

Tennessee Board of Utility Regulation

Ben Johnson

Finance and Utility Manager

Local Government Finance

TENNESSEE COMPTROLLER OF THE TREASURY



Utility Staff

Finance and Utility Manager: Ben Johnson

Email: Benjamin.S.Johnson@cot.tn.gov

Phone: 615.747.8831

Senior Data Analyst/East Tennessee: Charlie Lester

Email: Charlie.Lester@cot.tn.gov

Phone: 615.401.7762

Senior Analyst/Middle Tennessee: Meghan Huffstutter

Email: meghan.huffstutter@cot.tn.gov

Phone: 615.747.5379

Senior Financial Analyst/West Tennessee: Nate Fontenot

Email: nate.fontenot@cot.tn.gov

Phone: 615.747.5238



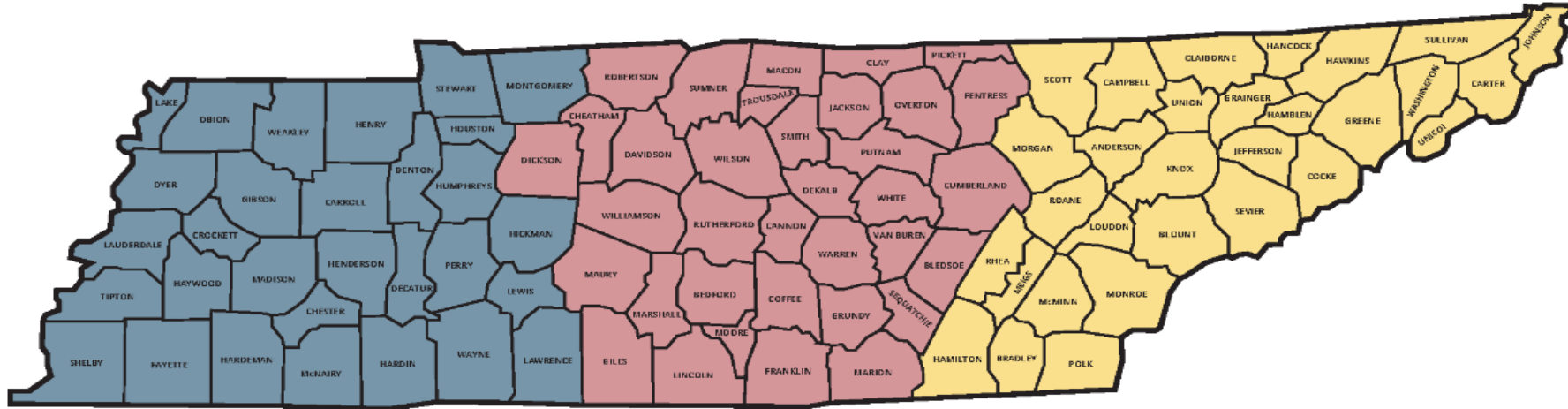


Division of Local Government Finance

Staff to the Tennessee Board of Utility Regulation (TBOUR)

Ben Johnson
Financial and Utility Manager
Benjamin.S.Johnson@cot.tn.gov

615.747.5260



WEST TENNESSEE
Nate Fontenot, CFE
Senior Financial Analyst
615.747.5238
Nate.Fontenot@cot.tn.gov

MIDDLE TENNESSEE
Meghan Denson, CFE
Senior Analyst
615.747.5379
Meghan.Huffstutter@cot.tn.gov

EAST TENNESSEE
Charlie Lester
Senior Data Analyst
615.401.7762
Charlie.Lester@cot.tn.gov

Please send correspondence to: **Utilities@cot.tn.gov**

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Tennessee Board of Utility Regulation

History

- The UMRB and WWFB were established in 1989.
- In April of 2007, the authority of the two utility boards was transitioned from TDEC to the Comptroller's Office
- The Tennessee Board of Utility Regulation was created in July of 2023.
 - Added municipal gas systems.
 - Authorized the review of municipal customer complaints.
 - Referral for two outstanding, late audits.
 - Authority to order the consolidation of an ailing utility system.

TENNESSEE COMPTROLLER OF THE TREASURY



Tennessee Board of Utility Regulation

Utility Systems

Water and Wastewater Financing Board

- Roughly 280 Utilities
- Municipal, County, Authority Systems

Utility Management Review Board

- Roughly 170 Utility Districts

Tennessee Board of Utility Regulation

Creation and Purpose

- Created by Tenn. Code Ann. § 7-82-701 and is administratively housed in the Comptroller's Office
- Purpose is to advise and direct utility systems around good utility management, and to determine and ensure the sound financial integrity of those utility systems.
- Charged with the responsibility of furthering the legislative objective of self-supporting water, sewer, and gas systems in Tennessee

TENNESSEE COMPTROLLER OF THE TREASURY



Tennessee Board of Utility Regulation

Who makes up the Board?

- Greg Moody, Chair- Comptroller or Comptroller Designee
- Paula Mitchell, Vice-Chair- TDEC Commissioner or Designee
- Edwin Carter, Comptroller Appointee
- Steve Stone, Middle TN Natural Gas UD, House Speaker Appointee
- David Purkey, Morristown Utility System, Senate Speaker Appointee
- 6 Governor Appointees

TENNESSEE COMPTROLLER OF THE TREASURY



Tennessee Board of Utility Regulation

Who makes up the Board? – cont.

Governor Appointees

- Candace Vannasdale, Harriman Utility Board
- Alex Smith, Humboldt Utility Authority
- Bruce Giles, First UD of Knox County
- Eugene Hampton, Metro Nashville
- Britt Dye, Utility System Representative
- Anthony Pelham, Warren County Utility District

TENNESSEE COMPTROLLER OF THE TREASURY



Tennessee Board of Utility Regulation

Staff to the Board

- The Comptroller's Office designates a staff member to serve as manager to the Board and provides an attorney to serve as Board counsel.
- The Board manager reports the proceedings of TBOUR to the Comptroller and performs other such duties as the Board may require.
- Each utility under TBOUR's jurisdiction is assigned a financial analyst from the Comptroller's Division of Local Government Finance who acts as Board staff for a specific region and as a point of contact between the Board and the utility.

TENNESSEE COMPTROLLER OF THE TREASURY



Tennessee Board of Utility Regulation

Staff Responsibilities

- Receive and review annual information from utility systems.
- Approve utility training providers and curriculum.
- Refer financially distressed utility systems to TBOUR.
- Recommend sanctions and remedial actions to TBOUR.
- Support TBOUR's statutory purpose.

Tennessee Board of Utility Regulation

Oversight – Who?

- Counties, metropolitan governments, and incorporated towns and cities, including their instrumentalities, that provide water, sewer, or natural gas services.
- Treatment and energy authorities
- Utility districts

Excludes:

Electric Systems
Stormwater Systems
Private Utility
Systems

Tennessee Board of Utility Regulation

Oversight – How & When?

- TBOUR exercises its oversight and regulatory powers during public meetings.
- At least two meetings a year, typically four, and can hold special called meetings.
- Meeting Schedules and Agendas Posted to the TBOUR website.
- Public Comment Period related to items on the agenda.

Tennessee Board of Utility Regulation

Transparency

- Open Meetings and Meeting Information
 - TBOUR's activities are made available to the public through its online publication of meetings schedules, agendas, board packets, recordings, minutes and orders.
- TBOUR has adopted rules pursuant to Tenn. Code Ann. § 7-82-702(a)
- Annual Report on TBOUR's activities
- Annual Information Report
- TN Utility Manual for Local Governments



Tennessee Board of Utility Regulation

Referrals

- A utility system may be referred to or reported to TBOUR by the Comptroller, Board staff, or by operation of state law.
- TBOUR may also initiate the referral of a utility system following a customer complaint after an appeal or complaint is first made to the utility system's governing board.
- When operation of law applies, Board staff will initiate the referral.

Tennessee Board of Utility Regulation

Statutory Authority

- Legal Remedies or Sanctions
- Approvals and Recommendations
- Notifications
- Informal Hearings
- Contested Case Hearings

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TBOUR Legal Remedies and Sanctions

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Ailing System

Financial Distress

Tenn. Code Ann. § 7-82-703(a) and (b) and (i)

- Having a negative statutory change in net position for two consecutive years
- Reporting a deficit unrestricted net position
- Reporting a deficit total net position
- Defaulting on debt obligations

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Ailing System

Financial Distress – Statutory Change

How do you calculate your statutory change in net position?

Change in Net Position (GAAP Basis) \$ _____

Less:

Grants – Capital \$ _____

Grants – Operating _____

Capital Contributions _____

Interfund Transfers from Other Funds _____

Statutory Change in Net Position \$ _____

Ailing System

Financial Distress – What to Expect

- Within 60 days from the date an audit is filed, a utility system will be referred to TBOUR if it meets financial distress criteria.
- Board staff will request completion of an online utility financial distress questionnaire.
- TBOUR will take an action during its next scheduled meeting likely leading to an Order being issued directing the utility to take specific actions to remedy the financial distress.
- Utility will need to comply with TBOUR's directives, which will usually include dates by which actions must be taken.



Ailing System

Financial Distress – How Long?

The financial distress designation for a utility system continues until:

- TBOUR issues an Order closing the case; or
- The utility system has not met any criteria for financial distress for two or more consecutive years and the Board has not:
 - Included the utility system on a Board meeting agenda; or
 - Discussed the utility system at a board meeting, regardless of whether the utility system was on the meeting agenda.
- At a minimum, an entity will usually remain on an update cycle until the utility has had two consecutive, timely annual audits that demonstrate compliance, and has completed all outstanding directives in the Order(s).

Ailing System

Financially Unable to Expand Service

Tenn. Code Ann. § 7-82-704(a)(2)

- Any utility system that is not financially able to expand its utility service as set forth and described in its founding documents, petition for creation under general state law, or private act.

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Ailing System

Pattern of Managerial Incompetence

- Frequent interruptions in service to multiple customers, lasting multiple days;
- Frequent infrastructure failures that result in interruptions in service or cause the quality of service to fall below safe levels; or
- Failure to:
 - Respond to reports of damage to, or failure of, infrastructure within a reasonable timeframe
 - Improve or attempt to improve infrastructure
 - Correct a deficiency in oversight, operational management, or financial management

Ailing Systems

Merger Authority

Tenn. Code Ann. § 7-82-704

TBOUR has the authority to order a merger or consolidation of an ailing utility system with another utility system if the merger is necessary to restore financial stability, ensure continued operation, or otherwise ensure that the public's well-being is served in accordance with

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Ailing Systems

Actions Prior To Merger

- Review the ailing utility system's audit(s) and operations
- Order the ailing utility to obtain a feasibility study from a qualified expert
- Review the results of the study
- Review any information necessary to determine if the merger or consolidation is feasible and is in the best interests of the ailing utility or would harm the receiving utility system or systems
- Hold a local public hearing
- Hold an informal hearing

Excessive Water Loss Threshold

Tenn. Code Ann. §§ 7-82-202, 7-82-706(c), 7-82-707(d)

- Non-revenue water by volume of 40% or above
- Calculated from information reported on the annual information report

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Excessive Water Loss

What to Expect

- AWWA v6.0 worksheet completed by an approved third-party expert
- Create plan to bring the utility back within water loss compliance
- Update cycle until it has demonstrated improvement in reducing non-revenue water by volume percentage

Failure to meet Initial Training or Continuing Education Requirements

Tenn. Code. Ann. § 7-82-707

- Orders for reasonable sanctions against local government
- Administrative review

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Failure to submit annual information report

Tenn. Code. Ann. § 7-82-707

- Board may order reasonable sanctions against the utility system.
- Subpoenas may be issued to members of the governing body and utility manager to appear in-person before TBOUR.

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Administrative Review

What to Expect

Tenn. Code. Ann. § 7-82-706

- Administrative review may be initiated from various sources and for various reasons i.e. Public concerns, other Comptroller Divisions, failure to comply with state law.
- Underlying reasons will always be directly related to the administration of the financial, technical, and managerial affairs.
- Board staff will make recommendations to TBOUR based upon the results of their review.

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Administrative Review

Remedial Actions

- Changes in ownership, management, accounting practices, or user rates;
- Adoption or change to maintenance practices, software, or hardware, or development of alternative supplies of resources, means of distribution of resources, or methods of water and wastewater management;
- Merger or consolidation of a utility system with another system as described under Tenn. Code Ann. § 7-82-704; or
- Development of rules and policies as necessary for effective and responsible management of a utility system.

Illegal Payment or Transfer of Funds

Tenn. Code Ann. §§ 7-82-703, 7-82-707

- Utility funds to pay for non-utility expenses,
- Used non-utility funds to pay utility expenses,
- Transferred utility funds to any other fund inconsistent with state law,
- Found to have made any other illegal use or transfer of utility funds

Employees or members of the governing body of a utility system are required to report violations.

Issuance of Debt

Emergency Cash Flow Operating Needs

Tenn. Code Ann. §§ 7-34-111(g); 7-36-113(j); 7-82-501(b); 68-221-611(n); and 68-221-1311(m)

- Revenue Anticipation Notes (RANs) to finance emergency cash flow needs.
- The RANs require the approval of the Comptroller's Office.
- LGF corrective action plan to address the underlying reason(s) for the need to issue the RANs.
- LGF will refer the local government to TBOUR for consideration.

Late Audits

Two Consecutive Years

Tenn. Code Ann. § 7-82-703(c)(1)(a)

- Local Government Audit division responsible for audits
- Due six months after the end of the fiscal year

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Cyber Security Plan

Failure to Assess or Update

Tenn. Code Ann. § 7-51-2301

- Must have a prepared cyber security plan that has been implemented
- Should provide for the protection of the utility's facilities from unauthorized use, alteration, ransom, or destruction of electronic data
- Assessed and updated every two years to address new threats
- Independent auditors are required to verify
- LGA's Audit Manual includes links to organizations that have resources

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Connection Costs

Failure to Provide Information

Tenn. Code Ann. § 65-5-403

- When local officials fail to provide utility customers information on connection costs.

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SRF Loan Applicants

Failure to Demonstrate Basic Capabilities

- TDEC and TLDA Drinking Water Revolving Loan Fund
- Applicants subject to statutory prerequisites
- Applicant local governments must demonstrate **technical, managerial, and financial capability** to ensure compliance with the requirements of the federal act and the state act
- Local governments that do not demonstrate these capabilities may receive loans if local officials agree to undertake feasible and appropriate changes in the utility system's operations as approved by TBOUR

Adoption of Ethical Standards that Differ from TAUD Approved Model

Tenn. Code Ann. §§ 8-17-101 et al., § 7-82-702(a)(6)(C)

- Applies to Utility Districts and Water and Wastewater Authorities.
- Adopted ethical standards that are different from the TAUD model must be submitted to TBOUR
- If a district or authority adopts standards that are different from the TAUD model, then the standards must be submitted to TBOUR, which shall review and make a finding by Order that the standards are more stringent than the TAUD model.



Investigative Report

Issued by the Tennessee Comptroller

Tenn. Code Ann. §§ 7-82-307(b)(2)(A), 7-82-702(a)(3)

- Applies to Utility Districts.
- Comptroller forwards to TBOUR any published investigative audit report involving a utility district
- TBOUR reviews reports and may conduct a contested case hearing on whether district commissioner(s) should be removed from office for:
 - knowingly or willfully committing misconduct in office
 - knowingly or willfully neglecting to fulfill any duty imposed upon the member by law
 - failing to fulfill their fiduciary responsibility in the operation or oversight of the district

Purchasing Policy for a Utility District

Questions on Adequacy

Tenn. Code Ann. § 7-82-804

- Applies to Utility Districts.
- Each utility district's board of commissioners must adopt a policy governing all purchases, leases, and lease-purchase agreements of the district.
- Questions of the appropriateness or adequacy of any utility district purchasing policy must be submitted in writing to TBOUR.

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TBOUR Approvals and Recommendations

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Application for Utility Revitalization Fund Grant

- Ordered merger
- Voluntary merger
- Must submit quarterly reports to the Board on a form approved by the Board
- Considered operating revenue

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Utility Service to Customer in Adjoining Utility District

Tenn. Code Ann. § 7-82-112(a)

- Utility Districts are allowed to provide utility service to a customer located within the boundaries of an adjoining utility district when approved by TBOUR
- Either the customer or the adjoining utility district may file a request with TBOUR for the customer to obtain utility service from the utility district
- TBOUR may approve request when it finds that:
 - The adjoining utility district has either refused to provide utility service to the customer or is not able or willing to provide service within a reasonable period of time and at a reasonable cost
 - The utility district is willing to provide utility service to the customer

Resolution to Change the Method of Board Appointment for a Utility District

- Utility district must file a certified copy of the resolution with TBOUR. At its next scheduled meeting, TBOUR will enter an Order either approving or disapproving the resolution.
- Board will approve the resolution if it finds that the request is in the best interest of the utility district and its customers.

Petition for Creation, Purchase, Development, Acquisition of Certain Utility Systems

Description	Tenn. Code Ann.
Petition for creation – of a utility district	§ 7-82-201(a)(1) § 7-82-702(a)(7)
Petition for creation – of a public act water or wastewater treatment authority	§ 68-221-604(b)
Petition for creation – of a public act regional water and wastewater treatment authority	§ 68-221-1304
Petition to purchase, develop, acquire, or build a new public act water or wastewater system.	§ 68-221-1017 § 7-82-702(a)(8)

TAUD Model of Ethical Standards

- TAUD is required to provide guidance and direction and model ethical standards for utility districts, water and wastewater authorities, and gas authorities. TAUD is required to submit the model standards to the TBOUR for review and approval.
- TBOUR approved the TAUD model ethical standards.



TBOUR Notifications

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Petition for Meger, Consolidation, or Re-Creation of a Utility District

- Applies to Utility Districts.
- Petitions for a merger or consolidation of utility districts or for a consolidation of a utility district with a municipality, county, or utility authority pursuant to Tenn. Code Ann. §§ 7-82-202(e)-(f) must be filed with TBOUR simultaneously with the required filing to the county mayor or mayors.
- The petitions are not subject to approval or disapproval by TBOUR

Dissolution of a Utility District

Tenn. Code Ann. § 7-82-301(b)

When utility districts are dissolved as a result of the following circumstances, a true and correct copy of the order dissolving the utility district must be filed with TBOUR.

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Supplemental Petition for a Utility District to Provide Other Utility Services

- The supplemental petition must be filed with TBOUR simultaneously with the required filing to the county mayor or county mayors.
- The petition is not subject to approval or disapproval by TBOUR.

Comptroller-Approved Training and Continuing Education Curriculum

- Associations and organizations with appropriate knowledge and experience may prepare a training and continuing education curriculum covering the subjects set forth in state statute.
- The curriculum, including any changes or updates, must be submitted to the Comptroller of the Treasury for review and approval prior to use.
- Any training and continuing education curriculum approved by the Comptroller must be updated every three (3) years and resubmitted to the Comptroller for review and approval.

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TBOUR Informal Hearings

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Complaints from Utility Customers

TBOUR Authority

Tenn. Code Ann. § 7-82-702(b)

TBOUR has authority to review and conduct informal hearings for complaints from customers in the following areas:

- Justness and reasonableness of rates, fees, or charges.
- Requirements surrounding customer and developer responsibilities.
- Failure to adopt and enforce policies, or the inadequacy of policies already in place, for the utility system's efficient and responsible operation.
- Failure to offer or extend utility service to a customer.
- Cost-sharing amounts pursuant to Tenn. Code Ann. § 7-82-709

Complaints from Utility Customers

What to Expect

- Customers must first appeal or make a complaint to the utility system's governing board, or utilize any other available remedy offered by the utility system, prior to seeking an informal hearing
- The request for an informal hearing must be received within thirty (30) days of the adverse decision of the utility system's governing board.
- both the customer(s) and representatives from the utility system will be given opportunities to present their case
- The Board may order whatever remedial actions are necessary to address a customer's complaint

Utility Districts – Customer Petition for Utility District Rate Review

Tenn. Code Ann. § 7-82-102

- TBOUR has authority to review rates charged and services provided by public utility districts.
- The review may only be initiated by a petition containing the genuine signatures of at least ten percent (10%) of the customers within the authorized area of the public utility district.

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Petition for Reinstatement of Eligibility to Serve on the Governing Body of a Utility System

Tenn. Code Ann. §§ 7-82-702(b)(1)(G), 7-82-711(i) and (j)

An individual who becomes ineligible for reappointment or reelection to another term of office for failure to satisfy training requirements may file a petition to the TBOUR for reinstatement of eligibility to serve on the governing body of a utility system.

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TBOUR Contested Case Hearings

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Contested Case Hearings

TBOUR has statutory authority to conduct contested case hearings and issue Orders for the determination of whether board members should be removed from office and a new board member appointed or elected.

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Contested Case Hearings

Statutory Authority

- Removal of a member or members of a utility system's governing body for failures, misconducts, and actions impacting their official duties.
- Removal of a member or members of a utility system's governing body by customer petition.
- Removal of a member or members of a utility system's governing body for failures directly related to matters in an investigative report issued by the Tennessee Comptroller of the Treasury.
- Removal of a member or members of a utility system's governing body for misconduct or failure to comply with a TBOUR order, failure in official duties, or misconduct of office.
- Change in the method of filling board vacancies for a financially distressed utility district.



Annual Requirements

TENNESSEE COMPTROLLER OF THE TREASURY



Annual Information Report

The Basics

Tenn. Code Ann. § 7-82-707

- Local officials are required to complete an online annual information report by the first day of the utility's fiscal year.
- The report is available through TBOUR's website.
- The Utility's ID Code is needed to submit the report and can be obtained from Board staff.
- Pursuant to Tenn. Code Ann. § 7-82-707(e), the Comptroller of the Treasury publishes the annual reports submitted by utility systems each year.
- Failure to submit the annual information report will result in a local government being referred to TBOUR.

Annual Information Report

What Information is Requested?

Tenn. Code Ann. § 7-82-707

- The financial condition of the utility system at the end of the fiscal year;
- A statement of the utility rates then being charged by the system;
- Other information the Board finds would assist the Board and the public in understanding the financial health of the system or any challenges the system faces;
- Water loss information; and
- The contract for the purchase of water for resale for utility systems that purchase more than fifty percent (50%) of its total water for resale.

Training

Annual Training Statement

Tenn. Code Ann. § 7-82-707(f)

- Required to collect an annual training statement, on a form approved by the Board, from each member of the governing body
- Required to indicate if members of the governing body are in compliance with training requirements.

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Training

Initial and Continuing Education Hours

Tenn. Code Ann. § 7-82-711(b)

- Initial Training: Each board member must complete 12 hours of training within one year of their initial election or appointment
- Continuing Education: After a board member completes the initial 12 hours of training, the member enters a recurring three-year continuing education cycle beginning on January 1 following the calendar year in which the initial training requirement was satisfied. During each three-year continuing education period, the board member must complete at least 6 hours of continuing education.

Training

Eligible Subjects, Sponsors, and Providers

Tenn. Code Ann. § 7-82-711(b), (d), and (e)

- board governance
- financial oversight
- policy-making responsibilities
- other topics reasonably related to the duties of the members of a utility system's governing body.

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Training Extension Requests

Tenn. Code Ann. §7-82-711(c)(1)

- Board members may request a training and continuing education extension of up to six (6) months from the Comptroller's Office.
- The request must be made in writing and will only be granted upon a reasonable showing of substantial compliance with minimum statutory training requirements or an unforeseeable hardship.
- If the extension is granted, the board member must complete any remaining training hours for the relevant continuing education period within the extension period.

Training

Penalties for Failure to meet Requirements

- Orders imposing reasonable sanctions
- Administrative Reviews
- Ineligible for Reappointment or Reelection
- Utility Districts, Water or Sewer Authorities, ineligible to receive further payments or benefits

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Budgeting For Utilities



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Applicability

- Counties
- Municipalities
- Metropolitan Governments
- Utility Districts
- Municipal Energy Authorities
- Water and Wastewater Treatment Authorities
- Entities with a financial relationship with the entities listed above

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Comptroller Oversight and Support

Tenn. Code Ann. § 4-3-305

The Comptroller's Office has authority to prescribe forms and procedures and provide guidance manuals for the preparation of annual budgets by local governments

TENNESSEE COMPTROLLER OF THE TREASURY



Comptroller Oversight and Support

Tenn. Code Ann. §§ 7-36-113, 7-82-501 9-21-403, 68-221-611, and 68-221-1306

The Comptroller's Office is responsible for providing guidance on the form of the budget, including supplemental schedules, as necessary, to demonstrate local governments have adequate cash to meet their current obligations, including principal and interest, as applicable.

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Comptroller Oversight and Support

Tenn. Code Ann. § 9-21-403

- Adopting a balanced budget is the responsibility of the governing body. If the governing body fails to fulfill this responsibility, the Comptrollers office has the authority to take measures to ensure a local government pays its obligations, including principal and interest requirements.
- The Comptroller has the authority to direct a local government to balance its budget.

Comptroller Oversight and Support

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

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

TENNESSEE COMPTROLLER OF THE TREASURY



Submission Requirements

Due Date

- The budget, along with the other required documents, should be electronically submitted to the Division of Local Government Finance within 15 days after adoption.
- If a budget is not submitted to our Office within 2 months of the beginning of the fiscal year, the budget cannot be approved, and your local government may not issue debt or financing obligations.
- In the case of an emergency, our Office may waive the requirement of budget approval to allow your local government to enter into emergency financial transactions.

Submission Requirements

Required Submission Information (Municipalities, Counties, and Metropolitan Governments)

1. Signed/certified copy of the appropriation act and tax levy (ordinance or resolution).
2. Detailed budgets for all funds, including proprietary/enterprise funds and school funds, as applicable.
3. Copy of the annual adopted budget for any entity that results in a financial benefit or financial burden to your local government.
4. Budget Submission Worksheet.
5. Cash Flow Forecasts Schedules

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Submission Requirements

Required Submission Information (Utility Districts, Municipal Energy Authorities, Water and Wastewater Treatment Authorities, and Other Water and Wastewater Treatment Entities)

1. Resolution adopting the budget.
2. Budget document that identifies all anticipated revenues by source and all anticipated expenses by type of expense
3. Budget Submission Worksheet
4. When applicable, other supporting budget schedules and information. For example, schedules to support budget information, narratives explaining specific issues in the budget that you would like to bring to our attention, policies, and other relevant information.

COT Budget Resources

Comptroller Webpage <http://www.tncot.cc/budget>

- Budget Checklists
- Adoption Templates (Resolutions and Ordinances)
- Budget Submission Worksheet
- Cash Flow Forecasts Schedule
- Amendment Templates

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COT Budget Resources

Budget Submission Checklist – Utility Systems

Before You Submit Your Budget – Remember:

- ☐ 1. Review last year's budget letter for items relevant to this year's budget: tncot.cc/lgt-letters.
- ☐ 2. Submit your budget submission electronically. **Coming Soon:** A new online submission process. Do not send a separate paper copy to our office. Coming Soon
- ☐ 3. Wait to submit your budget until all needed documentation is ready and available.
- ☐ 4. Do not submit debt requests with your budget submission.

Be Sure to Include:

- ☐ 1. **Resolution** adopting the budget.
The governing body must take official action to adopt its annual budget. A resolution template may be found on our [website](#). A resolution can be approved, signed, and submitted immediately to our office after the meeting at which the budget is adopted.
- ☐ 2. Detailed budget document that identifies all anticipated revenues by source and all anticipated expenses by type of expense.
 - a. The budget must include depreciation and be adopted on a basis consistent with generally accepted accounting principles.
 - b. A budget template is available on our [website](#).
- ☐ 3. The Comptroller's budget submission worksheet. New
- ☐ 4. When applicable, other supporting budget schedules and information. For example, schedules to support budget information, narratives explaining specific issues in the budget that you would like to bring to our attention, policies, and other relevant information.

Budget Submission Checklist – Municipalities

Before You Submit Your Budget – Remember:

- ☐ 1. Review last year's budget letter for items relevant to this year's budget: tncot.cc/lgt-letters.
- ☐ 2. Submit your budget submission electronically. **Coming Soon:** A new online submission process. Do not send a separate paper copy to our office. Coming Soon
- ☐ 3. Wait to submit your budget until all needed documentation is ready and available.
- ☐ 4. Do not submit debt approval requests with your budget submission.

Be Sure to Include:

- ☐ 1. **Signed/certified and dated** copy of the appropriation ordinance (and tax levy ordinance, if adopted separately). Separate resolution for proprietary/utility funds, when applicable.
- ☐ 2. Detailed budgets for **all funds** including enterprise funds and school funds, as applicable, that include estimated beginning and ending balances.
- ☐ 3. The Comptroller's required budget submission worksheet. New
- ☐ 4. Documentation for the TISA Act local contribution —for local governments with a school system (see separate requirements).
- ☐ 5. Cash flow forecast schedules for:
 - Operating funds with a budgeted ending cash balance less than 15% of annual expenditures;
 - Operating funds with an ending cash balance in the prior year audit less than 15% of annual expenditures;
 - Any fund that received proceeds from TRANs for the past two consecutive years; and
 - All operating funds if the prior year audit has not been issued/is late.
- ☐ 6. When applicable, other supporting budget schedules and information. For example, schedules to support budget information, narratives explaining specific issues in the budget that you would like to bring to our attention, policies, and other relevant information.
- ☐ 7. A copy of the annual adopted budget for any entity that results in a financial benefit or financial burden to your local government (For help in applying this requirement, refer to Section 6 of the budget manual available on our [website](#).)

TENNESSEE COMPTROLLER OF THE TREASURY



COT Budget Resources

A Resolution
of
_____ **Utility District**
Adopting the Annual Budget
for
the fiscal year beginning _____, 20____, **and ending** _____, 20____

WHEREAS, the _____ Utility District is a located in _____, Tennessee; and

WHEREAS, pursuant to Tenn. Code Ann. § 7-82-501, prior to the beginning of the fiscal year Tennessee utility districts must adopt a balanced annual operating budget that identifies anticipated revenues by source and anticipated expenses by type of expense and submit the budget to Comptroller of the Treasury for review and approval.

NOW, THEREFORE, be it resolved by the Board of Commissioners that it hereby adopts the attached detailed budget as the annual budget, for the fiscal year ending _____, 20____.

Duly passed and adopted by the Board of Commissioners this _____ day of _____, 20____.

Attested

Signed: _____
Printed Name _____
Chairman, Board of Commissioners

Signed: _____
Printed Name _____
Secretary, Board of Commissioners

TENNESSEE COMPTROLLER OF THE TREASURY



COT Budget Resources

ORDINANCE No. _____

AN ORDINANCE OF THE
CITY OF _____, TENNESSEE
ADOPTING THE ANNUAL BUDGET AND TAX RATE
FOR THE FISCAL YEAR BEGINNING JULY 1, 2025 AND ENDING JUNE 30, 2026

WHEREAS, Tenn. Code Ann. § 9-1-116 requires that all funds of the State of Tennessee and all its political subdivisions shall first be appropriated before being expended and that only funds that are available shall be appropriated; and

WHEREAS, the Municipal Budget Law of 1982 requires that the governing body of each municipality adopt and operate under an annual budget ordinance presenting a financial plan with at least the information required by that state statute, that no municipality may expend any moneys regardless of the source except in accordance with a budget ordinance and that the governing body shall not make any appropriation in excess of estimated available funds; and

WHEREAS, the Governing Body has published the annual operating budget and budgetary comparisons of the proposed budget with the prior year (actual) and the current year (estimated) in a newspaper of general circulation not less than ten (10) days prior to the meeting where the Board will consider final passage of the budget.

NOW THEREFORE **BE IT** ORDAINED BY THE GOVERNING BODY OF THE CITY OF _____, TENNESSEE AS FOLLOWS:

SECTION 1: That the governing body projects anticipated revenues from all sources and appropriates planned expenditures for each department, board, office or other agency of the municipality, herein presented together with the actual annual receipts and expenditures of the last preceding fiscal year and the estimated annual expenditures for the current fiscal year, and from those revenues and unexpended and unencumbered funds as follows for fiscal year 2026, and including the projected ending balances for the budget year, the actual ending balances for the most recent ended fiscal year and the estimated ending balances for the current fiscal years:

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WATER and SEWER FUND	Actual FY 2024	Estimated Actual FY 2025	Budget FY 2026
Operating Revenues			
Water Sales	\$ -	\$ -	\$ -
Sewer Fees	-	-	-
Tap Fees	-	-	-
Miscellaneous Other Fees	-	-	-
Total Operating Revenues	\$ -	\$ -	\$ -
Operating Expenses			
Administrative	\$ -	\$ -	\$ -
Water Department	-	-	-
Sewer Department	-	-	-
Other	-	-	-
Depreciation	-	-	-
Total Operating Expenses	\$ -	\$ -	\$ -
Operating Income (Loss)	\$ -	\$ -	\$ -
Nonoperating Revenues (Expenses)			
Revenue: Investment Income	\$ -	\$ -	\$ -
Grants - Operating	-	-	-
Other Income	-	-	-
Expense: Debt Service - Interest Expense			
Other Expense			
Total Nonoperating Revenue (Expenses)	\$ -	\$ -	\$ -
Income (Loss) Before Capital Contributions and Transfers	\$ -	\$ -	\$ -
Capital Contributions and Transfers			
Capital Contributions - Tap Fees in Excess of Cost	\$ -	\$ -	\$ -
Capital Contributions - Grants	-	-	-
Capital Contributions - Other	-	-	-
Transfers In - from Other Funds	-	-	-
Transfers Out - to Other Funds (PILOT)			
Total Capital Contributions and Transfers	\$ -	\$ -	\$ -
Change in Net Position	\$ -	\$ -	\$ -
Beginning Net Position July 1			
Ending Net Position June 30	\$ -	\$ -	\$ -

SECTION 2: At the end of the fiscal year 2025, the governing body estimates fund balances or deficits as follows:

Fund	Estimated Fund Balance/Net Position at June 30, 2025
General Fund	\$ -
State Street Street Aid Fund	-
Solid Waste Fund	-
Drug Fund	-
Water & Sewer Fund	-

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TENNESSEE COMPTROLLER OF THE TREASURY





Enter Entity Name →	
Enter Budget Year →	

- Enter the name of all budgeted funds.
- Enter estimated amounts for the beginning of the budget year (as of July 1).
- Additional space, if needed, is provided on the next page.

Page 1 of 5

If you answer "Yes" to either question 2 or 4, you will need to complete additional schedules.

Page 3 of 5

Budget Submission Portal

- Live for the 2027 budget year is the budget submission portal.
- No longer submit budgets to the LGF@cot.tn.gov
- Budget submission Portal Tutorial video now available

TENNESSEE COMPTROLLER OF THE TREASURY



Comptroller Approvals

Tenn. Code Ann. § 9-21-404

State legislators have recognized the importance of having an approved budget by passing legislation specifying that when a local government's budget is not approved, the governing body may not issue debt or financing obligations. In the case of an emergency, the Comptroller's Office may waive the requirement of budget approval to allow a local government to enter into emergency financial transactions.

TENNESSEE COMPTROLLER OF THE TREASURY



Comptroller Approvals

The budget will be reviewed within 30 days of receipt by the Division of Local Government Finance.

If the budget submission is incomplete, the 30-day review period will not begin until the needed information is received.

TENNESSEE COMPTROLLER OF THE TREASURY



Comptroller Approvals

Budget Letter

Once the review process is complete, your local government will receive a letter via e-mail from the Division of Local Government Finance indicating the results of our review as either: approved, conditionally approved, or not approved.

Budget review letters are available on our website.

TENNESSEE COMPTROLLER OF THE TREASURY



Comptroller Approvals

1	2	3
Approved	Conditionally Approved	Not Approved
		
Budgets are approved when projected revenues and other available funds are sufficient to meet anticipated expenditures (or expenses). Approved budgets may still have comments regarding areas to be addressed in future years.	Budgets are conditionally approved when there is some required action by local officials. Generally, if the condition for approval is not met within a certain timeframe, the budget will not be approved.	Budgets are not approved when a local government has a delinquent budget, a delinquent audit, continued noncompliance issues, or fails to meet conditions for approval.

Comptroller Approvals

FY 2025 Change in Conditional Approval Process



Local governments have **45 days** after a letter is issued by the Comptroller's Office to meet a condition for approval.

TENNESSEE COMPTROLLER OF THE TREASURY



Conditional Approvals

- Budget estimates for revenue and expenses were unrealistic.
- The budget projected a statutory decrease in net position.
- Depreciation expense was not based upon a reasonable estimate.
- Depreciation expense was not budgeted.
- The budget was not consistent with generally accepted accounting principles.
- The budget submission was incomplete.
- Issues addressed from prior years were not corrected.
- The utility was under the Tennessee Board of Utility Regulation (TBOUR) and approval was conditioned upon continued compliance with TBOUR directives.

Non-Approvals

- The utility had a late audit at the time of our review of the budget. Annual audits must be filed with the Comptroller's Division of Local Government Audit within six months after the end of the fiscal year.
- The budget was filed more than two months after the beginning of the fiscal year.
- The budget was not submitted for review.

Budget Approvals

The most repeated comments in our review letters relate to:

- The budget should be adopted by resolution.
- The budget was not adopted prior to the beginning of the fiscal year.
- The budget was not filed with the Comptroller's Office within 15 days of adoption.
- The amount budgeted for interest expense was incorrect.
- The utility was under the oversight of the Tennessee Board of Utility Regulation.
- Contact information for the utility was not included in the cover letter.
- The budget submission was incomplete and omitted required information, such as a cover letter and debt schedule.
- The budget resolution omitted the minimum required information.

TENNESSEE COMPTROLLER OF THE TREASURY



Annual Budget Certificate



TENNESSEE COMPTROLLER OF THE TREASURY



Annual Budget Certificate

1. The budget was adopted on or before the fiscal year end.
2. The budget was filed with our office within 15 days of adoption.
3. No issues of concern were raised during our review of the budget.
 - a. Budgets should be based on reliable estimates, structurally balanced, provide for cash liquidity, allow for adequate reserves, be monitored throughout the year, and be amended, as necessary.
4. The local government is not currently under the oversight of the Tennessee Board of Utility Regulation.

TENNESSEE COMPTROLLER OF THE TREASURY



After Approval



TENNESSEE COMPTROLLER OF THE TREASURY

A Resolution
of
____ Utility District
Adopting the AMENDED Annual Budget
for
the fiscal year beginning _____, 20__, and ending _____, 20__

WHEREAS, the _____ Utility District is a political subdivision of the State of Tennessee located in _____, Tennessee; and

WHEREAS, Tenn. Code Ann. § 9-1-116 requires that all funds of the State of Tennessee and all its political subdivisions shall first be appropriated before being expended and that only funds that are available shall be appropriated and that appropriations only be spent from available monies; and

WHEREAS, pursuant to Tenn. Code Ann. § 7-82-501, all utility districts must adopt a balanced annual operating budget that identifies revenues by source and expenditures by type and submit the budget to Comptroller of the Treasury for review and approval.

NOW, THEREFORE, be it resolved by the Board of Commissioners that it hereby adopts the attached **amended** detailed budget as the appropriated annual budget, for the fiscal year ending _____, 20__.

Duly passed and adopted by the Board of Commissioners this _____ day of _____, 20__.

Attested

Signed: _____
Printed Name _____
Chairman, Board of Commissioners

Signed: _____
Printed Name _____
Secretary, Board of Commissioners



Comptroller Reviews



Preparation

1. Review of policies and benchmarks
2. Collaboration with other departments and component units
3. Budget committee meetings
4. Publication requirements
5. Budget Calendar/Timeline
6. Revenue forecasting and expenditure/expense estimations
7. Fund balance levels
8. Long-term capital planning
9. Legal spending requirements, maintenance of effort
10. Rainy day and other reserve levels
11. Program and service goals (public safety, sanitation, streets, schools)
12. Contingency Spending Plans
13. Long-Term Liability Planning
14. Multi-Year Financial Planning
15. Structurally balanced budgeting

Budget Preparation – Audited Information

Tips for Timely Audits

-  Find a CPA firm early.
-  Close your accounting records within 60 days of the end of the fiscal year - Tenn. Code Ann. § 9-2-102.
-  Keep on schedule with your CPA firm.

STEPS TO A WELL-MANAGED BUDGET

For more information, visit tncot.cc/guidance

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

BUDGET TO ACTUAL MONITORING

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



REVENUES

Revenues are meticulously forecast during the budget preparation phase, but as the

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



CAPITAL EXPENDITURES

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



AMENDING THE BUDGET

Every item in this document has led to this: **It is very**



FREQUENTLY ASKED QUESTIONS

For more information, visit tncot.cc/guidance

In our publication "Steps to a Well-Managed Budget" we discuss the importance of monitoring and amending the budget as needed. In this follow-up publication we address questions we have received on this topic with best practice responses to those questions.

Q: HOW OFTEN SHOULD A GOVERNING BODY RECEIVE A BUDGET TO ACTUAL REPORT?

A: Our office recommends individual board members receive a monthly budget to actual report with updated financial information as of the most recent month for each budgeted fund.

Q: AS A BOARD MEMBER, WHAT SHOULD I LOOK FOR IN THE BUDGET TO ACTUAL REPORT?

A: The report shows you year-to-date actual revenue and expenditures/expenses compared to the original budget you passed and the impact to fund balance (or net position).

Ask yourself:

- Are our original estimates holding? If not, you should

Keep in mind that some revenues and expenditures/expenses by their nature do not occur each month and monthly variances are expected. However, you want to be sure to pay attention and ask questions when budget variances are unexpected. Your finance staff will be a valuable support.

Q: WHAT OTHER FINANCIAL DATA SHOULD THE GOVERNING BODY RECEIVE AND HOW OFTEN?

A: At a minimum, and in addition to the budget to actual report, our office recommends the governing body receive:

- current cash balances for each fund
- updates from finance staff on the budget status for each fund, identifying any needed amendments to the budget

Additional recommended items include:

- updated cash flow forecasts
- multi-year historical financial data that shows the history of recurring and non-recurring revenue and expenditures/expenses, assets, liabilities, and fund balances
- multi-year historical data and ratios to support economic trends



DIVISION OF LOCAL GOVERNMENT FINANCE

SEVEN KEYS TO A FISCALLY WELL-MANAGED GOVERNMENT

For more information, visit tncot.cc/7keys

BUILDING A STRONG BUDGET FOR A RESILIENT GOVERNMENT

Structurally Balanced Budget – A budget is structurally balanced when recurring revenues are sufficient to pay recurring expenditures. Recurring revenues can be relied on every year (property taxes, sales taxes, wheel taxes). Recurring expenditures are those required for normal governmental



operations (debt payments, salaries, pension payments). Using overly optimistic revenue projections or underestimating expenditures, as well as relying on one-time revenue from selling assets, restructuring debt, spending savings, or deferring maintenance indicate the budget is not structurally balanced. [TCA § 9-21-403]

Cash Flow Management – A local government's ability to track how much revenue is coming into the government and how much is going out is vital to its fiscal health. Local governments that rely heavily on property taxes will need larger cash reserves to fund governmental services until tax revenue is received. Prior



PLANNING FOR UNKNOWNNS

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



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

PLANNING FOR TOMORROW

Long-Term Liability Planning – Debt, pension, and OPEB payments are set amounts in the annual budget. The larger



Best Practices – Cash Management Policy

- Establishes guidelines for managing public dollars.
- Sets minimum amounts for cash reserves.
- Ensures liquidity so that cash is available when needed.
- Considers financing needs and addresses financial risks and costs, such as interest.
- Addresses interfund transactions: transfers, reimbursements, and loans.
- Ensures statutory restrictions on authorized investments are fulfilled.

Best Practices – Structurally Balanced Budget

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

Best Practices – Structurally Balanced Budget

- Increase recurring revenue sources (taxes, rates, and fees) when increasing recurring expenditures such as salaries.
- Identify non-recurring revenue sources in your budget.
- Have planned smaller incremental increases in recurring revenue sources that will be less impactful to citizens.

Budget Timelines

Municipalities

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

Better Utility Budgeting and Financial Planning

Review the Audit

- Analyze the previous year's audited financial statements to understand revenue sources and types of expenses.
- Identify significant changes since the audit.
- Take note of any audit findings or recommendations and ensure they are addressed.

Better Utility Budgeting and Financial Planning

Current year operations

- Changes in customer demand, service levels, and operational efficiency.
- Evaluate key drivers of costs in the current year.
- Evaluate whether any cost-saving measures or efficiency improvements can be made.

Better Utility Budgeting and Financial Planning

Revenue, Expense, and Cashflow Projections

- Consider revenue and expense trends from previous years and project future operations.
- Forecast cash flows to ensure your utility maintains adequate cash to pay for bills as they become due without the need for operating loans.

Better Utility Budgeting and Financial Planning

Capital Planning

- Note any critical infrastructure needs or capital projects for the current year.
- Incorporate these needs into the budget and consider funding options.
- Develop a long-term capital improvement plan that aligns with the utility's strategic goals and will address infrastructure challenges over time.

Better Utility Budgeting and Financial Planning

Rate Setting

- Rates, fees, and any other charges must be reasonable and justified.
- Should also be enough to make your utility self-sufficient.
- Utility should have rates sufficient to have a positive change in net position separate from grant proceeds and contributions.
- Utilities that report a statutory decrease in net position for two consecutive years will be referred to the oversight of TBOUR.
- Policy for periodic Rate Studies

TENNESSEE COMPTROLLER OF THE TREASURY



Better Utility Budgeting and Financial Planning

Depreciation

- Often one of the largest operating expenses of a utility system.
- Crucial in financial reporting, rate-setting, asset management, and decision-making for utilities.

Better Utility Budgeting and Financial Planning

Budget Format

- State law requires the budget to be adopted on a basis consistent with generally accepted accounting principles (GAAP).
- Columns for the prior audit year, estimated current year, and upcoming budget year, with clearly defined sections assist management and the governing body as they prepare, adopt, and monitor the budget.

Better Utility Budgeting and Financial Planning

Policies

- internal controls
- budget adoption
- cash flow management
- billing, rate increases/adjustments
- asset management
- debt management

TENNESSEE COMPTROLLER OF THE TREASURY



Better Utility Budgeting and Financial Planning

Monitoring

- Once you have the annual budget adopted and long-term financial plans in place, they should be reviewed and updated as needed to make sure your utility system remains on track.

Better Utility Budgeting and Financial Planning

WHEN PREPARING THE BUDGET, ASK YOURSELF:

- Have we reviewed the most recent audit?
- What changes from the current year impact our financial planning?
- Are our financial projections based on reasonable assumptions?
- Is our capital improvement plan up to date?
- When was our last rate study? Are rates sufficient for the upcoming year?
- Have we remembered to budget for depreciation?
- Does our budget follow the accrual basis of accounting?
- Will our budget produce a positive statutory change in net position?
- Do we have enough cash available to pay for operations without an operating loan?
- Have we reviewed and updated financial policies?
- Do we have steps in place to keep watch on operations throughout the year?

Check out the entire publication “Better Utility Budgeting and Financial Planning” on our website.

TENNESSEE COMPTROLLER OF THE TREASURY

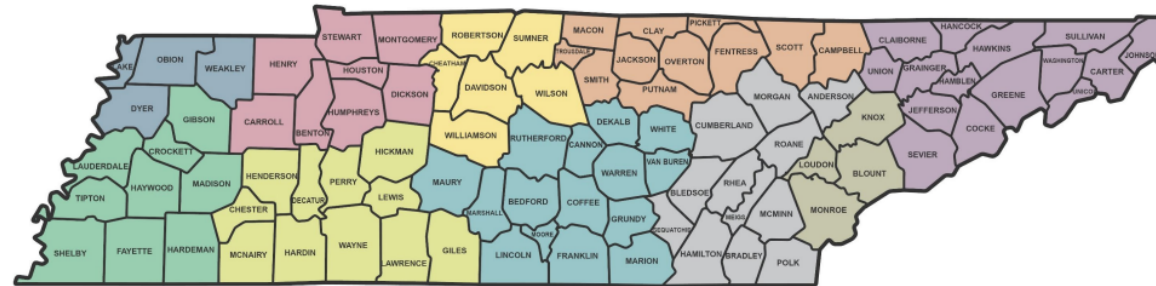


Local Government Finance Contact Information



Division of Local Government Finance

CONTACT INFORMATION BY REGION



Region 1 Adam Tschida <i>Data Manager</i> 615.747.5340 Adam.Tschida@cot.tn.gov	Region 2 Ben Johnson <i>Senior Financial Analyst</i> 615.747.8831 Benjamin.S.Johnson@cot.tn.gov	Region 3 Charlie Lester <i>Senior Data Analyst</i> 615.401.7762 Charlie.Lester@cot.tn.gov	Region 4 Tara Bergfeld <i>Senior Policy & Fiscal Advisor</i> 615.401.7730 Tara.Bergfeld@cot.tn.gov	Region 5 Lori Barnard <i>Senior Financial Analyst</i> 615.747.5347 Lori.Barnard@cot.tn.gov
Region 10 Nate Fontenot <i>Financial Analyst</i> 615.747.5238 Nate.Fontenot@cot.tn.gov	Region 9 Alex Lucas <i>Financial Analyst</i> 615.401.7938 Alex.Lucas@cot.tn.gov	Region 8 Meghan Denson <i>Senior Analyst</i> 615.747.5379 Meghan.Denson@cot.tn.gov	Region 7 William Wood <i>Financial Analyst</i> 615.401.7893 William.Wood@cot.tn.gov	Region 6 Ross Colona <i>Assistant Director</i> 615.401.7943 Ross.Colona@cot.tn.gov

January 2026

ESSEE COMPTROLLER OF THE TREASURY

