices.

  - **Debt Resolution(s)** - A resolution or series of resolutions that preliminarily approve the issuance of debt, or specifically and legally approve the issuance of debt.

  - **Debt Service** - A series of payments including **interest** (the amount or fee earned or paid for use of money or credit, calculated on the amount of principal) and **principal** (the amount of money borrowed or credit provided) required on a debt over time. The rate of interest can be **variable** or **fixed**. A few terms related to debt service include:

    - **Schedule** - The plan listing the amount and when debt service will be paid.

    - **Backloading** - Refers to delaying repayment of principal until the end of the financing term. A standard or default structure for debt service is level debt service payments, similar to a standard home mortgage. Backloading should be considered only when 2 beneficial to the overall
amortization of debt, upon the occurrence of natural disasters, or when project revenues are not available during the early years of a project.

- **Maximum total level of debt** - The maximum principal amount of debt a public entity will have outstanding at any time, usually for each type of debt issued.

- **Debt Service Policy** - A formal statement, generally an adopted county commission resolution, that expresses the type of indebtedness the county believes is most effective and efficient, such as, whether debt should mirror the life expectancy of the assets or be a percentage of years less than the life expectancy; whether the county debt should be a mixture of fixed and variable rates; whether the county should anticipate hiring a financial advisor; whether a multi-year debt budget will be presented before the issuance of new debt; and when an existing debt should be considered for refinancing or early payoff.

- **Debt Service Payment Calendar** - A calendar that a county uses to track a schedule of when its indebtedness is due, scheduled to be paid, and to whom it is to be paid.

- **Federal Compliance Issues** - The ongoing responsibilities of a public entity after issuing debt. If the debt is sold as being "federally tax-exempt," then the entity will have to comply with federal tax law. If the debt is a "security" for federal securities laws, then the public entity is subject to anti-fraud provisions and possibly is subject to continuing disclosure obligations.

- **Finance transaction** - Both debt obligations and derivatives. A derivative is a financial product deriving value from a separate security. This term refers to many different products. "Derivative" includes an Interest Rate Agreement as defined in Tennessee Code Annotated Section 9-22-103 and other transactions as identified by the State Funding Board.

- **Financial Advisor** - An individual or firm who assists and advises the local government of its debt financial needs, existing debt obligations, refunding debt opportunities, funding needs for new debt obligations, arrangements for bond counsel, bidding procedures, advertisement of bonds, preparation of debt resolutions and official bond or loan documents.

- **Financing Structure** - Deals with matters in which an entity would issue debt, taking into consideration items such as principal amortization, call provisions, coupon/yields, fixed or variable rates, credit enhancement and interest swap provisions.

- **Fixed Asset Policy** - A formal statement, generally an adopted county commission resolution, which identifies by type (in dollar amounts and life expectancy), assets that will be placed on or in the accounting records to be tracked and maintained over a period of time.

- **Fund Balance Policy** - A formal or informal statement that establishes how much excess revenue over expenditure should be accumulated and carried over from year to year. The policy should address how the county should use or accumulate funds if the fund balance is not at the optimal level. A fund balance policy would address, on a fund by fund basis, what the respective fund balance target should be. The policy would be expressed either as a percentage or dollar amount fund balance compared to the annual appropriation or revenue budget.


- **Professionals** - Individuals or firms advising or offering to provide professional services to a public entity with respect to a finance transaction. Examples of professionals are:

  - **Advisor** - An individual or firm with a deep knowledge in a specific area, engaged in the business of advising others. It can include a Financial, Swap, or Program Administrator.

  - **Counsel** - A legal advisor or attorney, whether an individual or a firm, representing a client. It can include Bond, Disclosure, Issuer, Swap, Tax, or Underwriters Counsel.

  - **Counterparty** - The other party or participant in an agreement or contract; usually it refers to the other party in an Interest Rate (or swap) Agreement.

  - **Lender** - An individual or firm who loans a borrower money.

  - **Paying Agent** - An individual or firm that transfers the periodic interest and principal payments from the public entity to the investors.

  - **Registrar** - The individual or firm responsible for maintaining a record or list of owners or investors in debt (sometimes referred to as holders of the debt).

  - **Remarketing Agent** - The firm responsible for reselling to new investors debt instruments that have been "tendered" for purchase by their holders. The remarketing agent is also usually responsible
for resetting the interest rate for variable rate debt instruments.

- **Underwriter** - The firm that buys new debt for reselling to the public for a profit. The underwriter may acquire the debt either through negotiation or by award on the basis of competitive bidding.

- **Verification Agent** - Usually a certified public accountant or other independent third party that determines that the cash flow from investments purchased with proceeds of a refunding debt issue, along with other money, will be sufficient to pay the refunded bonds.

- **Project Budget Resolution** - A resolution that establishes a capital budget for a particular acquisition or construction of an asset. The project budget, if in a capital project fund, will last to the duration of the project.

- **Public Entity** - A governmental organization or unit that has a legal existence and is authorized to borrow money or enter into debt. It includes the State, state agencies, local governments, local government instrumentalities, and any other authority, board, district, instrumentality, or entity created by the State, a state agency, local government, a local government instrumentality, or any combination of the above. It does not include legal entities without debt authority, such as a county school board; however, a special school district with debt authority is included.

- **Governing Body** - The group of individuals with the authority to make decisions for a public entity, often referred to as the “legislative body.” Governing bodies are subject to the Tennessee Open Meetings Law (requiring public notice and recording of minutes).

- **Members** - The individuals serving on the governing body.

- **Conduit Entity** - A governmental entity or agency that borrows money to lend to another entity, and not to finance a project for itself. Examples of conduit issuers are health and education boards, economic development boards, and public building authorities.

- **Matching Principles** - The accounting theory stating that expenses should be matched or related to the revenue produced by the expenses, or the expenses charged to the asset, over the asset's useful life. Depreciation is an example of the practice of the matching principle.

- **Multi-Year Debt Budget** - A planning document that estimates future revenues and estimated or known scheduled debt payments along with project fund balances over time until all debts are fully paid.

- **Risk** - Refers to the uncertainty (downside) involved in a debt transaction, including investment, business, credit, market, liquidity, operations, tax, and basis risks.

- **Spectrums** - A graphic or photographic representation of a sequence or range of related qualities, ideas or activities.

- **State Agency Loan Program** - Refers to programs offered by the state or state agencies, such as the State Revolving Loan Program offered by the Tennessee Local Development Authority or the Qualified School Construction Bond program offered by the Tennessee State School Bond Authority.

- **State Funding Board** - The state entity whose members are the Governor, the Commissioner of Finance and Administration, the Comptroller, the State Treasurer, and the Secretary of State. The State Funding Board is created by Tennessee Code Annotated Section 9-9-101.

- **Straight-line Amortization** - Is a level (same dollar amount) repayment schedule over the term on the loan that would reflect smaller principal payments increasing to larger principal payments over the life of the loan, and conversely larger interest payments reducing to smaller interest payments over the life of the loan. A typical home mortgage has a straight line amortization payment schedule.

- **Tax Exempt Debt** - Debt of which the holder does not have to pay income tax on the earnings.

- **Underwriter** - A firm or group of firms that are selected to purchase and re-market the debt to the public or investment community.

- **Wrapped Debt Service** - Is the practice of reviewing an entity’s existing debt payment schedule and insuring that the new debt payment schedule would reflect that the new payments of interest and principal would create a straight line or level payment structure over the life of all debt. This practice generally would create the payment of more interest over the life of a loan as compared to straight-line amortization.

**Basic Debt Practices and Beliefs**

Reference Number: CTAS-1749
Here are some Basic Best Practices and Beliefs regarding county financial management:

1. You should be as efficient in use of taxpayer money as possible. There may be disagreement on how this is achieved, but there should be agreement that we want efficiency.

2. Tax rates and the related tax levy should be in most circumstances stable and not fluctuate up or down from year to year. There is little benefit in raising a tax one year, only to reduce the tax the next year, only to raise it again the third year.

3. Issuance of debt should not exceed the life expectancy of the asset being purchased or constructed.

4. Understand to the best of our ability how we perceive risk and the related cost of that risk. You should have an understanding of the risk of interest rate changes and the changes in the value of money, along with the risk of making and not making decisions or putting off a decision.

5. Decisions are made based on the facts at hand, and that better decisions are made based on the best facts. However, you should realize that you will never have all the facts, and you will not always make the best decision. This limitation should not impede you from trying to understand your current situation and facts and how that will impact the future. You should not make capital investment decisions hastily, or draw the decisions out over a number of years.

6. Money has a value, and that value changes over time. The changes in the value of money are related to a number of factors, the greatest of which are inflation and interest rate changes. This concept is known as the time value of money.

7. Capital projects can be funded out of current revenue and savings, debt obligations, or a mixture of the savings, current revenue and debt obligations. A county’s capital project plan and debt service plan should address these funding issues.

8. Excessive debt or no debt can be bad policy for your government and citizens. This is based on the theory that individuals who use an asset should assist in the payment of that asset by the payment of debt service, and also that if a county has excessive debt, generally the interest rates are higher than considered normal and their flexibility in current operations can be hindered due to a larger percentage of revenue required to pay debt interest and principal.

9. As we discuss being conservative or aggressive in our approach to debt management, we are not drawing a conclusion whether one approach is better than the other; however, we are saying that you and the county must understand the risk involved in being conservative, aggressive or moderate in your debt management approach.

**Accounting Theory/Philosophy-Matching Principle**

Reference Number: CTAS-1750

We would be negligent if we did not discuss the matching principle of accounting as it relates to the annual operation of the local government. An easy way to describe this principle is the philosophy that an asset should be paid for during the time the asset is in use. This principle has some weakness, but a straightforward example of this matching is as follows: A government purchases land and constructs a library building at the cost of $1 million. The land has an infinite life expectancy, but the building, properly maintained, may be used for 30 years. Should the taxpayers who have access to the use of the building 30 years from today pay a portion of the cost? If you answer yes, then this is a belief in the matching principle. In the new approach to making government accounting look more like commercial accounting, we now use depreciation to reflect this cost. However, depreciation is not a cash accounting entry; but if debt is issued, the payment of principal and interest is a cash payment and therefore a 30-year bond payment schedule reflects what is paid by current and future taxpayers throughout the useful life of the loan, thus the use of the building.

Now the matching principle as it relates to payment of debt is never exact with the asset’s useful life, but it can fairly represent matching use of the asset with payment for the use of the asset. Some weakness in pure matching deals with time value of money; useful life exceeding or being less than planned debt or planned life; and more or fewer taxpayers making debt payments or using the asset over time along with issues of changes in value of property. Figure 1 reflects a pure relationship with a set number of taxpayers.
Debt Percentage and Interest Rate Mixture Spectrums

Reference Number: CTAS-1751

As we talk about the matching theory, we also must talk about the debt management and how this philosophy has been developed over time as we have managed our personal debt. The approach used as we manage our personal debt transfers to our beliefs, and sometimes our practices, of managing public debt. Some of us (or at least our parents) may not believe in having any debt, and if we believe in debt, have a very conservative approach to debt management. Others have a very aggressive management approach and thus one would anticipate having more debt. Consider that some of our parents, or even some of your classmates, may have paid cash for their homes. They built their houses as money was available or waited until they had accumulated enough money before they purchased their homes. Some people may have borrowed from family members (similar to an inter-fund loan). Others were willing to have a mortgage, but would never borrow money for any other items. Others would borrow for a house and an investment property, but nothing else. And still others would borrow to purchase a house, car, boat, investments, vacations, and maybe even their meals. These beliefs in debt management in our personal life impact our thoughts and decisions on how our government should borrow and pay back its debt.

What is important to know is that our approach to managing our government’s capital improvement and debt has a lot to do with our personal philosophy of debt management, which varies from person to person. This philosophy carries over further as we evaluate fixed or variable interest rate debt instruments.

We must personally examine to what extent and how strong our beliefs are on answering questions such as the following:

1. Is it acceptable to have debt?
2. What are acceptable assets for which to borrow money?
3. Should our debt be fixed rate, variable rate or mixed debt?
4. How long a time frame should money be borrowed?

Even if our personal belief is that we should pay as we go and not incur any debt for all practical purposes, it is almost impossible for the local government to acquire large assets without debt. However, even if we don’t like having debt and recognize the necessity for the local government in acquiring expensive assets, we can structure the debt policies and practices that only borrow for long life and high cost assets.

As we answer the questions above, we explore our risk tolerance in having debt.
We must examine our risk tolerance on whether debt should be all fixed interest, all variable interest, or a combination of both fixed and variable rates; and if so, what percentage should be fixed and variable.

The following spectrums will deal with our risk tolerance.

The concepts of our personal beliefs in debt, how much debt, and should debt be fixed or variable interest rates, can be depicted in the following low (conservative) to high (aggressive) risk tolerance spectrums. The first spectrum (figure 2) is a Debt Percentage Spectrum of total assets or an individual asset. The second spectrum (figure 3) is considered an Interest Rate Mixture spectrum.

If one were to place a home mortgage on the spectrum below, you could see this relationship of the risk as it relates to being conservative or more aggressive. Mortgage brokers generally like to loan no more than 80 percent of the value of a home, and if they loan more than 80 percent, they require the future homeowner to buy Purchase Mortgage Insurance (PMI) for the additional risk. A homeowner would like to have no mortgage debt, but may be willing to accept up to 90 percent mortgage in order to have the home asset.

![Debt Percentage Spectrum](image)

This spectrum reflects a debt percentage of an asset or group of assets. Zero assumes that no money was borrowed to purchase the asset, and 10 assumes that 100 percent was borrowed to purchase the asset. Using the same home mortgage and asset, you could plot a risk tolerance of whether the interest rate is fixed or variable. An individual may have a fixed rate if he/she has a large mortgage. The same individual may be willing to have a variable rate if the mortgage is lower, all depending on the risk tolerance of the individual and his/her expectation of future interest rates.
This spectrum reflects the extent that debt is either on a fixed rate, variable rate or mixture of rates. Zero represents that one does not like to be surprised by any change in an interest rate, and thus interest payments. Ten represents that one accepts, and will not be bothered by, a change in interest rates or interest payments. One could also speculate that a zero would be betting that interest rates are expected to go up, and a 10 would be betting that rates would go down.

Risk tolerance is not an exact measurement, but deals more with one’s disposition of how he/she feels about risk.

These debt spectrums can be developed to address the following four basic questions:

1. Is debt acceptable and at what level?
2. What are acceptable assets for which to borrow money?
3. Should debt be fixed or variable?
4. How long a time frame should money be borrowed?

**Accounting for Debt**

Reference Number: CTAS-1752

**Budgets**

Reference Number: CTAS-1753

Budgets are plans of financial activity anticipated over a period of time to support a plan of service. From the government perspective, budgets are in two major categories: Operating Budgets and Capital Budgets.

**Operating Budgets**

An operating budget is annually developed and approved by the local government for the receipts and expenditures of funds during a 12-month timeframe beginning July 1 and ending June 30 (fiscal year). The operating budget is the government’s plan of services depicted in financial estimates of revenues and anticipated expenditures. The expenditures would include salaries, supplies and materials, interest and principal on outstanding debt, and other current period (fiscal year) operating expenses. The duration of an operating budget is 12 months. Operating funds are separate accounting entities where certain activities are accounted for independently with their own financial statements of balance sheets and statements of revenue and expenditures. Examples of operating funds would be the General Fund, Solid Waste Fund, Highway and Road Fund, School Funds and the Debt Services Funds. Specifically note that debt services funds are operating budgets in that these funds account for the 12-month period of the fiscal year’s revenue and expenditures (payment of interest and principal).

**Capital Budgets**

A capital budget is a finance plan and program to purchase or contract for purchase items (or the
construction of items) that are expensive in cost and have a long life expectancy of use. Examples of items in a capital improvements budget would be land, buildings, large expensive pieces of equipment, major expansions of buildings, major renovations of buildings and equipment. Generally the funding for capital items comes from the issuance of debt by bonds, notes, and in limited cases, annual revenue. A capital budget usually exceeds 12 months, and always extends until the completion of the specific project.

Recommended Practice: Establish a Capital Budget

Debt Service Budgets/Funds

Most all county governments at some time or other have borrowed money, and thus issued debt instruments. Upon the issuance of debt, county governments are generally required to establish, and have a separate accounting for, the receipts of revenues (property taxes and other revenue sources) and the expenditures of paying of the principal and interest payment on the indebtedness. This separate account/fund(s) is known as the Debt Service Fund. The Debt Service Fund is an operating fund. Upon the establishment of the fund, annual budgets must be adopted to reflect the anticipated activity of annual revenues and expenditures. The debt service funds are used exclusively for the payment of principal and interest; however, principal and interest do not exclusively have to be paid out of the debt service funds. Generally, it is the best practice to have all debt paid from the Debt Service Fund. However, we recognize that in certain circumstances a county may have the school system and/or highway department pay their debt directly from their respective funds.

Recommended Practice: Payments of all Debt from the Debt Service Funds

Annual Comptroller Approval of Operating Budgets

Various statutes in Tennessee require local governments to adopt budgets at the beginning of each fiscal year. If a county has outstanding debt, an annual budget must be submitted to the Comptroller Office Division of Local Finance for approval. The Comptroller has prescribed the requirement and form in which the budget must be submitted. For further information, see Procedures under the Operating Budget topic.

Fund Structure

Reference Number: CTAS-1758

The fund structure has been established by the Comptroller of Tennessee. The structure of accounts is known as a Uniform Chart of Accounts. It is used in each county of the state with some variations. The operating funds, which include the debt service funds, work in unison with the capital project funds. See Chart of Accounts under the Operating Budget topic for more information.

The Comptroller’s Chart of Accounts regarding Debt Service

The County Uniform Chart of Accounts used to assist in accounting for financial activities related to the payment of debt, has established seven operating funds with account numbers set aside for additional funds if needed. These funds are as follows:

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>151</td>
<td>General Debt Service</td>
</tr>
<tr>
<td>152</td>
<td>Rural Debt Service</td>
</tr>
<tr>
<td>153</td>
<td>Industrial Debt Service</td>
</tr>
<tr>
<td>154</td>
<td>Special Debt Service</td>
</tr>
<tr>
<td>155</td>
<td>Hospital Debt Service</td>
</tr>
<tr>
<td>156</td>
<td>Education Debt Service</td>
</tr>
<tr>
<td>157</td>
<td>School Bond Trust</td>
</tr>
<tr>
<td>158 - 169</td>
<td>Other Debt Service funds</td>
</tr>
</tbody>
</table>

The Comptroller’s Chart of Accounts Regarding Capital Projects

The County Uniform Chart of Accounts used to assist in accounting for financial activities related to using capital project funds, has established eight capital funds with account numbers set aside for additional funds if needed. These funds are as follows:

<table>
<thead>
<tr>
<th>Number</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>171</td>
<td>General Capital Projects</td>
</tr>
<tr>
<td>172</td>
<td>Community Development/Industrial Park</td>
</tr>
<tr>
<td>173</td>
<td>Sanitation Projects</td>
</tr>
<tr>
<td>174</td>
<td>Nursing Home Projects</td>
</tr>
</tbody>
</table>
The Comptroller’s Chart of Accounts that encompass all Operating and Capital Funds

The County Uniform Chart of Accounts is used to account for all financial activities of the government. Certain account codes can be used in any fund. The Chart of Accounts has been established by a three-digit fund number; a five-digit revenue number for the revenue side of the ledger; a five-digit function (also known as department or line item) for expenditure departments; and a digit object code for the expenditures’ details.

The following would be an example of a General Debt Service Revenue and Expenditure budget:

151 General Debt Service

Revenue
40110 Current Property Tax

Expenditures
82110 Principal on General Government
  601 Principal on Bonds
  602 Principal on Notes
82210 Interest on General Government
  603 Interest on Bonds
  604 Interest on Notes

Debt Service Accounting Relationship

Reference Number: CTAS-1759

Figure 4 shows the Debt Service Accounting relationship. Figure 5 shows the Flow of Money relationship.

In summary, monies are borrowed from banks and financial institutions and receipted into an operating fund (other than debt service) or capital fund(s). These operating funds or capital funds are used to purchase the asset(s). The indebtedness due to the borrowed monies is then paid annually by the retiring of this debt by way of the annual debt service operating budget.
Unfunded Pension or Other Post Employment Benefits (OPEB)

Reference Number: CTAS-1760

Unfunded pensions and Other Post Employment Benefits (OPEB) are considered an obligation of a county, and generally are long term in nature. These obligations were established when a government made promises to employees to be paid out at a future time with future revenues. These promises, in one sense, are no different than the current promise to pay obligations of notes, bonds and leases. However, the treatment of unfunded pensions and OPEB are entirely different. Further, most Tennessee county governments are members of the Tennessee Consolidated Retirement System that holds the retirement assets, and thus these liabilities. If any unfunded pensions exist, they are held by the retirement system. County obligations, if any, are OPEB. An example is when a county has promised retired employees that the local government will pay a portion of the health insurance premium until the retired employees are Medicare eligible. Thus the employee is no longer working, but is receiving benefits where the cost of the benefits has not been set aside into a trust. Tennessee law allows a local government to issue debt for certain unfunded pension obligation (reference T.C.A. § 9-21-127).

Legal Authority Guidance

Reference Number: CTAS-1761

Tennessee Code Annotated (T.C.A.) Title 9, Chapter 21 and Title 12, Chapter 10 specifically address the issuance of debt and related budget requirements. Further the Comptroller of the Treasury Division of Local Finance publishes a “Guide for the Issuance of Notes by the Counties, Consolidated Governments and Municipalities of Tennessee” as a reference for the issuance of notes.

Accounting Posting for the Receipt of Borrowed Funds

Reference Number: CTAS-1762

For the accounting staff that will be posting the accounting records for the county, the following journal entries (figures 6, 7, 8 and 9) would typically be found.

For Monies to be Received into the General Capital Projects Fund
For Monies to be Received into the Education Capital Project Fund

Before we list the accounting postings, note that these postings can vary from accounting system to accounting system. Also note that the recommended postings have changed in the last number of years due to the implementation of GASB #34. Since boards of education do not have debt issuance authority, they are prohibited from receiving notes/bonds/loans proceeds directly. The borrowed money must come into the primary government, and then the primary government can make a contribution to the component unit of schools. This contribution creates another question of the contribution being the total issuance proceeds less issuance cost, or the total proceeds and then allowing the issuance cost to be capitalized as a cost of the asset. Either accounting procedure of the issuance cost is permissible, along with allowing the cost of the issuance to be expensed in the debt service fund.

Recommended Practice: A county’s debt service policy should address how the issuance cost will be expensed or capitalized –not only for the education capital borrowing, but also for the general capital borrowing.

The following scenario (Figure 7) is of a county that has a General Capital Project Fund and desires to issue debt for a school building project with the issuance cost being capitalized as a part of the asset.

**Figure 7**

<table>
<thead>
<tr>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>171 11140</td>
<td>Cash with Trustee</td>
</tr>
<tr>
<td>171 91100 605</td>
<td>Underwriter's Discount</td>
</tr>
<tr>
<td>171 91100 606</td>
<td>Other Debt Issuance Charges</td>
</tr>
<tr>
<td>171 49100</td>
<td>Bond Proceeds</td>
</tr>
</tbody>
</table>

*To Record the issuance of $10,000,000 of Bonds for General Capital Projects*
This second scenario (figure 8) relates to the issuance of debt for educational purposes, and reflects the debt service cost in the debt service fund and not capitalized.

Figure 8
These postings reflect that many options are available to receive and expend funds on capital projects. Other postings also are allowed. One should consult auditors or a CTAS consultant if questions arise on the posting of these proceeds.

Further, the above posting brings out a very important issue that often is overlooked and can cause shortages in the capital project. An asset cost generally is the full cost to put the asset into use. This cost includes the cost of the issuance of the debt. The project budget was originally established at $10 million. However, the first expense was not pertaining to the actual construction of the asset, but rather to the issuance of the indebtedness. The examples above reflect that the project has cash available that is $325,000 less than anticipated for the project.

A debt and/or capital projects policy should address the following: issuance cost; if additional funds should be borrowed for issuance cost; if this cost is included in the capital budget where the expense will be incurred; or if the cost of issuance would be absorbed by the debt service fund as noted in figure 9. Also note that the Debt Service Fund is a budget fund, and the budget should be amended to include any revenue and additional expenses.

Figure 9 reflects the Debt Service Fund paying the cost of the debt issuance.

Figure 9
Further depending on how the funds are borrowed, there could be interest earnings from the idle funds not yet expended and interest expensed during the construction phase. For example, the above $9.67 million could earn interest until used. These interest earnings would accrue to the Debt Service Fund and could be used to recoup the issuance cost and defray the interest cost of borrowed monies during construction. The earned interest is not eligible to accrue to the capital project fund.

Recommended Practice: Make sure all parties understand where the cost of the debt issuance will be charged and any interest earning deposited. Reflect this cost and revenues estimates in a budget.

While we are on the subject of cash availability, your debt policy should also address, either on a case by case basis or specifically state in the debt resolution, what will be the disposition of any unused funds after a project is complete. Generally the borrowing instruments state the proceeds shall be for capital outlay, thus allowing the county to use the proceeds for the project approved and any future approved project. Outside the broad language, the remaining funds are transferred back to the Debt Service Fund for the repayment of debt.

Recommended Practice: Allow all excess funds to be available for other capital projects upon specific approval.

Recommended Practice: If a permanent Capital Project Fund has not been established, then a county should take the opportunity to establish a Capital Project Fund with any excess cash.

### Posting a Budget for Borrowed Funds and Annual Appropriations

**Reference Number:** CTAS-1763

The comptroller’s office accepts the bond or note approval by the county commission as authorization to
establish an appropriations budget. It is highly recommended that an official budget be established reflecting the receiving of the borrowed funds along with the expenditure budget. This receipt and expenditure budget would be in either a Capital Project Fund or an Operating Budget. Figure 10 reflects a sample budget being established for the receipts and expenditures of a Highway Capital Project Fund. The annual expenditures of interest and principal are required to be annually appropriated. This appropriation should be reflected in the appropriations resolution and broken down by the respective classification in which the funds were borrowed. Figure 11 reflects an excerpt from an appropriation resolution.

Recommended Practice: An official capital budget should be established and filed with the county legislative body before or after the issuance of debt.

Recommended Practice: A budget amendment may be needed if new indebtedness causes the payment of interest and/or principal in the year of issuance.

Figure 10

Excerpted from a part of Section 1 of an appropriation resolution

SECTION 1....

151 GENERAL DEBT SERVICE FUND

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>82110 Principal-General Government Debt Service</td>
<td>672,295</td>
</tr>
<tr>
<td>82120 Principal-Highway and Street Debt Service</td>
<td>507,061</td>
</tr>
<tr>
<td>82130 Principal-School Debt Service</td>
<td>750,000</td>
</tr>
<tr>
<td>82210 Interest- General Government-Debt</td>
<td>473,968</td>
</tr>
<tr>
<td>82220 Interest- Highway and Street Debt Service</td>
<td>66,039</td>
</tr>
<tr>
<td>82230 Interest- School Debt Service</td>
<td>250,000</td>
</tr>
<tr>
<td>82310 Other Debt Service</td>
<td>15,000</td>
</tr>
</tbody>
</table>

Total General Debt Service Fund: 2,734,363

Figure 11

Managing Your County's Debt

Reference Number: CTAS-1764

Develop a Capital Projects Improvement Plan and Budget
Reference Number: CTAS-1765
One of the first steps in developing the most efficient Debt Management plan is to have in place a Capital Projects Plan, also known as Capital Improvement Plan (CIP) or Capital Outlay Budget, that includes the related budget. However, a Capital Projects Plan is not required in starting a good debt management program. The Capital Project Plan assists the county leaders in understanding their current capital assets, the replacement schedule of those assets, as well as future needs that have been identified. The Capital Project Plan should entail a project or project(s) budget with implementation dates and funding needs to be fulfilled by use of savings, annual revenues or the issuance of debt. One should be aware of whether the cost of the debt issuance will be included in the funds requested to be borrowed, and whether interest earned on idle funds will accrue to the debt service fund or capital project fund.

For more information, see Basic Steps of Establishing a CIP and Policy Considerations under the Capital Budgets topic.

Recommended Practice: Development of a Capital Project/Improvement Plan and Budget

Develop a Multi-Year Debt Budget

Reference Number: CTAS-1766
In order to have an efficient Debt Management program, the county should develop a multi-year debt budget for all the related debt service funds the county manages. The budget should include the most recent prior year’s audit, the current year’s operation and then extend annually until the final payments are made on the county’s remaining debt. The budget will become a useful tool in analyzing the needed revenue to support the existing debt obligations. The budget should reflect revenues, expenditures and fund balances over the term of the county indebtedness. The fund balance can then be monitored to see if this balance is consistent with the county fund balance policy, if one exists. The fund balance, upon reaching an optimal level, can then be maintained by showing an adjusted property tax rate each year. Even though a county may have other revenue sources that support the debt service funds, the property revenue estimate is the ultimate benchmark of activity. If revenue is shifted from another fund, there is still a cost of the indebtedness that is best measured by the property tax levied.

In developing a multi-year debt budget, the county will gain a better understanding of its current outstanding debt and the debt instruments (interest rates, projects, when the debt was originally issued and whether the debt has been refunded). By reviewing your multi-year debt budget, you will begin to understand future available debt capacity or a potential future debt financial crisis. The Multi-Year Budget must be viewed in conjunction with the Capital Budget and future borrowing should be planned accordingly.

Sample county multi-year debt budget. From this sample multi-year debt budget, Sample County Debt is created reflecting the tax rate overtime with the existing debt, along with adding $14 million bonds straight-line amortized. We can draw a number of conclusions from our exhibits and graphs:

1. In the near future, the county is paying off most of its existing debt.
2. Adding $14 million, even with paying off existing debt, will create a need for additional revenue.
3. Based on the existing debt being paid off in the next few years, there is an opportunity for wrapping some debt to level out debt service payments and thus debt tax.
4. With the existing debt expenditures being paid off in the near future, the county should review any debt for short term, lower cost items. If these are recurring (purchase on vehicles, roof repairs, etc.), they should take the opportunity with the potential debt tax reduction to transfer the tax to a capital projects fund and begin paying for the items annually; therefore not issuing debt for these recurring low cost, short-lived assets.

Recommended Practice: Development of a Multi-Year Debt Budget

Recommended Practice: Development of a Fund Balance Policy for the Debt Service Funds

Determine Your Current Debt Position - Statistics and Ratios

Reference Number: CTAS-1767
In order to have an efficient Debt Management program, you should have an understanding and working knowledge of your current debt position. Various ratios will be used in determining or measuring your debt capacity. Comprehension of the ratios should assist the local government in the following ways: (1) understanding whether your debt will have an acceptable rating by the debt rating agencies, and (2)
determining whether the citizens have the ability to pay for the future indebtedness.

Debt Per Capita Ratio – This ratio is used in evaluating the county’s ability to pay off its debt by taking the total principal on outstanding debt divided by the citizens in the county.

\[
\frac{\text{Total debt of a County}[^1]}{\text{County's population}[^2]} = \text{Debt per capita}
\]

The overall net debt per capita should not exceed $1,200 per capita nationally.[^3]

Debt as a Percentage of Personal Income – This ratio incorporates an ability to pay concept into the assessment of debt burden. It uses the total personal income (including wages, dividends, interest, rent, and government payments) divided by the total population.

\[
\frac{\text{Total personal income}[^4]}{\text{County’s population}[^5]} = \text{Per capita personal income}
\]

The overall net debt per capita should not exceed 15% of per capita personal income.[^6]

Debt to Assessed Property Value – This ratio examines the county’s current indebtedness to the assessed property value. It shows the wealth available to support present indebtedness so the county can include any planned debt to calculate an anticipated ratio, thus helping determine whether the county has capacity to meet present and future obligations.

\[
\frac{\text{Total debt of a County}}{\text{Assessed property Value}} = \text{Debt to assessed value}
\]

\(\text{(Property assessor plus public utilities from Trustee’s office)}\)

The overall net debt should not exceed 10 percent of assessed value.[^7]

These ratios are a benchmark of your county as monitored by the bond rating agencies. All three ratios must be considered along with other economic and financial data for the county, region and state. Further the agencies review your annual audits and the quality of management in determining your overall rating.

Statistical Reference

As of June 2010, the following data is being provided to allow the reader to have reference of the debt or potential need for capital improvement in county governments throughout Tennessee. See the Debt by County Table for various calculated ratios. The information provided in this table is believed to be accurate, but you should verify and research the most current available data for a final determination related to your county.

Further summary of data

- The highest debt county is Davidson County at more than $2 billion.
- The lowest debt county is Van Buren County at $1 million.
- Davidson County’s debt per capita is over $3,445.
- Van Buren County’s debt per capita is $200.
- Of the 95 counties in Tennessee, Giles, McMinn, and Tipton Counties are the only that are debt free.

According to the Tennessee Advisory Commission on Intergovernmental Relation “Building Tennessee’s Tomorrow: Anticipating the State's Infrastructure Needs July 2009 through 2014,” the outstanding capital needs are $37.5 billion or $6,075 per capita.

[^1]: Only the principle amount from the county’s most recent annual audit report or financial statement.
[^2]: U.S. Census or TACIR
[^4]: Bureau of Economic Analysis (BEA)
[^5]: U.S. Census or TACIR
[^7]: Municipal Benchmarks: Assessing Local Performance and Establishing Community Service Standards,
Find Out your Debt Rating

Reference Number: CTAS-1768
County governments in Tennessee are predominately rated by Moody’s Investor Services and Standard and Poor’s (S&P). A summary of the ratings are as follows:

*Moodys* - Investment grade has 10 grades, ranging from a high of “Aaa,” “Aa1,” “Aa2,” “Aa3” to a low of “Baa3.” Any rating less than a “Baa” is considered speculative; a “C” rating is default.

*Standard and Poor’s* - Investment grade has only four grades, from high to low: “AAA,” “AA,” “A,” and “BBB.” Any rating lower is considered non-investment grade; a “D” rating is default.

Your county’s last rating will be provided on your last debt instrument. Any future rating will be provided prior to the debt being issued.

Establish a Debt Service Payment Calendar

Reference Number: CTAS-1769
For your accounting department’s management of existing debt, a Debt Service Payment Calendar should be developed. This calendar will assist the accounting department by insuring that the correct debt payments are being made on time, to the right debt holder and in the correct amount. Situations have occurred in counties where debt payments have been late and paid twice to the same debt holder. These problems of payments are due to a lack of internal control related to the payment of the debt obligations. It is highly recommended that a Debt Service Payment Annual Calendar be established. See sample Debt Service Payment Calendar.

Recommended Practice: Establishment of a Debt Service Payment Calendar

The county should also have a debt payment schedule for the duration of debt payments. This is used to reconcile with the annual calendar, annual debt budget and multi-year budget. Figure 13 is a sample of a payment schedule for the duration of the debt.

Data for Debt Management Plan

Reference Number: CTAS-1770
As we start our Debt Management Plan, we must determine where we can find the appropriate data to help us understand our current financial position and assist in our debt policies considerations and Debt Management Plan in general.

Debt generally always purchases assets. Therefore, a county should understand what assets they have
acquired, where they are in service, and if they are being maintained. It also is important to know what assets are currently being paid with debt and what assets are in use and may have no debt outstanding. We must further understand that valued booked on the accounting statements will not reflect current value or replacement cost of the assets.

**Inventory and Insurance Schedules**

Reference Number: CTAS-1771

Inventory and insurance schedules are two basic schedules reflecting assets in use and containing value. These schedules reveal assets that would often need replacement due to their use in meeting public needs. As we review these schedules, we need to understand whether the assets listed have outstanding debt; would need debt to replace the assets; and whether the assets are short life, lower cost or long life, higher cost type of assets. This understanding assists in our capital planning, which in turn helps develop our debt service plan. One should further understand if the insurance schedule reflects asset purchase cost or replacement cost.

Recommended Practice: Maintain current inventory and insurance schedules as part of your Debt Management Plan

**GASB34 in Debt Management**

Reference Number: CTAS-1772

The General Accounting Standards Board (GASB) is the organization that develops uniform accounting reporting requirements for our local government. This organization has adopted various standards and statements over the years to assist governments and the financial market in understanding the organization operations from a financial standpoint. Statement No.34, Basic Financial Statements - and Management’s Discussion and Analysis-for State and Local Government, was formally adopted in 1999. Statement No. 34 requires government-wide financial statements that reflect the overall financial picture of the government on an accounting basis, similar to commercial accounting including accrual accounting. The implementation of GASB 34 should assist the county government in obtaining a better understanding of the assets’ liabilities (including debt) and the service provided to their citizens. The preparation of GASB 34 should not only help management better understand debt management, but also the end product of a Statement of Net Assets, a Statement of Activities, and other information and statements used in formulating a Debt Management Plan and making future debt decisions.

There is a lot to be learned on how the financial markets will use the statements in assessing credit risk, and how the data's year-to-year comparison will help formulate policy; but certain information can be derived from the new statements.

The Sample Statement of Net Assets reflects the following: the total booked assets of the county; liabilities; and the difference, which are net assets. Looking at the statement closer, one can see the capital assets which are not being depreciated, and the assets that are being depreciated (net of the depreciation). A further look shows the current and non-current liabilities and related long debt obligations. One also sees these relationships in a Governmental or Business Type Activities and Total.

In the Sample Statement of Activities a lot is yet to be learned on all the beneficial uses of the statement, but one can specifically note the net assets at the beginning and ending of the accounting period. This analysis should help clue the governmental officials on the financial direction the government is going.

Recommended Practice: Insure your county complies with GASB statements and become familiar with information within the statements.

**GASB 54 Statement**

Reference Number: CTAS-1998

Statement 54 was approved by GASB in February 2009 and was released on March 11th, 2009. The intent of the statement is to enhance governmental fund balance reporting in order for financial statements to be more consistent and comparable between similar government entities. The Debt Service Fund will be used to account for and report financial resources that are restricted, committed or assigned to expenditure for principal and interest. The Debt Service Fund should never be used to directly purchase capital expenditures.

**Annual Audits**

Reference Number: CTAS-1773
Probably one of the most important of all documents that will help formulate a Debt Management Plan is the audit. The annual financial audit includes information about the county that is statistical in nature, expresses an opinion of the county finances, and, to a certain degree, how they are managed. The audit includes much information, but specifically county officials should review:

- Audit Highlights - summarizes the scope of the audit, results and any findings related to the financial operations. Below is an example.

![Audit Highlights Example](image)

- The Opinion Letter/Independent Auditors Report - this letter explains the work performed in the audit, whether the county complied with generally accepted accounting standards or exception to those standards.
- A Management’s Discussion and Analysis Letter (if the county is complying with GASB 34) - the letter may specifically address issues related to Capital Asset and Debt Administration.
- Statement of Net Assets (if the county is complying with GASB 34) - addresses some debt issues.
- Statement of Activities (if the county is complying with GASB 34) - addresses some debt issues.
- Reconciliation of Balance Sheet of Governmental Funds to the Statement of Net Assets (if the county is complying with GASB34) - addresses some debt issues.
- Miscellaneous Schedules - schedules that include the following:
  - Changes in Long-term Notes, Other Loans and Bonds.
  - Schedule of Bond and Interest Requirements by Year.
- Further exhibits in the audit that reflect the status of the Debt Service Funds.

The most recent audits of your county can be located on the Comptroller of Tennessee’s Web site, under the Division of Local Government Audit.

Recommended Practice: Become familiar with your county’s audit and financial management

**Issuance Documents**

Reference Number: CTAS-1774

The county should maintain a permanent record location for all documents related to debt issues. Various documents exist related to your county debt. Some documents may be a bound bond book; other information may be in a notebook or binder, or a manila folder. Each issue should be separately labeled, filed and kept in a secured location.
Recommended Practice: Have all your county debt instruments (documents) collectively in one secure location

**Prior Budgets and Audits**

Reference Number: CTAS-1775
The prior year’s budgets and audits should be reviewed to establish a baseline of where your county has been; to gain a better understanding of what changes have taken place over the years; and what direction it would appear your county is going. Some budget preparers include additional information about the county debt service funds, and debt and capital management within the annual budgets.

Recommended Practice: Review prior year budgets and audits

**Selling the Project and Borrowing Money**

Reference Number: CTAS-1776

**Selling the Project**

Reference Number: CTAS-1777
Basic Steps of Establishing a CIP and Policy Considerations can be found under the Capital Budgets topic. Included is information on a committee or governing structure that identifies and starts the approval process for the capital program and funding approval.

A guide for approval of a capital project and related funding should follow the same procedures as adoptions of the operating budget; that guidance can be found in T.C.A. § 9-11-115. In summary, the code references adoption of an appropriation resolution, and then the related tax resolution for the operating budget. However, in the case of a capital project, a county could adopt a project budget known as the Project Budget Resolution (an example of a Project Budget Resolution is noted in figure 15) and then adopt the bond/note/loan resolution which we shall refer to as the Debt Resolution. Due to the legal nature of debt obligation as an attorney approved resolution, Debt Resolution allowing the government to levy taxes to repay the indebtedness will be required. This two step process allows the county’s related committee structure to work through gaining commission and public support for a project and related debt by gaining an understanding of the project needs and how the purposed project will meet the public purpose prior to action on a Debt Resolution.

We recognize that all counties do not approve a capital project and related debt in a two step process, but approve only the Debt Resolution. If only a Debt Resolution is approved, the budget approval is implied.

Recommended Practice: Establish a Capital Budget and post the budget on the accounting record. Provide it to the legislative body even if only a Debt Resolution has been adopted.
Local Government Obligations Acts of 1986 and Title 49 Education

Reference Number: CTAS-1778

Once the Project Budget Resolution has been adopted, the county mayor and finance department (if they haven’t already) should become familiar with the “Local Government Public Obligations Acts of 1986” found in Title 9, Chapter 21 of the Tennessee Code Annotated. In cases of school projects, a Debt Resolution can be issued under T.C.A. § 49-3-1002. Unlike Title 9, which allows a referendum to be called by the people to vote on whether or not to issue debt, Title 49 does not allow such a referendum. School debt can be approved under either Title 9 or Title 49. Information about Bonds Issued Under Local Government Public Obligations Acts of 1986 and School Bonds can be found under the Capital Budgets topic.

Assuming you have approved a Project Budget Resolution or will have your project approved with only a Debt Resolution, your next step is to determine whether bond or notes will be issued. In the case of potentially having notes issued, you then can consider whether you have the capacity to have internal funding of the debt. In other words, either the trustee purchases the debt as an investment or accounting handles the transaction as an inter fund loan. If it has been decided that notes can be issued, then you should consult the Comptroller of the Treasury Division of Local Finance and review their publication a “Guide for the Issuance of Notes by the Counties, consolidated Governments, and Municipalities of Tennessee.”

Special Consideration on School Debt, T.C.A. § 49-3-1005

Reference Number: CTAS-1779

In a county having a city or special school district, both the county school board and commission should be aware of the requirements of the sharing of bond or loan proceeds where the indebtedness will be repaid from a county wide tax. State law and court cases have addressed the situations where the bonds
or loan proceeds will be divided with the city or special school district based on the respective prorating of students if the entire county is charged with repaying the debt. A county can choose only to tax the properties outside of a city or special school district, and thus are not required to share in the bond or loan proceeds. This taxation is generally referred to as a Rural School Tax. T.C.A. § 49-3-1005 addresses the bond and loan proceeds and taxation issue.

In determining whether to issue county-wide debt or rural school debt, the county generally will determine the pro-rated value of property outside the city system and compare the property value to prorating of students between the two systems. For example, if the value of property outside of the city or special school district is 75 percent of the total county value and the county school system has 80 percent of students; the county may choose to issue county-wide debt. This county-wide debt would then reflect the county system receiving 80 percent of the funds and the city receiving 20 percent, but with the city property paying for 25 percent of the debt repayment cost.

How to Borrow the Money

Reference Number: CTAS-1780

T.C.A. § 9-21-102. Intent. “It is the intent and purpose of this chapter to provide a uniform and comprehensive statutory framework authorizing any local government to issue general obligation bonds and revenue bonds for public works projects, general obligation bonds for certain unfunded pension obligation, general obligation refunding bonds, revenue refunding bonds, bond anticipation notes, capital outlay notes, grant anticipation notes, and tax anticipation notes, and to authorize the destruction of bonds, notes and coupons.” This T.C.A. chapter describes in detail issues of all debt obligation and related purposes of debt.

T.C.A. §9-21-103. No indebtedness limit. “Bonds or notes may be issued under this chapter, notwithstanding and without regard to any limit on indebtedness provided by law.” The law allows unlimited indebtedness; however, a county’s debt ratios would gauge the amount of risk indebtedness the county may have, and thus would be a factor in determining the interest rates.

Money can be borrowed for the capital projects, as well as for anticipated borrowing purposes such as, tax, grant and revenue anticipation notes. These instruments are not covered in detail since their purpose is short term in nature (generally less than one year) and repaid upon revenue being received or permanent debt being issued. The following describes the issuance of debt instruments which are considered longer term in nature.

Tax Exempt Debt

Reference Number: CTAS-1781
Debt issued in compliance with the Tennessee Code and Federal law is considered exempt for income tax purposes to the holder of the debt instruments.

Comptroller's Office Filing

Reference Number: CTAS-1782
Public Debt Entity Form (Comptroller Form CT-0253) is required to be filed by the local government within 45 days of entrance into a debt obligation.

Issuance of Notes

Reference Number: CTAS-1783
The Comptroller of the Treasury Division of Local Finance publishes a “Guide for the Issuance of Notes by the Counties, Consolidated Governments and Municipalities of Tennessee”. This publication includes information, description and sample resolutions which can be used for the issuance of: Bond Anticipation Notes, Capital Outlay Notes, Grant Anticipation Notes, Tax Anticipation Notes, Health Care Anticipation Notes, and Revenue Anticipation Notes. The publication also includes State Form CT-0253 which reports to the Comptroller’s Office a summary of your new debt obligation related to amount, type of debt, cost of the issuance, interest rate and other information. Form CT-0253 and related instructions.

Various factors will determine whether the county’s debt issuance is by way of note or bond. Below are the major factors to be considered:

1. Amount of Issuance
2. Type of Asset specifically the asset life expediency
3. How the new debt will fix into the existing multi-year debt service budget or plan-Term of
Notes generally will be less expensive to issue due to the local government being able to handle the transaction locally and absorbing most, if not all, financial cost of issuance; however, notes that are large in dollar denomination may require placement outside of a local financial institution. Small dollar denomination notes are often sold to the local financial institutions via a bid process. Sample Request for Quote form for local financial institutions. You should consult your purchasing department to coordinate the purchasing effort.

**Inter-Fund Capital Outlay Note**

Reference Number: CTAS-1784

When the decision has been made to issue capital outlay notes, the county should further consider whether an inter-fund loan would be in the county's best financial interest. An inter-fund loan is where one accounting fund, such as the General Fund, loans (via capital outlay note) monies for a project. The General Fund is repaid the money via the Debt Service Fund, or the operating fund that purchased the capital asset. The inter-fund loan is often used to save the county money by absorbing all debt issuance cost, and potentially saving the difference in the investment rate of return on the county money versus the interest rate charged to borrow the funds. The internal funding also can be the County Trustee purchasing the note as an investment. Special accounting treatments must be considered to book the indebtedness.

**Financial Leases**

Reference Number: CTAS-1785

Financing leases are another avenue in which a county can acquire a capital asset. This avenue is generally the least used and often the most expensive means of financing. Generally speaking, a county can issue capital outlay notes and purchase an asset, as opposed to the leasing of the asset. Interest rates are often higher in lease contracts than a county can receive via inter-fund loan or capital outlay notes issued to a local financial institution. A county should fully understand the cost of the asset and borrow cost imputed, as well as, whether they intend to use the asset through the end of it useful life. The county should also conduct an analysis of purchase versus lease cost. The Comptroller of the Treasury Division of Local Finance "Tennessee Debt Manual for Local Governments” set out various requirements for a county to enter into a lease agreement.

**Issuance of Bonds (General Obligation Bonds) and Loan Agreements**

Reference Number: CTAS-1786

The Debt Resolution is used when bonds or longer term loans are issued. The resolution is generally prepared by the county’s bond counsel and adopted at either a regular or specially called meeting of the county commission. This Debt Resolution pledges the full faith, credit and unlimited taxing power of the local government as to all taxable property in the local government or a portion of the local government.

The Debt Resolution T.C.A. § 9-21-108

- Is not required to be posted or published before adoption, but must be posted/published after adopting T.C.A. § 9-21-206 in order to allow the eligible voters to call for a referendum. Referendums are not allowed for school projects if debt is issued under Title 49.
- Can not be vetoed by the chief executive officer (mayor or executive).
- Takes only a majority vote of the commission.
- May delegate authority to the chief executive officer of the local government to sell notes or bonds.

**Borrowing in the Bond Market or from a Loan Pool**

Reference Number: CTAS-1787

Once it has been determined that the project will be supported with a bond or loan, the county must select the best avenue to issue the debt.

**Financial Advisor**
Reference Number: CTAS-1788
Some counties have chosen to have financial advisors employed to assist in their county debt management. Depending on the county’s debt positions and understanding of their debt and future needs, the value of this service could be questioned. First, if a county has a debt management program, the county should have a good understanding of their financial needs. Second, if a financial advisor under contract with the county also is involved in the underwriting, trading, or sale of the debt; there exists a question of enough independence in the relationship. Due to the nature of some borrowing and the lack of understanding and knowledge of the issuer, there are cases where the financial advisor is a needed professional for your county. If a financial advisor is needed, it is recommended that the county do a request for proposals to secure these services. The purchasing professionals with CTAS have available specifications for solicitation of a financial advisor.

Recommended Practice: If you desire to have a financial advisor, it is recommended to request proposals for their services

Underwriter

Reference Number: CTAS-1789
An underwriter is a firm or group of firms selected to purchase and re-market the debt to the public or investment community. An underwriter usually is an investment banker or commercial bank. The underwriter puts together an offering price to purchase the debt with the intent to re-sell the debt in smaller pieces to other investors, making a profit on the difference in the purchase price and selling price.

Bond Sales

Reference Number: CTAS-1790
If a county is having its debt issued by bonds, the county and its advisor can select to have a competitive, negotiated or private placement of the bonds. If a competitive sale is selected, then a financial advisor, issuer, or bond counsel will develop legal notices, bid forms, and various disclosures regarding the issue, along with a time and date to receive bids. The county should be aware that Federal law prohibits what is know as arbitrage - where a county receives tax exempt debt funds and re-invests those funds to generate earnings greater than the interest cost. Generally when the bonds are sold, all proceeds are then turned over to the county. A specific drawdown of the money on the capital project is planned and anticipated to prohibit an arbitrage issue.

Loans

Reference Number: CTAS-1791
Issuing debt by loans has been an option taken by many governments over the years as a way to reach a more economic scale in the issuance cost. A loan program involves a firm developing a program where bonds are issued in a large denomination (several $100 million) through a public building authority. This money is then loaned to the local government. Loans can be on variable or fixed rates. In cases where governments borrow under a loan program, generally there should be a reduced issuance cost due to the issuance cost for the one large denomination bond being spread over many loans, as opposed to issuance cost on individual bonds. Further, the need for a financial advisor is minimized due to the individual bonds not having to be underwritten. If a county is considering loans, these loans also should be on a request for proposals. Further arbitrage issues do not arise on these loans since the government receives the funds on a drawdown as needed basis.

Recommended Practice: If your county has selected to issue loans for their debt, then the county should solicit loan rates and related cost

Time Frame for Receiving Monies

Reference Number: CTAS-1792
The county should consult with its financial advisor or the loaning firm on the availability of money. Public notices may be necessary to determine if a referendum is required. If a referendum is held, the process could take up to six months. Upon loans being approved, the time of receiving money can be three to five weeks.

Cost Associated with Bonds and Loans

Reference Number: CTAS-1793
The county needs to understand the full and total cost of the issuance of debt. There generally is a cost associated when the transaction is complete, and then the on-going monthly and annual cost of the issue. These costs should be fully disclosed during your solicitation process for a financial advisor and debt issue. State form CT-0253 should be used in the solicitation process.

Summary of Steps in Issuing Debt

Reference Number: CTAS-1794
This is a brief summary of the major steps in making the decision on financing a project:

Step 1 – County determines its needs and potential costs.
Step 2 – County determines if funds are currently available. If not, step three.
Step 3 – County determines if capital outlay notes are a viable option.
  • If yes, then the county determines if sufficient funds can be borrowed internally.
  • If so, should the county borrow internally?
  • If no internal borrowing, then can funds be borrowed at local financial institutions?
  • If not, then consider loan pools as an option for capital outlay notes.
  • If capital outlay notes are not an option, proceed to step four.
Step 4 – Should the county borrow from a loan pool or issue bonds?
  • If loan pool, then contact loan pool representatives for quotes.
  • If bonds, then solicit financial advisor to assist in bond sale.

Policies and Committee Considerations

Reference Number: CTAS-1795
In planning the county's financial future, various policies and committees are often established to advise the legislative body and the executive branch. Review the following comments on policy, committees and planning considerations.

Fixed Asset Policy

Reference Number: CTAS-1796
Due to the Governmental Accounting Standard Board statement 34 all counties should have a Fixed Asset Policy. This policy will give guidance in formulating a Capital Improvement Plan by identifying classifications of capital assets.

Capital Improvement Plan/Budget

Reference Number: CTAS-1797
The Capital Improvement Plan should identify the current assets in use, their anticipated replacement date and any anticipated needed or planned future assets. As this plan is classified by asset and year, then an estimated replacement and purchase cost can be assigned to each asset. Related revenue can then be identified to acquire the replacement or new asset. If the revenue assigned is notes or bond proceeds, then this cost is considered a part of the Debt Management Plan.

See Reasons for a Capital Improvement Plan/Budget under Capital Budgets.

Fund Balance Policy

Reference Number: CTAS-1798
A Fund Balance Policy will assist in the long-term stability of the government finances by establishing an ending fund balance goal of each respective accounting fund. For instance, the Highway Fund is typically made up of state revenues that are transmitted monthly to the county. Thus with this constant consistent revenue stream, the Highway Department has monthly operating cash that often matches monthly operating expenditures. In this example, the Highway Fund may require only an extra month fund balance, or 1/12 of the annual budget could be the fund balance goal. In the case of the General Fund, which is predominately supported by property tax collected mainly in December and February, (a full six and eight months into the fiscal year) a larger fund balance would be needed to support operations until the revenue is received.
In establishing a Fund Balance Policy for the Debt Service Fund, we often recommend that a county have 50 percent to 150 percent of its current appropriation budget. The fund balance is higher in the Debt Service Fund for a number of reasons:

1. Reflects a conservative debt policy to debt rating agencies; therefore, more stability in financial operations and hopefully better interest rate opportunities.
2. Allows for the idle funds to be invested at a steady revenue stream of interest earning. Often interest earnings are annual revenues to the debt service funds.
3. Allows more flexibility in structuring future debt payments by allowing the fund balance to increase and decrease over time to smooth out the debt service tax levy.

You would generally see a county’s debt service fund balance begin to increase in anticipation of future capital project and debt, and decrease as existing debt is paid off.

**Debt Management Policy**

Reference Number: CTAS-1799

**Legal Requirements:**

"Pursuant to TCA Section 9-21-151(b)(1), the State Funding Board is authorized to develop model financial transaction policies for the State, State Agencies, local governments and local government instrumentalties. The State Funding Board on December 15, 2010, adopted a statement on debt management that reflects three principles for strong financial management in the public sector:

1. Understand the transaction
2. Explain to citizens what is being considered
3. Avoid conflicts of interest
4. Disclose costs and risks

State and local governments and government entities that borrow money are directed to draft their own debt management policies by January 1, 2012, using this model policy as a guideline."[1]

**Objectives:**

The following objectives meet the minimum statutory requirements:

1. Make the decision process transparent
2. Address hiring outside professionals
3. Address any potential conflict of interest issues

**Minimum Language Required**

1. **Transparency**

   The Entity shall comply with legal requirements for notice and for public meetings related to debt issuance. In the interest of transparency, all costs (including interest, issuance, continuing, and one-time) shall be disclosed to the citizens/members, governing body, and other stakeholders in a timely manner. *(The method for disclosure of costs and other information, including documentation of compliance with the policy, shall be developed and outlined in the policy.)*

2. **Professionals**

   a. The Entity shall require all professionals engaged in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by both the Entity and the lender or conduit issuer, if any. This includes “soft” costs or compensations in lieu of direct payments.
   
   b. Counsel: The Entity shall enter into an engagement letter agreement with each lawyer or law firm representing the Entity in a debt transaction. *(No engagement letter is required for any lawyer who is an employee of the Entity or lawyer or law firm which is under a general appointment or contract to serve as counsel to the Entity. The Entity does not need an engagement letter with counsel not representing the Entity, such as underwriters’ counsel.)*
   
   c. Financial Advisor: If the Entity chooses to hire financial advisors, the Entity shall enter into a written agreement with each person or firm serving as financial advisor for debt management and transactions.
   
   d. Whether in a competitive or negotiated sale, the financial advisor shall not be permitted to bid on, privately place or underwrite an issue for which they are or have been providing advisory services for the issuance.
e. Underwriter: If there is an underwriter, the Entity shall require the underwriter to clearly identify itself in writing (e.g., in a response to a request for proposals or in promotional materials provided to an issuer) as an underwriter and not as a financial advisor from the earliest stages of its relationship with the Entity with respect to that issue. The underwriter must clarify its primary role as a purchaser of securities in an arm’s-length commercial transaction and that it has financial and other interests that differ from those of the Entity. The underwriter in a publicly offered, negotiated sale shall be required to provide pricing information both as to interest rates and to takedown per maturity to the governing body (or its designated official) in advance of the pricing of the debt.

3. Conflicts
   a. Professionals involved in a debt transaction hired or compensated by the Entity shall be required to disclose to the Entity existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisor, swap advisor, bond counsel, swap counsel, trustee, paying agent, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations and program administrators. This disclosure shall include that information reasonably sufficient to allow the Entity to appreciate the significance of the relationships.
   b. Professionals who become involved in the debt transaction as a result of a bid submitted in a widely and publicly advertised competitive sale conducted using an industry standard, electronic bidding platform are not subject to this disclosure. No disclosure is required that would violate any rule or regulation of professional conduct.

A county may adopt the minimum language as their debt policy.


Additional Considerations to the Minimum Language

Capital Projects Committee

Reference Number: CTAS-1800
A Capital Projects Committee assists in developing the Capital Project Plan/Budget and policies. See Basic Steps for Establishing a Capital Improvements Plan (CIP) and Policy Considerations under the Capital Budgets topic for additional information on developing a Capital Project/Budget or Capital Improvements Plan.

Debt Committee

Reference Number: CTAS-1801
The Debt Committee assists in developing the debt service program and fund balance policies, along with helping the county understand all aspect of its debt. The committee should make recommendations on when to issue debt and what type of debt to issue. This committee should have an in-depth understanding of the existing Debt Service Funds, the current outstanding debt instruments and the multi-year debt service budget. This committee should work with the county mayor/executive and finance department in the overall Debt Management Program, and follow the committee charge outlined in the Debt Policy
Recommended Practice: Establish committees to assist in debt management activities

Recommended Best Practices

Reference Number: CTAS-1802

In order to have an effective debt management program, your county must have an understanding of your current debt position and your capital needs. This understanding can be evolutionary in nature due to the changes in laws requiring service and regulating debt issuance; market conditions; and the ever-changing needs of the citizens. Various policies and committees may be established to assist you in understanding debt management.

In summary, you should develop, comply and/or adopt the following:

- Establish a Capital Budget
- Make all payments of debt from a Debt Service Fund
• Debt policy should address issuance cost
• Make sure all parties know where the issuance cost will be charged
• Allow any excess funds from capital projects to establish other capital projects
• Establish a permanent Capital Project Fund
• An official Capital Budget should be established after issuance of debt
• Make needed budget amendments if interest or principal is paid during the year debt is issued
• Develop a Capital Improvements Plan/Budget
• Multi-year debt service budgets
• Develop a fund balance policy for the Debt Service Fund
• Establish a Debt Payment Schedule/Calendar
• Maintain current inventory and insurance schedules
• Make sure your county complies with GASB standards
• Become familiar with your county’s audit and financial management
• Have all your county debt instruments in one location
• Review prior year budgets and audits
• Establish a Capital Budget and post the budget on the accounting records
• If you desire to have a financial advisor, request proposals
• If you select to issue loans, then solicit loan rates and related cost
• Establish a committee to assist in debt management activities

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