

BETTER UTILITY BUDGETING AND FINANCIAL PLANNING

For more information, visit tncot.cc/guidance

Financial oversight of public utilities is essential to ensuring citizens have access to affordable water, sewer, gas, and other utility services. This oversight must be intentional and planned. The following sections outline several basic best practices in utility budgeting and financial planning.

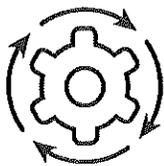
REVIEW THE AUDIT

Analyze the previous year's audited financial statements to understand revenue sources and types of expenses. Identify significant changes since the audit (capital additions, issuance of debt, new customers, etc.). Take note of any audit findings or recommendations and ensure they are addressed.



CURRENT YEAR OPERATIONS

Evaluate the current year's operations and consider factors such as changes in customer demand, service levels, and operational efficiency. Identify any unforeseen challenges or opportunities that may impact the budget. Understand the key drivers of costs in the current year, such as personnel expenses, maintenance, and ongoing capital projects. Evaluate whether any cost-saving measures or efficiency improvements can be made.



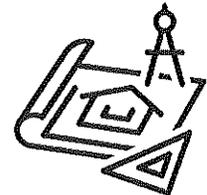
REVENUE, EXPENSE, AND CASHFLOW PROJECTIONS

Consider revenue and expense trends from previous years and project future operations based on factors like customer growth, rate adjustments, and changes in service demand. Forecast cash flows to ensure your utility maintains adequate cash to pay for bills as they become due without the need for operating loans.



CAPITAL PLANNING

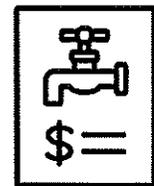
Based on the audit and operational assessment, note any critical infrastructure needs or capital projects for the current year. Incorporate these into the budget and consider funding options. Develop a long-term capital improvement plan that aligns with the utility's strategic goals and will address infrastructure challenges over time. Understanding the current state of assets, planning for their replacement or improvement, and identifying appropriate funding sources, all contribute to the long-term sustainability and reliability of utility services.



By integrating the insights from the previous year's audit and the current year's operational data, the utility can develop a more accurate and informed budget that reflects the financial reality and goals of the utility. Regular monitoring and adjustments throughout the year are also necessary to respond to changing conditions and ensure financial stability.

RATE SETTING

Rates and charges set by the governing body should be sufficient for all reasonable expenses of operation, including interest and other non-operating expenses. Rates should also generate enough cash to pay both principal and interest requirements on debt. Rates are expected to be adjusted to cover these costs and should always be reasonable and justifiable. Each utility should have rates sufficient to have a positive change in net position separate from grant proceeds and contributions. Utilities that do not achieve a positive change for two years will be referred to the oversight of the Tennessee Board of Utility Regulation (TBOUR). *Continued.*



A policy for periodic rate studies is a proactive and strategic approach to managing the financial health of a utility. Conducting thorough internal reviews during non-rate study years allows utilities to proactively address challenges, optimize operations, and lay the groundwork for informed decision-making in subsequent rate studies. Some utility systems have an annual cost-of-living rate increase that is adopted once, and then rates adjust at an inflationary percentage each year.

DEPRECIATION

Depreciation is often one of the largest operating expenses of a utility system. Depreciation is the allocation of the cost of a capital asset (such as equipment and facilities) over its estimated useful life. It helps to accurately reflect the wear and tear on these assets over time and allocate associated costs to the periods in which the asset provides service. Depreciation is crucial in financial reporting, rate-setting, asset management, and decision-making for utilities.



BUDGET FORMAT

State law requires the budget to be adopted on a basis consistent with generally accepted accounting principles

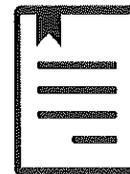


(GAAP). A GAAP format that reconciles to statutory and cash bases helps ensure your rate structure is sufficient to support operations, comply with state law, and have needed cash flow.

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.

POLICIES

Sound financial policies lay the foundation for good financial decisions. At a minimum, you should have policies for internal controls, budget adoption, cash flow management, billing, rate increases/adjustments, asset management, and debt management.



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.

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 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?



JASON E. MUMPOWER
Comptroller

ANNUAL BUDGET MEMO

To: Budget Contact
From: Sheila Reed, Director *SAR*
Division of Local Government Finance
Date: January 25, 2024
Subject: Fiscal Year 2025 Annual Budget Memo for Tennessee Municipalities

Thank you for partnering with us as we work together to promote fiscal responsibility in Tennessee's local governments. Timely budget adoption is foundational to the budget process and ensures your municipality begins the fiscal year with a sound financial spending plan.

BUDGET CERTIFICATE AWARD PROGRAM

Last year our office recognized 87 of Tennessee's 342 municipalities for, among other criteria, adopting a balanced budget on or before June 30 and submitting the budget to our office within 15 days of adoption. We look forward to more municipalities qualifying for a certificate this budget year and being recognized at TGFOA's annual fall conference. Please visit our website for a complete list of recipients and the requirements to qualify for a certificate: tncot.cc/budgetcertificates.

BUDGET SUBMISSION

Prior to the beginning of each fiscal year, all municipalities in Tennessee must adopt a budget ordinance and email it, with other required documents, to our office within 15 days following adoption. For your convenience we have enclosed a budget submission checklist.

The complete package should be sent to: LGF@cot.tn.gov.

Additional information concerning budgeting requirements, including a budget manual, instructional videos, and excel schedules may be found on our website at: tncot.cc/budget.

WHAT'S NEW FOR 2025

FAQs to Steps to a Well-Balanced Budget

In response to questions and feedback to our publication entitled "Steps to a Well-Managed Budget" we now have a companion publication that answers frequently asked questions. The FAQs build upon our initial publication and may be accessed at: tncot.cc/budget. We hope you will take advantage of this resource.



JASON E. MUMPOWER
Comptroller

BUDGET PREPARATION GUIDANCE

Page 1 of 2

This guidance is provided to expedite the budget review process and aid in the preparation of the budget ordinance and supporting documents that are required for submission to the Division of Local Government Finance.

1. Adoption of Budget Ordinance

The annual budget ordinance must be adopted by June 30th unless the government is operating under a legal continuation budget. We recommend a continuation budget only be used in extenuating circumstances.

2. Model Budget Ordinance

Municipalities should use the sample budget ordinance on our website located at: tncot.cc/budget.

3. Appropriation Level

Expenditures must be appropriated by fund at the organizational unit (department) level. Depending upon the requirements of your charter, enterprise funds, such as the Water Fund, may not be required to be appropriated in the budget ordinance.

4. Proper Classification

Revenues should be classified by source and expenditures should be classified by account code and description. The following are common incorrect uses of terminology that are not acceptable in the ordinance or detailed budget submitted or filed with LGF:

- a. "Use of fund balance" is not a revenue source. For example, if your projected expenditures are greater than your projected revenues, show the negative change in fund balance.
- b. The following items should not be budgeted as an expenditure item:
 - i. Negative expenditures
 - ii. Reserves
 - iii. Budgeted Increase in Fund Balance

5. Ordinance and Detailed Budget Agreement

Amounts in the detailed budget should be represented correctly in the appropriations ordinance. Expenditures in the detailed budget cannot exceed what has been appropriated for the respective fund.

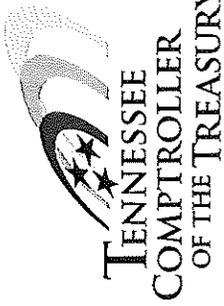
Budget Submission Checklist - Municipalities

Before You Submit Your Budget – Remember:

- Review last year's budget letter for items relevant to this year's budget: tncot.cc/lgf-letters.
- Send your budget directly to: LGF@cot.tn.gov. – Do **not** send a separate **paper** copy to our office.
- Wait to submit your budget until **all** needed documentation is compiled. See our example budget submission at: tncot.cc/budget.
- Send budget amendments to LGF@cot.tn.gov in a **separate email**.
- Do **not** send **debt approval requests** in the same email as your budget submission.

Be Sure to Include:

- Separate cover letter** on the municipality's letterhead (**not** in the body of the email)
 - a. Complete contact information should be included and **at a minimum**, email addresses for the:
 - Mayor;
 - City/Town Manager, as applicable; and
 - Finance Director or equivalent position
- Signed/certified and dated** copy of the appropriation ordinance (and tax levy ordinance, if separate)
- Detailed budgets for **all funds** including enterprise funds and school funds, as applicable
 - a. Include estimated beginning fund balances for each fund at July 1, 2024, and ending balances at June 30, 2025.
- For local governments with a school system, include documentation regarding TISA Act local contribution (see separate requirements).
- 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, page 19, of the budget manual available at: tncot.cc/budget.)
- Budget Summary Schedule
- Cash Flow Forecast Schedules for:
 - a. Operating funds with a budgeted ending cash balance less than 15% of annual expenditures;
 - b. Operating funds with an ending cash balance in the prior year audit less than 15% of annual expenditures;
 - c. Any fund that received proceeds from TRANS for the past two consecutive years; and
 - d. All operating funds if the prior year audit has not been issued/is late
- Schedule of Outstanding Debt and Budgeted Debt Service, as applicable
- Fiscal year 2025 revenue forecasts (property tax, sales tax, etc.), as applicable



Division of Local Government Finance

CONTACT INFORMATION BY REGION

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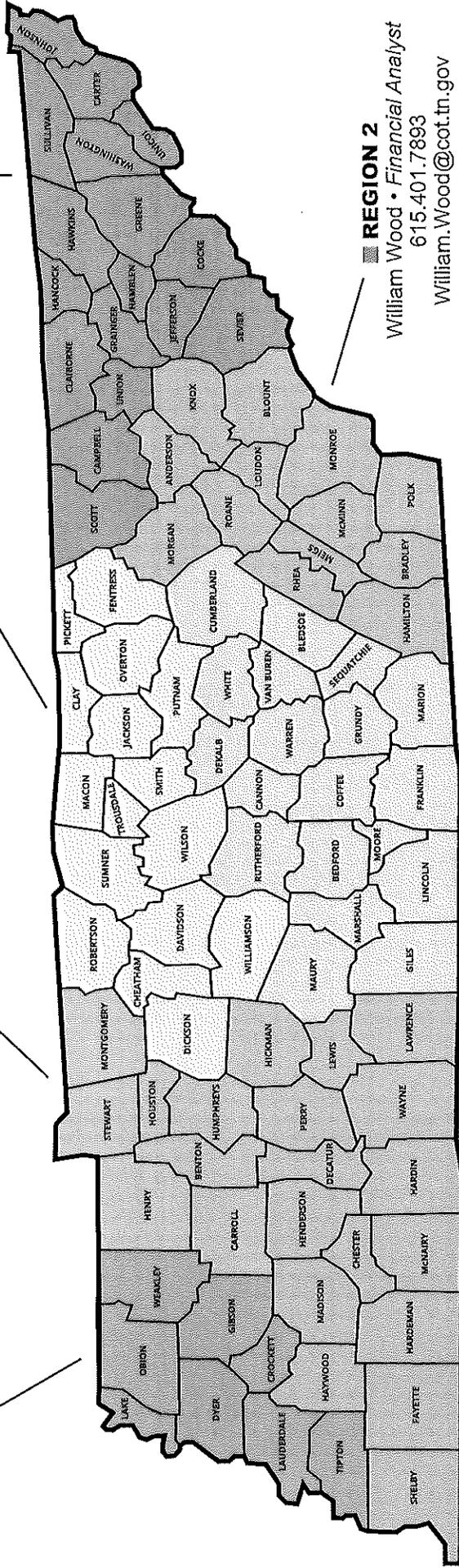
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Please send submissions and requests to:
LGF@cot.tn.gov
615.401.7829

Effective July 2023

City of Spring Hill TN

Water and Sewer Rate Study – Staff Recommendation

April 9, 2024



5-Year Capital Plan: FY25-29

CIP (\$ Millions)



- 5-Year CIP includes \$249.2 million in expenditures
 - > Average annual spending of \$50 million/year
 - > Funded through debt and cash/reserves
 - \$215.8M Debt Financing
 - \$33.4M Cash/Reserves
- Currently have \$22.3 million budgeted in FY 2024 for capital projects, not included in the 5-year CIP

85%

Debt Capital = Cash Capital

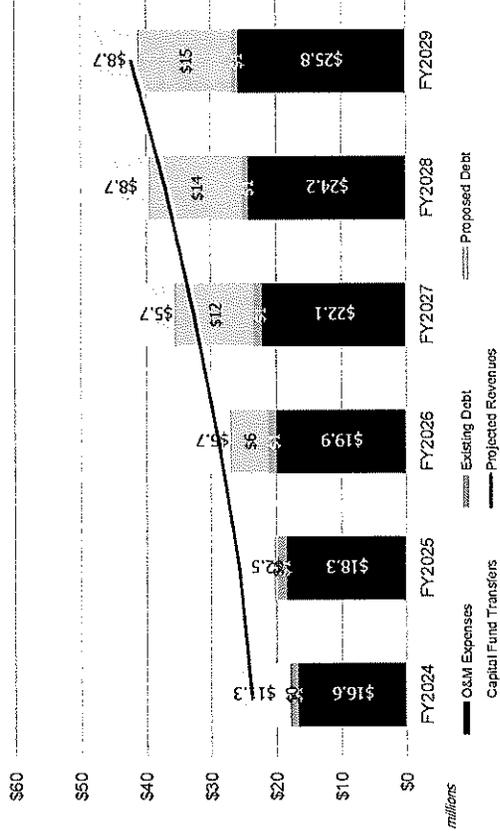
15% Increases Across the Board

City of Spring Hill, TN

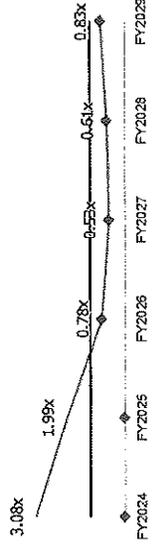
KEY FINANCIAL DATA

	2024	2025	2026	2027	2028	2029
Water Rate Increases						
Base Charges	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Volumetric Rate	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Sewer Rate Increases						
Fixed Rate	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Volumetric Rate	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Residential Volume	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%
Non-Residential Volume	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%

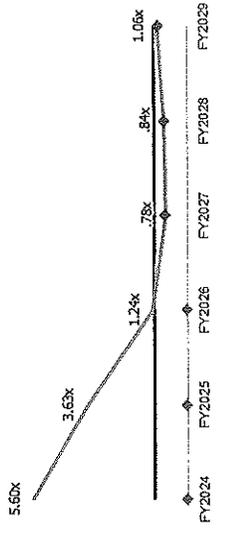
Operating Financial Plan



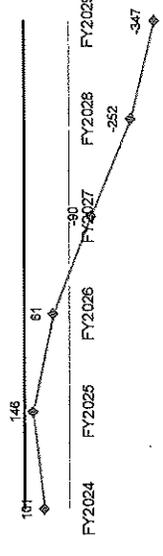
Total Debt Coverage (w/o Development Fees)



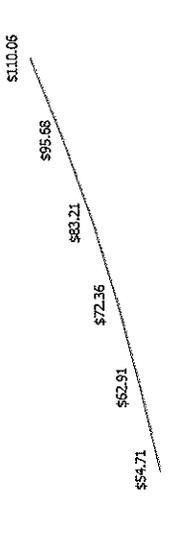
Total Debt Coverage



Operating Days Cash on Hand



Typical Customer Bill (4 Kgal) Water & Sewer



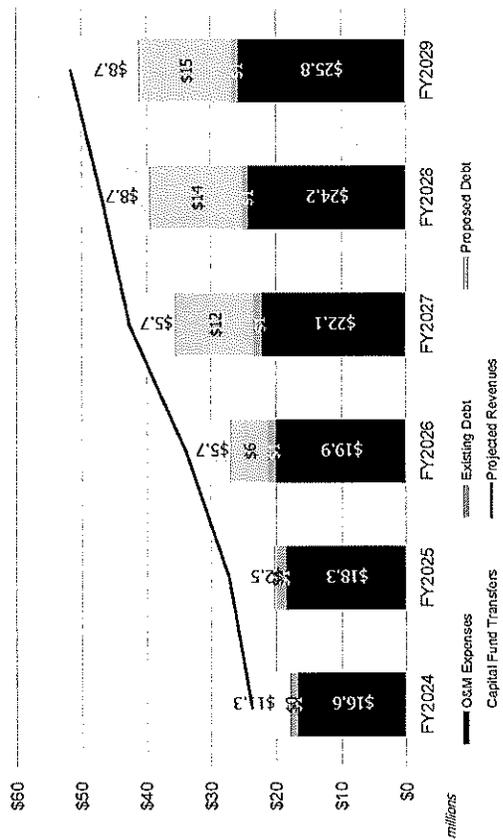
25% Increase First

City of Spring Hill, TN

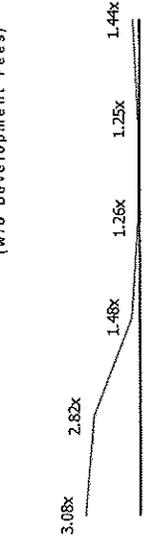
KEY FINANCIAL DATA

	2024	2025	2026	2027	2028	2029
Water Rate Increases						
Base Charges	0.00%	25.00%	30.00%	30.00%	10.00%	10.00%
Volumetric Rate	0.00%	25.00%	30.00%	30.00%	10.00%	10.00%
Sewer Rate Increases						
Fixed Rate	0.00%	25.00%	30.00%	30.00%	10.00%	10.00%
Base Charges	0.00%	25.00%	30.00%	30.00%	10.00%	10.00%
Volumetric Rate	0.00%	25.00%	30.00%	30.00%	10.00%	10.00%
Residential Volume	0.00%	25.00%	30.00%	30.00%	10.00%	10.00%
Non-Residential Volume	0.00%	25.00%	30.00%	30.00%	10.00%	10.00%

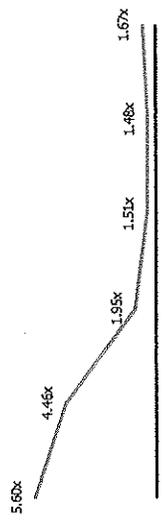
Operating Financial Plan



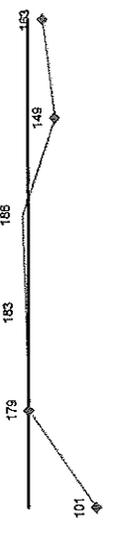
Total Debt Coverage (w/o Development Fees)



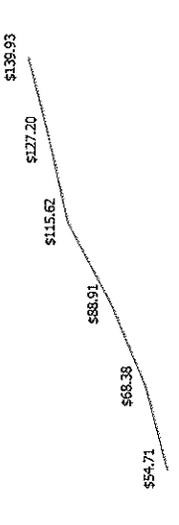
Total Debt Coverage



Operating Days Cash on Hand

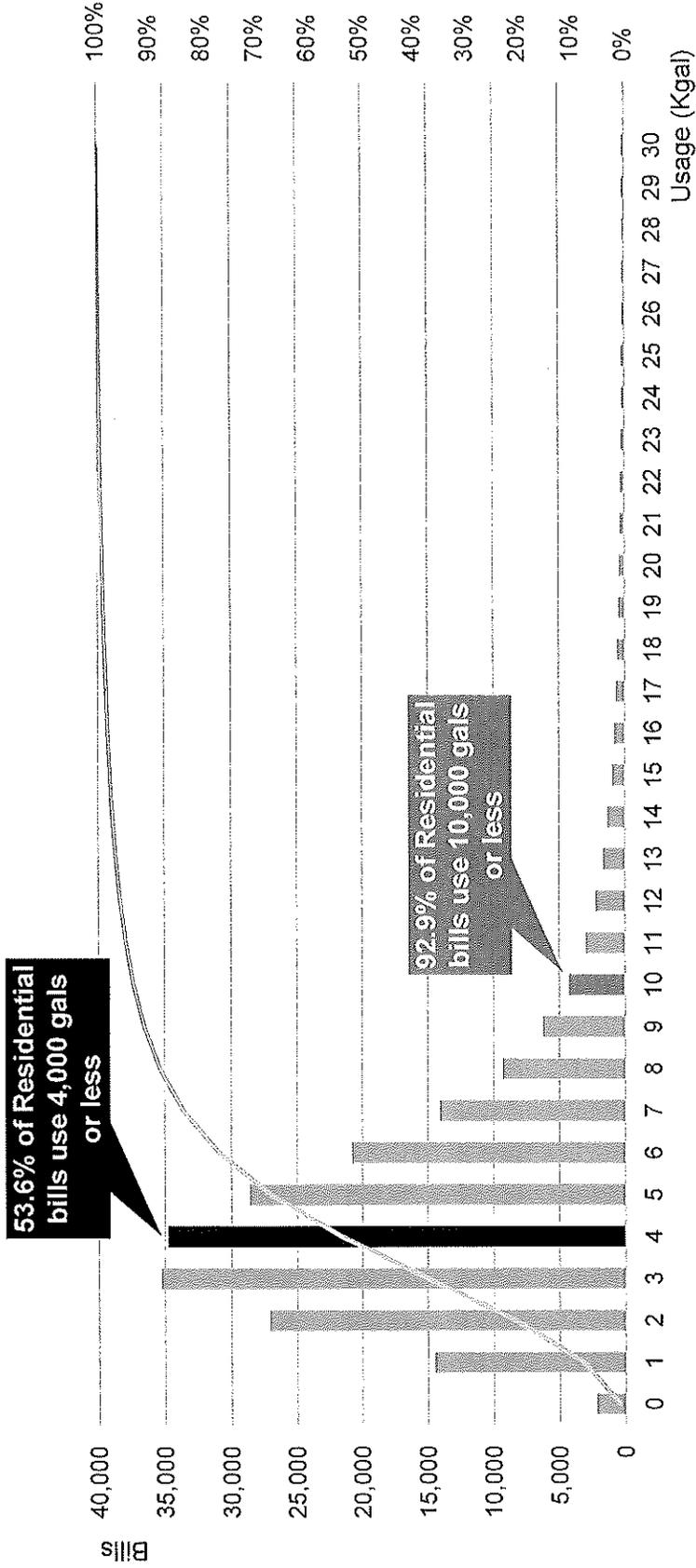


Typical Customer Bill (4 Kgal) Water & Sewer



millions

Bill Frequency Analysis - Residential



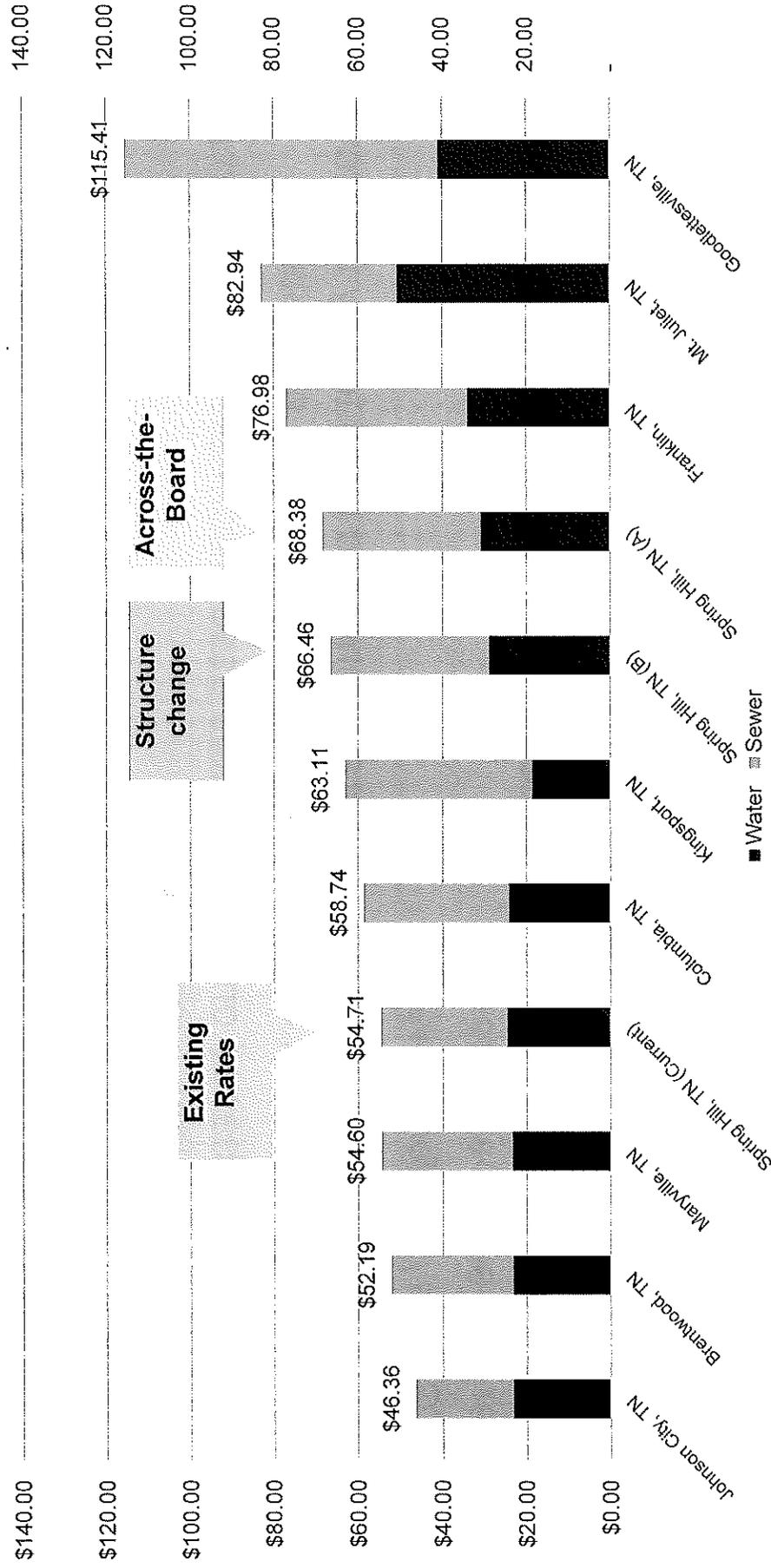
Rate Increases & Structure Change

Water Base Charge	Existing	FY 2025	FY 2026	FY 2027
Inside (Same as Slide Before with 25%)	\$ 9.80	\$ 12.25	\$ 15.93	\$ 20.71
Water Volume Charge (per kgal)				
Residential				
Tier 1 (0-4 Kgal)	\$ 3.69	\$ 4.13	\$ 5.37	\$ 6.98
Tier 2 (4-10 Kgal)	\$ 3.69	\$ 5.16	\$ 6.71	\$ 8.72
Tier 3 (10+ Kgal)	\$ 3.69	\$ 6.19	\$ 8.05	\$ 10.47
Non-Residential	\$ 3.69	\$ 4.61	\$ 5.99	\$ 7.79
Irrigation	\$ 3.69	\$ 6.19	\$ 8.05	\$ 10.47

Additional increases anticipated for 5-year forecast period.

Sewer Charges	Existing	FY 2025	FY 2026	FY 2027
Base Charge (all customers)	\$ 12.07	\$ 15.09	\$ 19.62	\$ 25.51
Volume Charge (per kgal)	\$ 4.52	\$ 5.65	\$ 7.35	\$ 9.56

Bill Comparison for Typical Users (5/8" 4-kgal)



System Development Fees

- Maximum Cost Justified Fees for 5/8" meter or one ERU
 - > Water fee - \$2,230
 - > Sewer fee - \$3,748
- Staff proposes the following increases

Water	Existing	FY 25	FY 26	FY 27
5/8" Meter Charge (one ERU)	\$ 1,243	\$ 1,554	\$ 2,020	\$ 2,230
% Increase		25%	30%	10.3%

Sewer	Existing	FY 25	FY 26	FY 27
5/8" Meter Charge (one ERU)	\$ 1,692	\$ 2,115	\$ 2,750	\$ 3,035
% Increase		25%	30%	30%



Water and Sewer Capital Improvements

April 9th, 2024

A blurred background image of a grid or table, likely a financial statement or schedule, is visible on the right side of the page. The grid contains various numbers and text, but it is out of focus. Some legible text includes '100' and '100' in the top right corner, and '100' in the bottom right corner. The overall appearance is that of a document page with a grid overlay.

Water

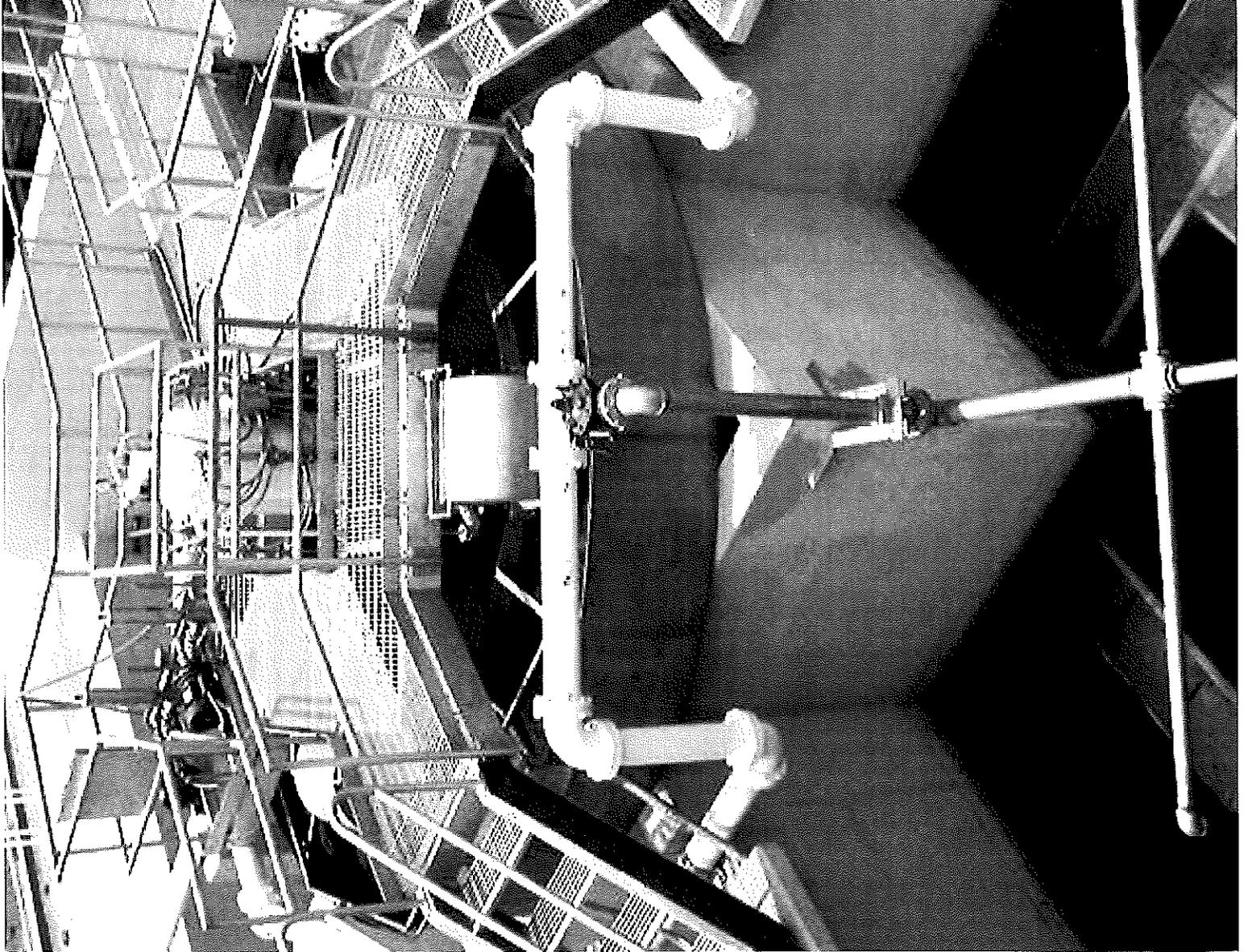
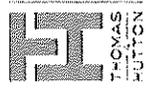




Figure 3.82

Proposed Near-Term Capital Improvement Projects
 Water System Capacity Study and Hydraulic Model Updates
 Spring Hill, TN



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 SMYRNA, TN 37167 • 615.230.5800
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Legend

- Pipe**
- Type
 - Active
 - Proposed CIP 2030
- Tank**
- Active
- Proposed CIP 2030
- Reservoir**
- Active
- Proposed CIP 2030
- High Pressure Zone
- Low Pressure Zone

Scale: 1" = 100'

Project Name: []

Project Number: []

Revision: []

Scale: []

Author: []

Checked: []

Approved: []

Date: []

Sheet: [] of []

Project Location: []

Project Description: []

Project Status: []

Project Manager: []

Project Engineer: []

Project Designer: []

Project Checker: []

Project Approver: []

Project Date: []

Project Version: []

Project Revision: []

Project Change: []

Project Update: []

Project Note: []

Project Comment: []

Project Description: []

Project Location: []

Project Status: []

Project Manager: []

Project Engineer: []

Project Designer: []

Project Checker: []

Project Approver: []

Project Date: []

Project Version: []

Project Revision: []

Project Change: []

Project Update: []

Project Note: []

Project Comment: []

Sewer



DERRYBERRY LN

REC RD

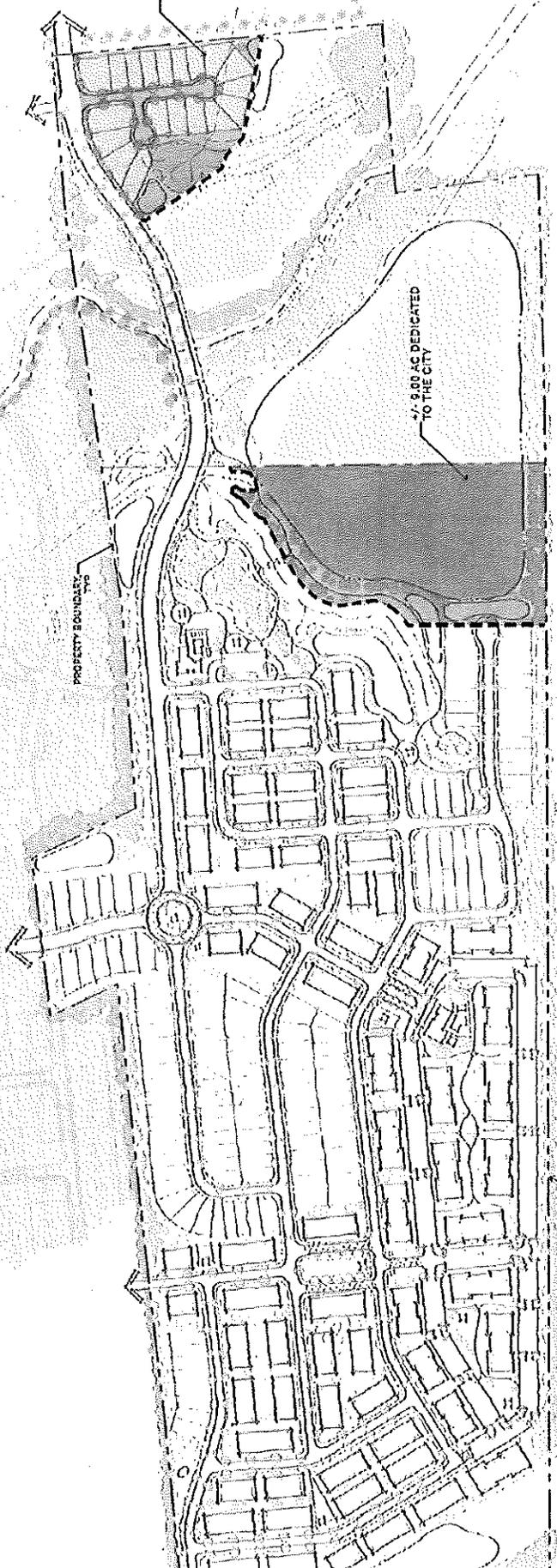
2.75 AC DEDICATED TO THE CLIENT

2.75 AC DEDICATED TO THE CITY

PROPERTY BOUNDARY TYP

1-91

PROPERTY BOUNDARY TYP



City of Spring Hill, TN
BUDGET OPERATION
PRESENTATION

Utility Department

APRIL 11, 2024



Utility Administration

Broken down by

Expenses

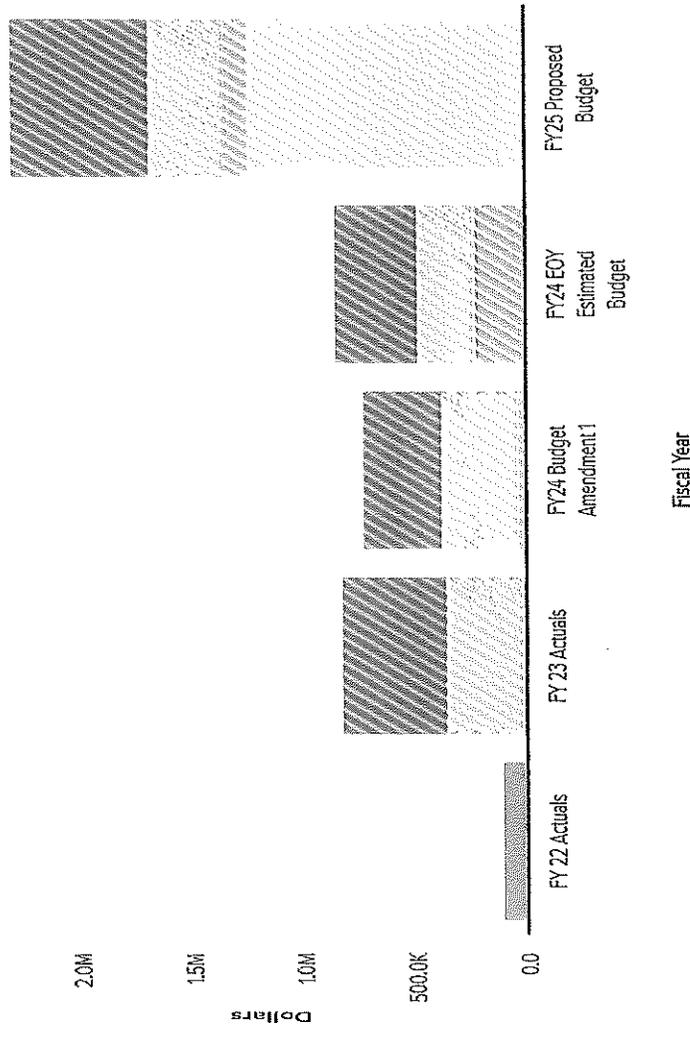
WATER AND SEWER FUND

Utilities Administration



Visualization

Sort By Chart of Accounts



- 51 - Personal Services
- 52 - Contractual Services
- 53 - Supplies
- 55 - Fixed Charges
- 57 - Grants, Contributions, I...
- 59 - Capital Outlay

Water Distribution

Broken down by

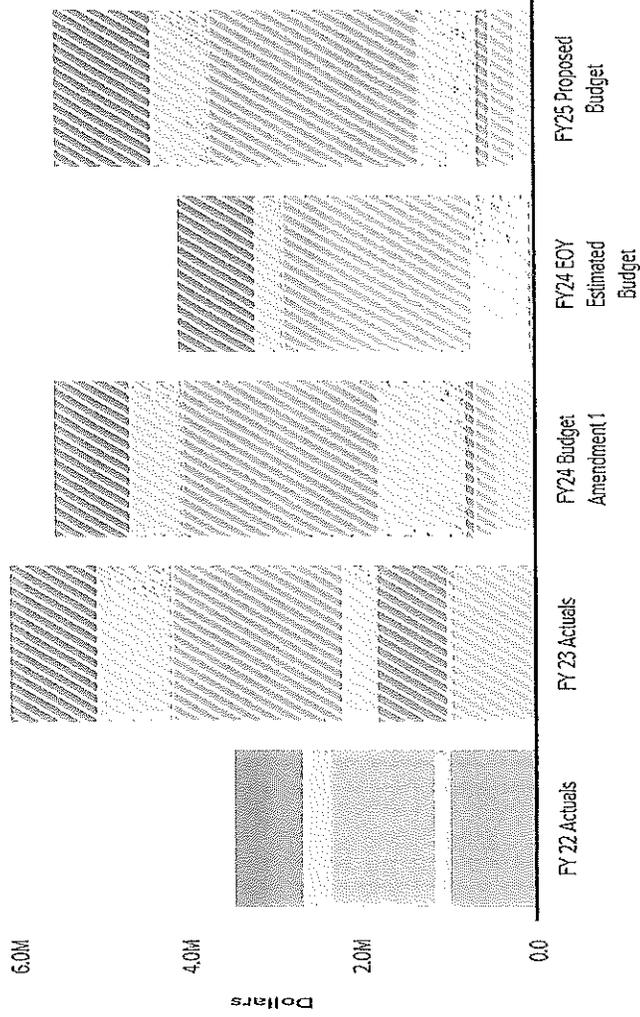
Expenses

WATER AND SEWER FUND

Water Distribution



Visualization



Sort By Chart of Accounts ▾

- 51 - Personal Services
- 52 - Contractual Services
- 53 - Supplies
- 54 - Building and Constructi...
- 55 - Fixed Charges
- 56 - Debt Service
- 57 - Grants, Contributions, I...
- 59 - Capital Outlay

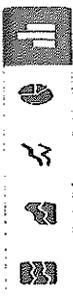
Fiscal Year

Wastewater Treatment Plant

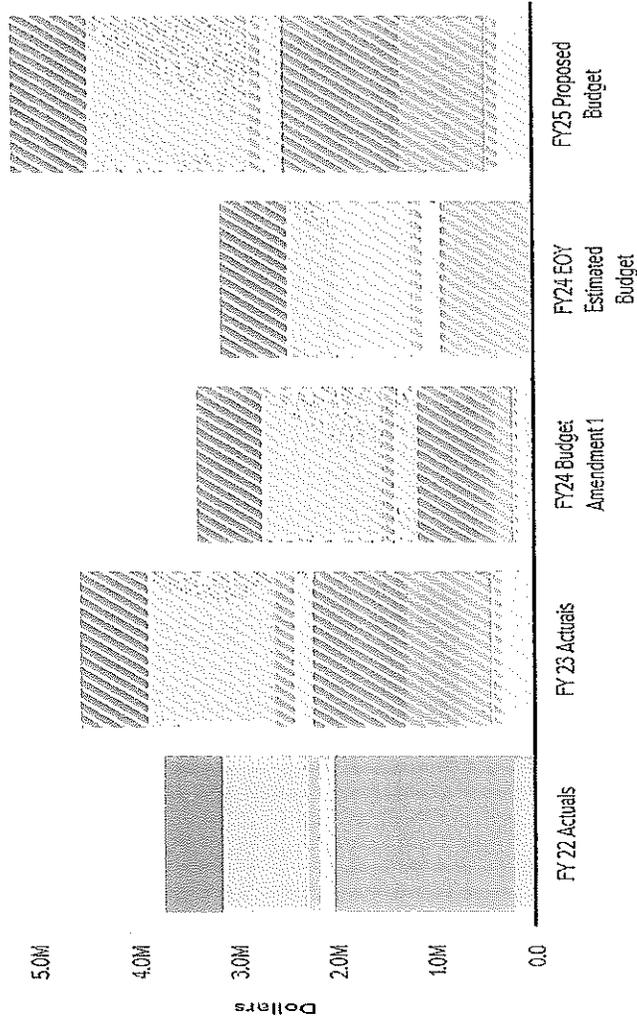
Broken down by Expenses

WATER AND SEWER FUND

Waste Water Treatment Plant



Visualization



Sort By Chart of Accounts

- 51 - Personal Services
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WATER AND SEWER FUND REVENUES

Broken down by

Revenues

WATER AND SEWER FUND

52 Public Enterprises



Visualization

Sort By Chart of Accounts

80.0M

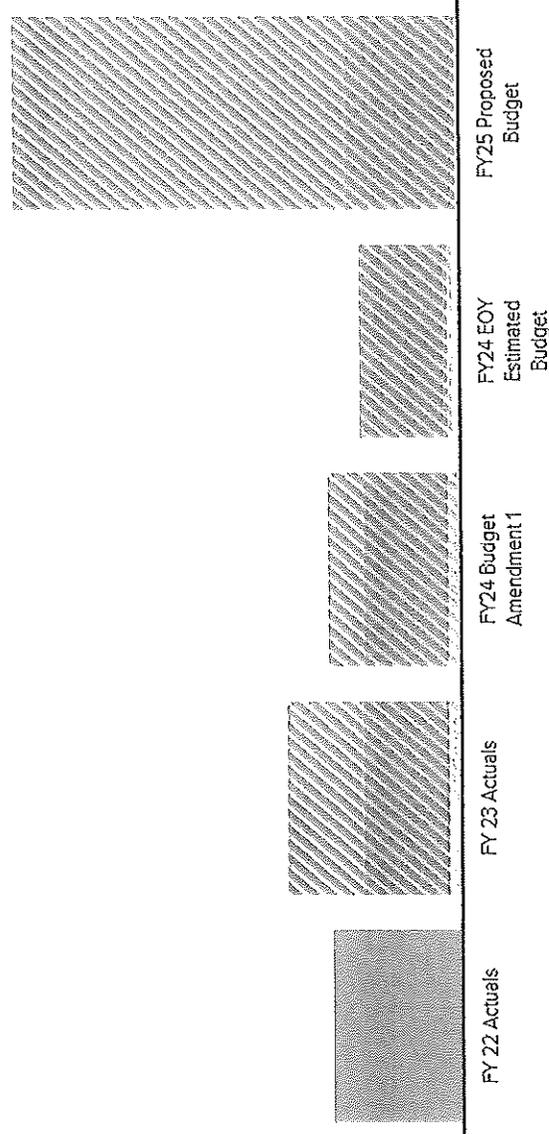
60.0M

40.0M

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Dollars



Fiscal Year

