



City of Belle Meade

Enterprise Fund Rate Study

April 2016

Prepared By:



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City of Belle Meade

Enterprise Fund – Rate Study

Executive Summary

The City of Belle Meade owns, operates, and maintains a wastewater collection system that serves approximately 1,050 customers within its corporate limits. The Belle Meade system is connected, at multiple locations, to the Metro Water Services' (MWS) wastewater system that provides transportation and treatment of Belle Meade's wastewater. MWS also does meter reading and billing services for the City. The financial accounting of the wastewater system has been included in the City's general fund but is now required to function as an enterprise fund. An enterprise fund in governmental accounting is a proprietary fund that provides services to the public for a fee and is sustained by revenues generated within that department without subsidies from the general fund.

The purpose of this report is to determine rates necessary to comply with state law regarding enterprise funds. Beginning July 1, 2016 the City of Belle Meade will be converting the financial portion of its wastewater system to an enterprise fund as required by Tennessee Code Annotated § 7-34-115 (2015), which includes the following statement: **All water systems and wastewater facilities must utilize an enterprise fund for accounting and reporting its operations. Any water system or wastewater facility currently not operating as an enterprise fund must be doing so by July 1, 2016.** A copy of TCA § 7-34-115 (2015) can be found at the end of this report.

Also, the City must comply with Tennessee Code Annotated § 68-221-1010 (2013), another state law that regulates accounting of the wastewater system and contains the following statement: **Within sixty (60) days from the time that an audit of a water system or wastewater facility is filed with the comptroller of the treasury, the comptroller of the treasury shall file with the board the audit report of any water system or wastewater facility that has a deficit total net assets in any one (1) year, has a negative change in net assets for two (2) consecutive years or is currently in default on any of its debt instruments.** A copy of TCA § 68-221-1010 (2013) can be found at the end of this report.

This report presents a comprehensive financial analysis of the City of Belle Meade's wastewater system including a historical view of their past operational and financial records, and provides a reasonable plan for capital improvements, operation and financing over the next five years to comply with state law. Assumptions for this report include minimum growth in the customer base and minimum increases in expenses. Belle Meade's wastewater staff provided assistance in the collection of historical data, the development of the Capital Improvement Plan, financial projections and the final recommendations of this report.

Included in this report are the basic components of an enterprise fund, which serves as a basis for determining a minimum rate and unit rate for the Belle Meade portion of the customer's bill. There is also a MWS portion of the customer bill, but this report does not go into details or development of

the MWS rate. MWS collects their portion of the bill directly from the customers and sends Belle Meade a check for the Belle Meade portion less an administrative fee.

The key element of operating as an enterprise fund is that it receives sufficient revenue to be self-sufficient and not dependent on the City's general fund. Contained in this report are two key financial analyses that provides an understanding of the wastewater department's financing: A Cash Flow Analysis and a Net Position Analysis. Each one gives an indication of the financial stability of the Belle Meade wastewater system. The analyses are presented in Excel spreadsheets and are designed to function as financial models. Graphs and charts are provided to give a visual presentation of the key items in this report. Also included is a five year Capital Improvement Plan that is generally not found in an enterprise fund, but is used as a planning tool to project methods of financing and to estimate future amounts of depreciation, a critical component of an enterprise fund.

The Five Year Capital Improvement Plan for wastewater system is projecting approximately \$750,000 in capital improvements over the next five years, including the current Fiscal Year (FY) 2016. It is recommended that the City make a one-time transfer of cash from the general fund to the enterprise fund to insure sufficient funds for making capital improvements. In order to assist the City in making decisions about the amount of money to be transferred, two options are presented; one is transferring \$125,000 and the other is transferring \$250,000. No other type of financing is being recommended for funding of the capital improvement plan other than the one-time transfer and increases in cash from excess revenues over expenses.

The Cash Analysis indicates that the wastewater system is a well-run utility that makes good financial and operational decisions. However, the Net Position Analysis, which includes depreciation as an operating expense, is projecting a negative "change in net position" for FY 2017 - 2020. According to Tennessee Code Ann. § 68-221-1010, the City would have to appear before the Water and Wastewater Financing Board and agree on rate increases if the "change in net position" is negative for two consecutive years.

In order to comply with the net position requirement, presented in this report are two levels of rate increases for the City's consideration; a 40% increase and a 50% increase. A Cash Analysis and a Net Position Analysis has been prepared for each of the recommended rate increases to assist the City in making a decision.

Either one of these proposed rate increases will improve the City's wastewater finances status, however it is highly recommended to monitor and update this report annually or at least every two years to verify projections and make changes as necessary.

The report also contains a profile of Belle Meade's wastewater customers based on the number of customers, usage and revenue for the month of January 2016. A comparison of monthly cost with other cities and utility districts is also presented based on an average usage of 7,500 gallons.

Capital Improvement Plan

A Capital Improvement Plan is typically an unaudited planning document used to identify needed capital assets and methods of financing. The Belle Meade wastewater Capital Improvement Plan (Figure 1) covers five years and provides projected cost for items such as pumps, pump systems, transportation equipment and line replacements. The City's auditors define a capital asset as: **Capital assets include infrastructure capital assets consisting of the sewer system and its improvements, drainage and drainage improvements and road and road improvements. The City defines capital assets as assets with an initial, individual cost of more than the established amount ---- and an estimated useful life in excess of one year.** Maintenance items such as cleaning and televising gravity sewer lines are not considered capital improvements. All capital assets are depreciated using the straight line method over the estimated life of the asset.

When new houses are built, the city purchases a complete pumping system for the new house to be installed by the contractor. The contractor reimburses the City for the cost of the system, but the City retains ownership and maintenance of the system. A complete pumping system includes a tank, pump and electrical controls. Over time pumps and electrical controls wear out and need be replaced. These items are shown in the capital improvement plan and will be included in the wastewater depreciation schedule.

The City plans to purchase a small truck in FY 2017 and replace approximately 1,500 feet of sewer line that is currently overloaded, creating high pressures and causing pumps to wear out more frequently than usual.

Generally capital improvement plans include methods of financing such as bond and loans, but the City is planning on making a one-time transfer of funds from the general fund to the enterprise fund for financing the capital improvement plan along with excess revenue after paying expenses.

The capital improvement plan also includes a calculation of annual and accumulated depreciation based on a straight line method. The first year of annual depreciation is discounted 50% to average the timing of when the purchased expenses go into service. The accumulated depreciation is added to the regular schedule of depreciation of wastewater capital expenses and projects.

Over the next five years there is an estimated \$750,000 in projected capital expenses and improvements and an accumulated depreciation of \$55,000.

Capital Improvement Plan

Fiscal Year 2016 (July 1, 2015 - June 30, 2016)					Fiscal Year 2019 (July 1, 2018 - June 30, 2019)				
Projects	Cost	Life-Years	Annual Depreciation	Accumulated Depreciation	Projects	Cost	Life-Years	Annual Depreciation	Accumulated Depreciation
Pump Systems	\$72,000	12	\$6,000	\$5,171	Pump Systems	\$58,500	12	\$4,875	\$46,079
Replacement Parts - Pumps, etc.	\$50,000	12	\$4,167		Replacement Parts - Pumps, etc.	\$53,000	12	\$4,417	
Transportation Equipment	\$0		\$0		Transportation Equipment	\$0		\$0	
Capital Projects - Improvements	\$7,000	40	\$175		Capital Projects - Improvements	\$8,000	40	\$200	
TOTAL	\$129,000		\$10,342		TOTAL	\$119,500		\$9,492	

Fiscal Year 2017 (July 1, 2016 - June 30, 2017)					Fiscal Year 2020 (July 1, 2019 - June 30, 2020)				
Projects	Cost	Life-Years	Annual Depreciation	Accumulated Depreciation	Projects	Cost	Life-Years	Annual Depreciation	Accumulated Depreciation
Pump Systems	\$58,500	12	\$4,875	\$21,133	Pump Systems	\$58,500	12	\$4,875	\$55,613
Replacement Parts - Pumps, etc.	\$51,000	12	\$4,250		Replacement Parts - Pumps, etc.	\$54,000	12	\$4,500	
Transportation Equipment	\$28,000	3	\$9,333		Transportation Equipment	\$0		\$0	
Capital Projects - Improvements	\$125,000	40	\$3,125		Capital Projects - Improvements	\$8,000	40	\$200	
TOTAL	\$262,500		\$21,583		TOTAL	\$120,500		\$9,575	

Fiscal Year 2018 (July 1, 2017 - June 30, 2018)				
Projects	Cost	Life-Years	Annual Depreciation	Accumulated Depreciation
Pump Systems	\$58,500	12	\$4,875	\$36,629
Replacement Parts - Pumps, etc.	\$52,000	12	\$4,333	
Transportation Equipment	\$0			
Capital Projects - Improvements	\$8,000	40	\$200	
TOTAL	\$118,500		\$9,408	

Figure 1

Cash Flow Analysis

The Cash Flow Analysis (Figure 2) is configured similar to a cash budget showing the amount of cash at the beginning of the fiscal year, the amount of income (including sewer charges, permit fees, installation fees and tap fees), the amount of expenses (including personal, repair & equipment, professional services and miscellaneous) and capital expenses. Adding income and subtracting expenses and capital improvements provides the amount of cash at the end of the year. It is developed as a financial model to project the flow of cash from one year to the next and therefore if one parameter is changed in one year, all values will adjust in the following years to reflect the initial change. The cash flow analysis in the format in Figure 2 is not presented that way in the audit but contains information that would be found in three sections of the audit: (1) Statement of Net Position, (2) Statement of Revenues, Expenses and Changes in Net Position, and (3) Statement of Cash Flows.

Below the Cash Flow Analysis is a graph showing the relative values of Total Income, Total Expenses and Cash for the past five years and the next five years. You can visually see the impact of rate increases made effective in FY 2015 and FY 2016. Also, there is a spike in expenses for FY 2017 due to planned expenditures as provided in the capital improvement plan. One extraordinary expense item, not a capital expense, is cleaning and televising the manholes and gravity sewer lines with an estimated cost of approximately \$37,500. This is a maintenance item that will occur in 2017 and is done every five years.

The City of Belle Meade has the option of making a one-time transfer of money from the general fund to the enterprise fund. The Cash Flow Analysis in Figure 2 is assuming the City would start with \$125,000. Without making any adjustments to the rates, the cash amount would grow to approximately \$137,000 by FY 2020. Other than FY 2017, revenue is projected to be sufficient in covering expenses over the next four years, however cash is not the only parameter to consider when making decisions for rate increases. Cash is important when considering making major capital improvements, replacing lines or reacting to unexpected events that cause major damage to the wastewater system infrastructure.

Figure 3 is a pie chart showing the sources of income for FY 2015. Sewer Charges is obviously the largest source in income at about 69% followed by the installation charge of 27%. Figure 4 is a pie chart showing the expenses for FY 2015 based on the cash flow analysis. Capital assets and improvements represent the largest amount with 44% of total expenses and repairs & equipment being next at 38%. If new construction should slow down, the installation charge and tap fees would be reduced, but purchase of pumping systems would also be reduced to help maintain a balance in the overall income and expenses.

Figure 5 is similar to Figure 4 except it is showing the City transferring \$250,000 from the general fund to the enterprise fund and assuming that no rate increases are made over the next four years.

Cash Flow Analysis - No Rate Increases & Starting with \$125,000 Cash										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cash Beginning July 1							125,000	12,376	58,980	100,292
Income Sources										
Sewer Charges	43,993	47,007	51,569	53,260	110,034	240,000	280,000	280,000	280,000	280,000
Percent Change		7%	10%	3%	107%	118%	17%	0%	0%	0%
Sewer Permit Fees	700	700	400	1,000	700	1,200	1,000	1,000	1,000	1,000
Installation Charge	50,358	42,074	23,435	51,343	42,539	80,000	65,000	65,000	65,000	65,000
Sewer Tap Fees	5,000	7,000	4,000	10,000	7,000	16,000	10,000	10,000	10,000	10,000
Interest Income								124	590	1,003
Total Income	100,051	96,781	79,404	115,603	160,273	337,200	356,000	356,000	356,000	356,000
General Expenses										
Personnel	73,552	74,611	51,274	47,095	49,096	50,171	51,224	52,296	53,388	54,499
Repair & Equipment	64,358	80,779	77,537	103,434	121,804	121,000	122,000	125,500	128,000	129,500
Cleaning & Televising	21,730						37,500			
Professional Services	8,499	9,932	10,321	10,078	6,808	10,000	10,000	10,000	10,000	10,000
Miscellaneous	3,695	5,214	4,644	4,160	4,496	2,700	3,200	3,700	4,200	4,700
Total General Expenses	171,834	170,536	143,776	164,767	182,204	183,871	223,924	191,496	195,588	198,699
Capital Assets										
Capital Assets & Improvements	131,131	134,643	128,799	90,843	143,308	129,000	244,700	117,900	119,100	120,300
Total Expenses	302,965	305,179	272,575	255,610	325,512	312,871	468,624	309,396	314,688	318,999
Cash Ending June 30							12,376	58,980	100,292	137,293

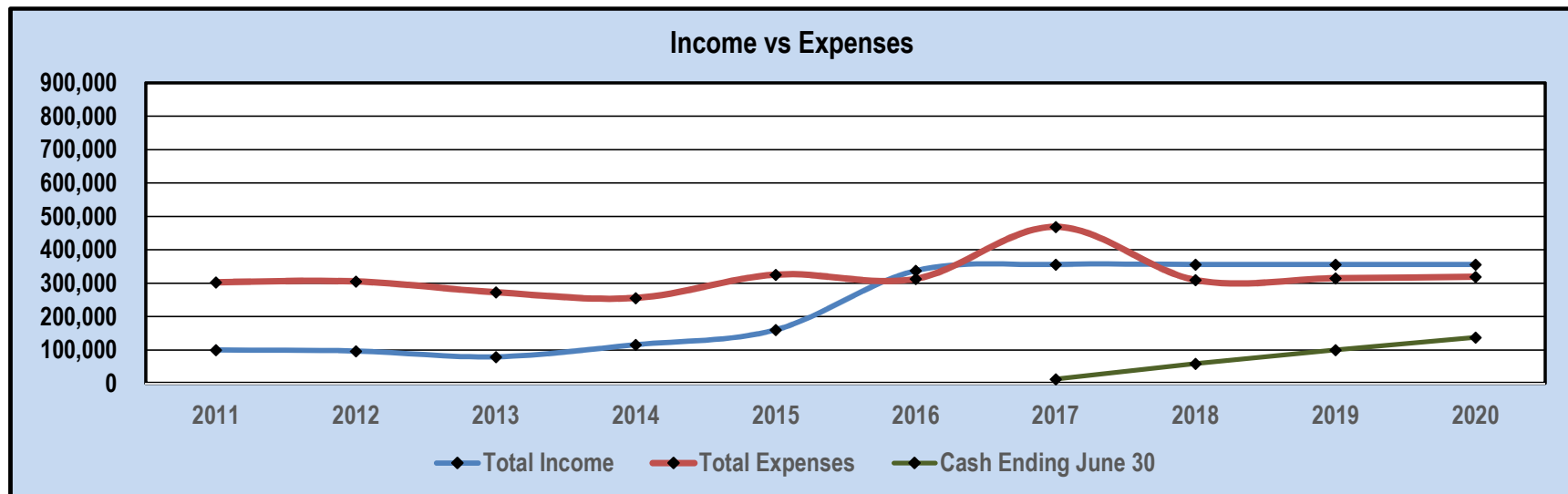


Figure 2

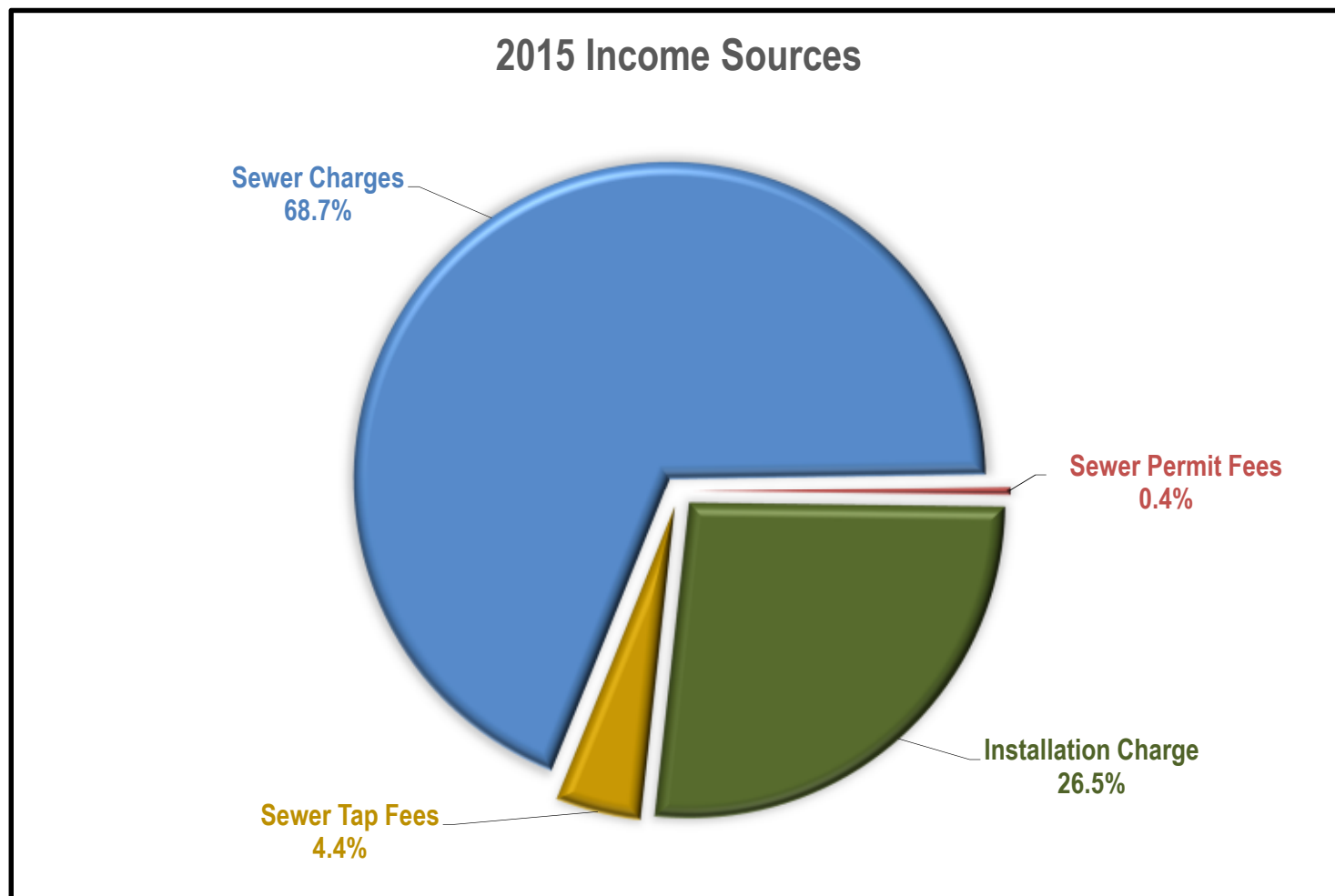


Figure 3

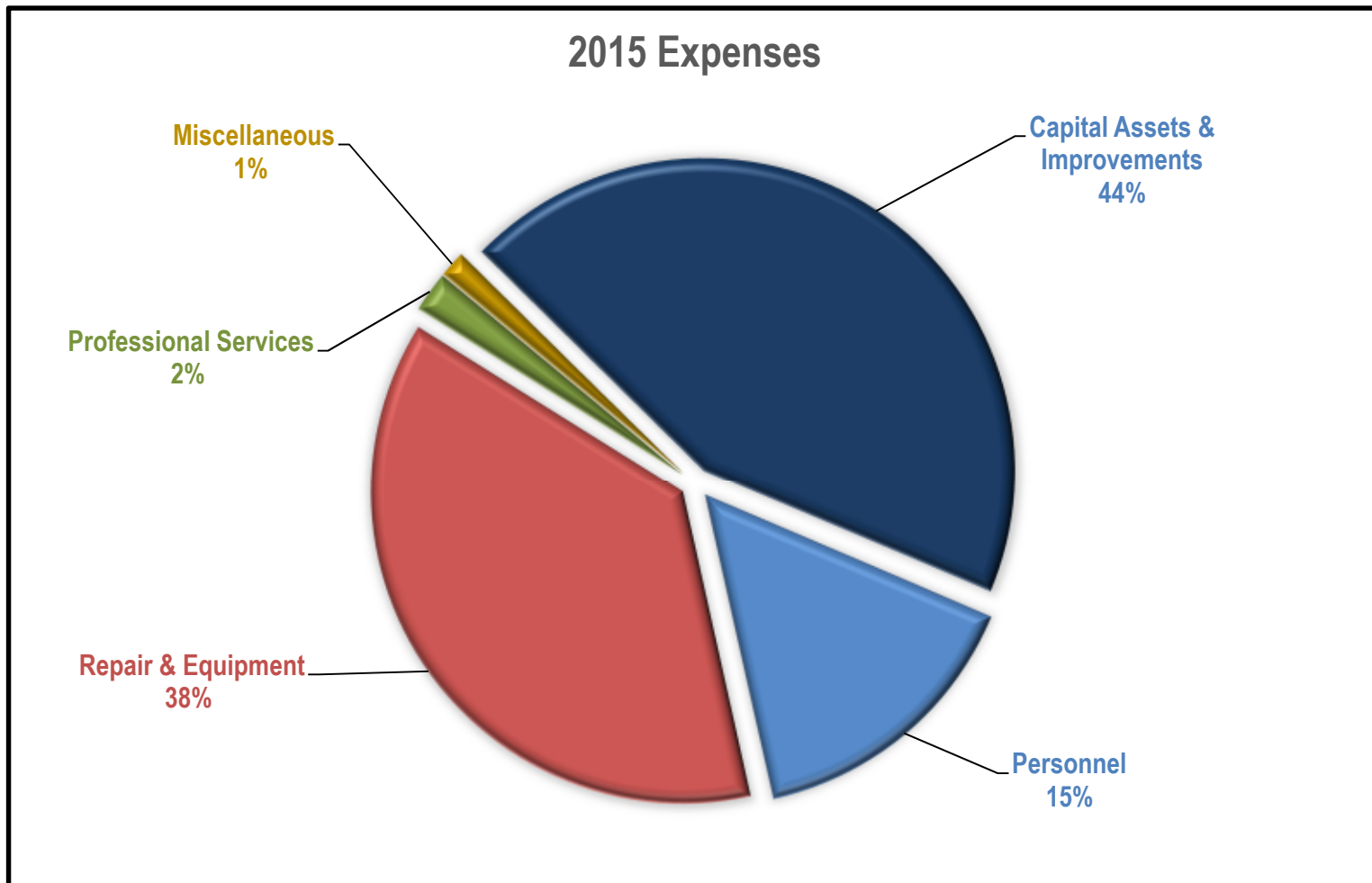


Figure 4

Cash Flow Analysis - No Rate Increases & Starting with \$250,000 Cash										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cash Beginning July 1							250,000	137,376	183,980	225,292
Income Sources										
Sewer Charges	43,993	47,007	51,569	53,260	110,034	240,000	280,000	280,000	280,000	280,000
Percent Change		7%	10%	3%	107%	118%	17%	0%	0%	0%
Sewer Permit Fees	700	700	400	1,000	700	1,200	1,000	1,000	1,000	1,000
Sale of Material (Pumps)	50,358	42,074	23,435	51,343	42,539	80,000	65,000	65,000	65,000	65,000
Sewer Tap Fees	5,000	7,000	4,000	10,000	7,000	16,000	10,000	10,000	10,000	10,000
Interest Income								1,374	1,840	2,253
Total Income	100,051	96,781	79,404	115,603	160,273	337,200	356,000	356,000	356,000	356,000
General Expenses										
Personnel	73,552	74,611	51,274	47,095	49,096	50,171	51,224	52,296	53,388	54,499
Repair & Equipment	64,358	80,779	77,537	103,434	121,804	121,000	122,000	125,500	128,000	129,500
Cleaning & Televising	21,730						37,500			
Professional Services	8,499	9,932	10,321	10,078	6,808	10,000	10,000	10,000	10,000	10,000
Miscellaneous	3,695	5,214	4,644	4,160	4,496	2,700	3,200	3,700	4,200	4,700
Total General Expenses	171,834	170,536	143,776	164,767	182,204	183,871	223,924	191,496	195,588	198,699
Capital Expense										
Capital Assets & Improvements	131,131	134,643	128,799	90,843	143,308	129,000	244,700	117,900	119,100	120,300
Total Expenses	302,965	305,179	272,575	255,610	325,512	312,871	468,624	309,396	314,688	318,999
Cash Ending June 30							137,376	183,980	225,292	262,293

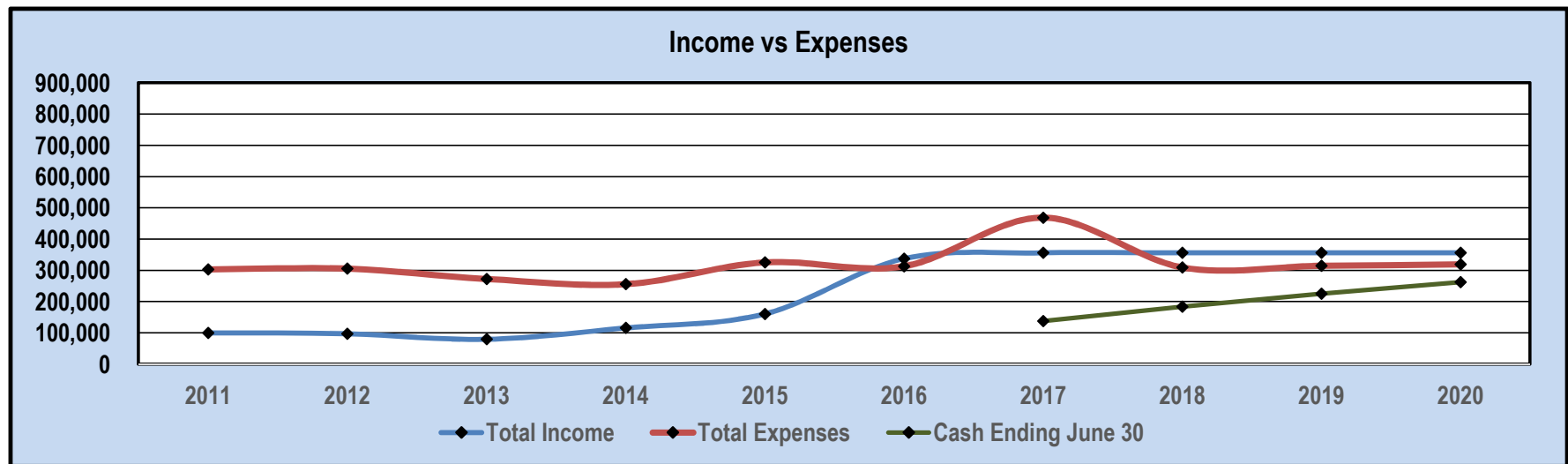


Figure 5

Net Position Analysis

Net Position is generally defined as assets less liabilities. The “change in net position”, a line item in the Net Position Analysis is important because it is regulated by the Tennessee Comptroller of the Treasury, Water and Wastewater Financing Board. According to Tennessee Code Annotated § 68-221-1010 (included at the end of this report) Belle Meade may be subject to action by the Water and Wastewater Financing Board (WWFB) if the “change in net position” is negative for two consecutive years. If this should happen the City of Belle Meade would have to appear before the WWFB and agree to rates that would satisfy requirements of the law. Two other regulations in this law that would prompt action by the WWFB are as follows: **having a deficit total net assets in any one (1) year, or is currently in default on any of its debt instruments.** Belle Meade currently does not have any debt associated with the wastewater system and none anticipated for the next four years, therefore is not likely to be impacted by these two requirements.

The Net Position Analysis (Figure 6) in this report is formatted similar to a section that you will find in the enterprise fund section of the FY 2017 audit called the “Statement of Revenues, Expenses and Changes in the Net Position”. The Net Position Analysis is different from the Cash Flow Analysis in that it includes depreciation as an operating expense, but does not include the amount of money paid for capital improvements. Figure 3 is based on the assumption that no future rate increases will be made over the next four years and that the City will be transferring \$125,000 from the general fund to the enterprise fund. Below the Net Position Analysis is a graphical representation of the operating revenue vs the operating expenses, including depreciation.

Depreciation is defined as a reduction in the value of an asset with the passage of time, due in particular to wear and tear. Although depreciation is listed as an expense, it is not paid out to anyone but instead remains within the enterprise fund and can be used to purchase capital assets or make capital improvements. Funding depreciation is a process compelling the City to accumulate cash, over time, equal to the value of money originally spent on each capital item in order to have sufficient funds to replace the capital items as they wear out or become obsolete. Figure 7 is a simplified schedule of depreciation showing the past five years and projections for the next five. Without any additions to depreciation, the current schedule would be reduced by approximately \$57,000 by FY 2020, but new additions added as proposed in the capital improvement plant adds back about \$56,000 in new depreciation.

Although rates have been increased twice over the last two years, the change in net position remains negative over the next five years, therefore creating a violation of TCA § 68-221-1010 . A third rate increase will be needed to satisfy the change in net position requirement.

Figure 8 is a pie chart showing the largest operating expense in the Net Position Analysis as depreciation with 55% and repair & equipment with 30%.

Figures 9 shows the Net Position Analysis with the City transferring \$250,000 to the enterprise fund. It should be obvious that an increase in cash does not impact the change in net position. The only difference is a small amount due to an increase in interest.

Net Position Analysis - No Rate Increases & Starting with \$125,000 Cash										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating Revenues										
Sewer Charges	43,993	47,007	51,569	53,260	110,034	240,000	280,000	280,000	280,000	280,000
Sewer Permit Fees	700	700	400	1,000	700	1,200	1,000	1,000	1,000	1,000
Installation Charge	50,358	42,074	23,435	51,343	42,539	80,000	65,000	65,000	65,000	65,000
Total Operating Revenues	95,051	89,781	75,404	105,603	153,273	321,200	346,000	346,000	346,000	346,000
Operating Expenses										
Personnel	73,552	74,611	51,274	47,095	49,096	50,171	51,224	52,296	53,388	54,499
Repair & Equipment	64,358	80,779	77,537	103,434	121,804	121,000	122,000	125,500	128,000	129,500
Cleaning & Televising	21,730						37,500			
Professional Services	8,499	9,932	10,321	10,078	6,808	10,000	10,000	10,000	10,000	10,000
Miscellaneous	3,695	5,214	4,644	4,160	4,496	2,700	3,200	3,700	4,200	4,700
Depreciation	234,605	227,567	218,082	218,148	225,085	230,595	231,812	227,084	227,304	223,417
Total Operating Expenses	406,439	398,103	361,858	382,915	407,289	414,466	455,736	418,580	422,891	422,116
Operating Income (Loss)	(311,388)	(308,322)	(286,454)	(277,312)	(254,016)	(93,266)	(109,736)	(72,580)	(76,891)	(76,116)
Non-Operating Revenues (Expenses)										
Tap Fees	5,000	7,000	4,000	10,000	7,000	16,000	10,000	10,000	10,000	10,000
Interest Income								124	590	1,003
SUBTOTAL	5,000	7,000	4,000	10,000	7,000	16,000	10,000	10,124	10,590	11,003
Change in Net Position	(306,388)	(301,322)	(282,454)	(267,312)	(247,016)	(77,266)	(99,736)	(62,456)	(66,301)	(65,113)

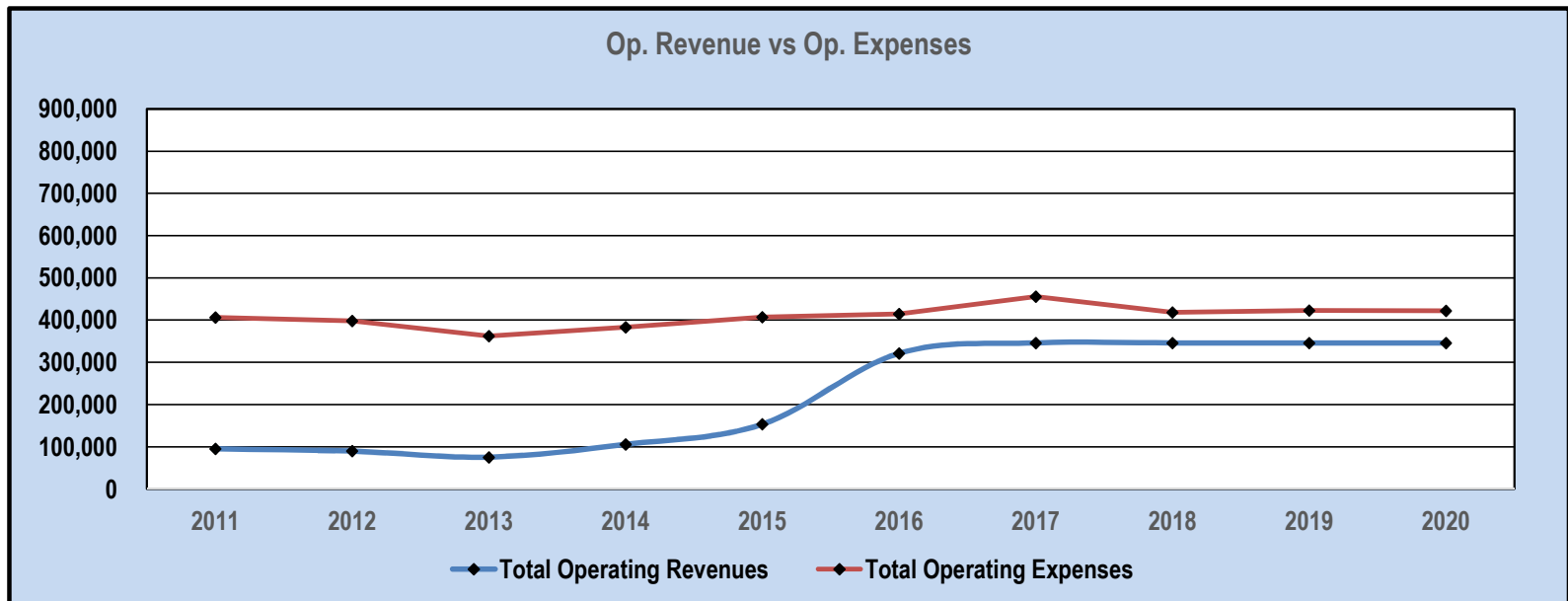


Figure 6
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Depreciation										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Scheduled Depreciation	234,605	227,567	218,082	218,148	225,085	225,424	210,679	190,455	181,225	167,804
2016 New Depreciation						5,171	10,342	10,342	10,342	10,342
2017 New Depreciation							10,792	21,583	21,583	21,583
2018 New Depreciation								4,704	9,408	9,408
2019 New Depreciation									4,746	9,492
2020 New Depreciation										4,788
Total Depreciation	234,605	227,567	218,082	218,148	225,085	230,595	231,812	227,084	227,304	223,417

Figure 7

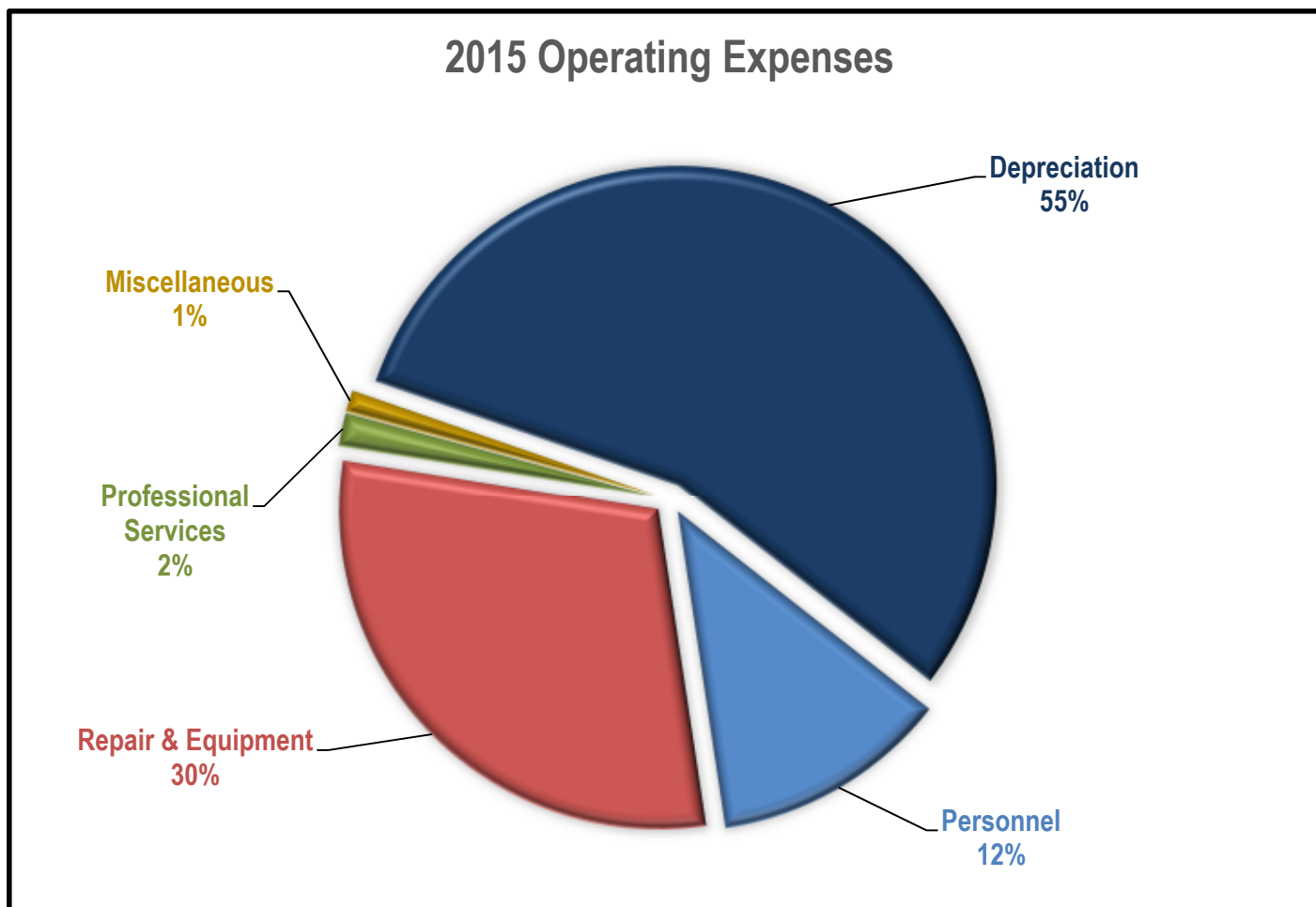


Figure 8

Net Position Analysis - No Rate Increases & Starting with \$250,000 Cash										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating Revenues										
Sewer Charges	43,993	47,007	51,569	53,260	110,034	240,000	280,000	280,000	280,000	280,000
Sewer Permit Fees	700	700	400	1,000	700	1,200	1,000	1,000	1,000	1,000
Installation Charge	50,358	42,074	23,435	51,343	42,539	80,000	65,000	65,000	65,000	65,000
Total Operating Revenues	95,051	89,781	75,404	105,603	153,273	321,200	346,000	346,000	346,000	346,000
Operating Expenses										
Personnel	73,552	74,611	51,274	47,095	49,096	50,171	51,224	52,296	53,388	54,499
Repair & Equipment	64,358	80,779	77,537	103,434	121,804	121,000	122,000	125,500	128,000	129,500
Cleaning & Televising	21,730						37,500			
Professional Services	8,499	9,932	10,321	10,078	6,808	10,000	10,000	10,000	10,000	10,000
Miscellaneous	3,695	5,214	4,644	4,160	4,496	2,700	3,200	3,700	4,200	4,700
Depreciation	234,605	227,567	218,082	218,148	225,085	230,595	231,812	227,084	227,304	223,417
Total Operating Expenses	406,439	398,103	361,858	382,915	407,289	414,466	455,736	418,580	422,891	422,116
Operating Income (Loss)	(311,388)	(308,322)	(286,454)	(277,312)	(254,016)	(93,266)	(109,736)	(72,580)	(76,891)	(76,116)
Non-Operating Revenues (Expenses)										
Tap Fees	5,000	7,000	4,000	10,000	7,000	16,000	10,000	10,000	10,000	10,000
Interest Income								1,374	1,840	2,253
SUBTOTAL	5,000	7,000	4,000	10,000	7,000	16,000	10,000	11,374	11,840	12,253
Change in Net Position	(306,388)	(301,322)	(282,454)	(267,312)	(247,016)	(77,266)	(99,736)	(61,206)	(65,051)	(63,863)

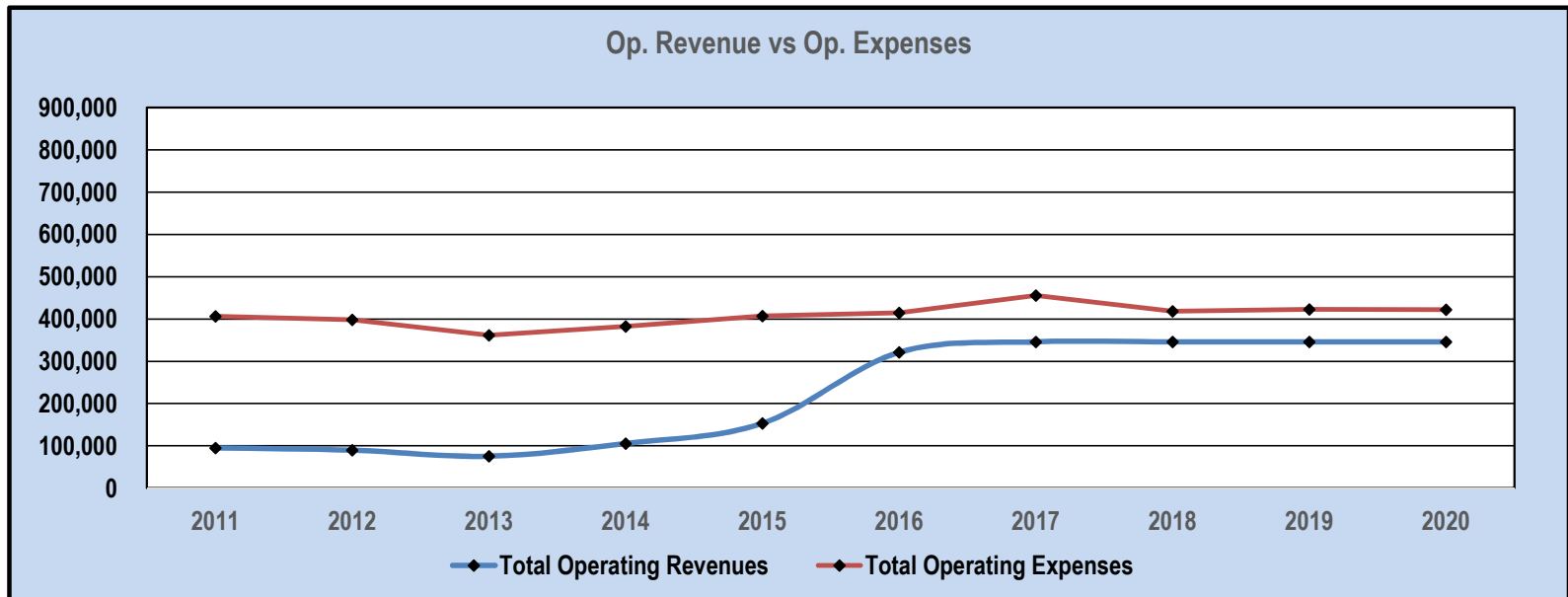


Figure 9
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Rate Increase

The determination of the amount of rate increase needed is based on a review of the two analyses presented in this report; the Cash Analysis and the Net Position Analysis. The analysis that shows the greatest deficit in revenue determines the amount of rate increase needed.

A review of the Cash Analysis reveals that the City does not have to raise rates to cover all expenses including capital assets and projects for the next four years. With the proposed transfer of funds, the City can easily cover expenses without any new rate increases. However, the law requiring the wastewater system to operate as an enterprise fund places a burden on the City to include depreciation as an operating expense. The Net Position Analysis, which includes depreciation, reveals that an additional rate increase is needed to comply with the law regarding two consecutive years of negative “change in net position”.

The Net Position Analysis (Figure 8) indicates that about \$99,736 in new revenue is needed to satisfy the change in net position requirement. This amounts to about a 35% increase in revenue for FY 2017 and would represent only a “break-even” position. Given the fact that this report is projecting and estimating income and expenses, a break-even increase is not recommended.

Two increases are provided to give the City sufficient information to make decisions. A minimum rate increase of 40% is recommended for FY 2017 but serious consideration should be given for a 50% increase to insure financial security over the next four years.

A Cash Flow Analysis and Net Position analysis is included for each of the two recommended rate increases, as well as the impact of transferring funds of \$125,000 or \$250,000 from the general fund to the new enterprise fund. The spreadsheets and graphs for these analysis can be found in Figures 10 through 17.

Projected cash reserves in FY 2020 vary from \$590,000 with the \$125,000 transfer and 40% rate increase to \$840,000 with the \$250,000 transfer and 50% rate increase. All of the scenario presented provide a positive change in net position. It should be noted that these increases relate to the overall “sewer charges” and not permit fees, tap fees or other income. The minimum “change in net position” for 2017 ranges from \$12,000 for the 40% rate increase to \$40,000 for the 50% rate increase. The maximum “change in net position” for 2020 is about \$50,000 for the 40% rate increase and \$80,000 for the 50% rate increase. It is recommended that the chosen rate increase be made effective July 1, 2017.

The recommendations for cash transfers and rate increases report are based on projections and estimates of income, expenses, capital expenses, and capital improvements to be made over the next four years. Belle Meade should review annually the impacts of making these increases, particularly the “change in net position” as presented in each annual audit.

Cash Flow Analysis - 40% Increase & Starting with \$125,000										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cash Beginning July 1							125,000	124,376	284,223	440,378
Income Sources										
Sewer Surcharge	43,993	47,007	51,569	53,260	110,034	240,000	392,000	392,000	392,000	392,000
Percent Change		7%	10%	3%	107%	118%	17%	0%	0%	0%
Rate Increase							40%			
Sewer Permit Fees	700	700	400	1,000	700	1,200	1,000	1,000	1,000	1,000
Sale of Material (Pumps)	50,358	42,074	23,435	51,343	42,539	80,000	65,000	65,000	65,000	65,000
Sewer Tap Fees	5,000	7,000	4,000	10,000	7,000	16,000	10,000	10,000	10,000	10,000
Interest Income								1,244	2,842	4,404
Total Income	100,051	96,781	79,404	115,603	160,273	337,200	468,000	469,244	470,842	472,404
General Expenses										
Personnel	73,552	74,611	51,274	47,095	49,096	50,171	51,224	52,296	53,388	54,499
Repair & Equipment	64,358	80,779	77,537	103,434	121,804	121,000	122,000	125,500	128,000	129,500
Repair & Maint. Svcs. - Pump	21,730						37,500			
Professional Services	8,499	9,932	10,321	10,078	6,808	10,000	10,000	10,000	10,000	10,000
Miscellaneous	3,695	5,214	4,644	4,160	4,496	2,700	3,200	3,700	4,200	4,700
Total General Expenses	171,834	170,536	143,776	164,767	182,204	183,871	223,924	191,496	195,588	198,699
Capital Expense										
Capital Assets & Improvement	131,131	134,643	128,799	90,843	143,308	129,000	244,700	117,900	119,100	120,300
Total Expenses	302,965	305,179	272,575	255,610	325,512	312,871	468,624	309,396	314,688	318,999
Cash Ending June 30							124,376	284,223	440,378	593,783

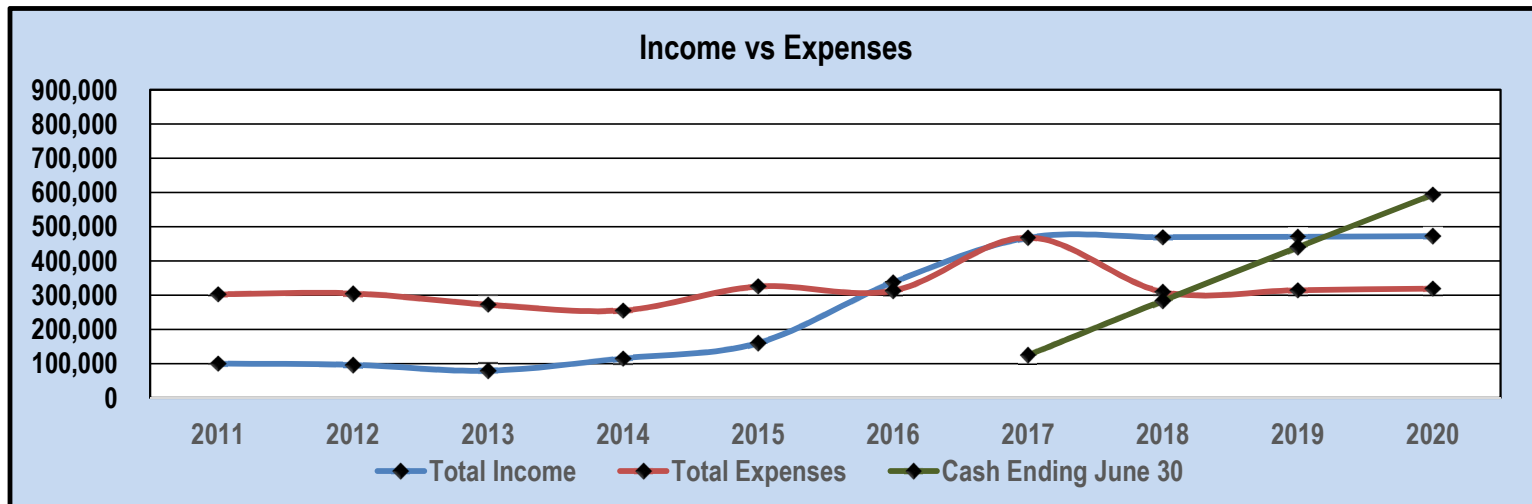


Figure 10

Net Position Analysis - 40% Increase & Starting with \$125,000										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating Revenues										
Sewer Charges	43,993	47,007	51,569	53,260	110,034	240,000	392,000	392,000	392,000	392,000
Sewer Permit Fees	700	700	400	1,000	700	1,200	1,000	1,000	1,000	1,000
Installation Charge	50,358	42,074	23,435	51,343	42,539	80,000	65,000	65,000	65,000	65,000
Total Operating Revenues	95,051	89,781	75,404	105,603	153,273	321,200	458,000	458,000	458,000	458,000
Operating Expenses										
Personnel	73,552	74,611	51,274	47,095	49,096	50,171	51,224	52,296	53,388	54,499
Repair & Equipment	64,358	80,779	77,537	103,434	121,804	121,000	122,000	125,500	128,000	129,500
Cleaning & Televising	21,730						37,500			
Professional Services	8,499	9,932	10,321	10,078	6,808	10,000	10,000	10,000	10,000	10,000
Miscellaneous	3,695	5,214	4,644	4,160	4,496	2,700	3,200	3,700	4,200	4,700
Depreciation	234,605	227,567	218,082	218,148	225,085	230,595	231,812	227,084	227,304	223,417
Total Operating Expenses	406,439	398,103	361,858	382,915	407,289	414,466	455,736	418,580	422,891	422,116
Operating Income (Loss)	(311,388)	(308,322)	(286,454)	(277,312)	(254,016)	(93,266)	2,264	39,420	35,109	35,884
Non-Operating Revenues (Expenses)										
Tap Fees	5,000	7,000	4,000	10,000	7,000	16,000	10,000	10,000	10,000	10,000
Interest Income								1,244	2,842	4,404
SUBTOTAL	5,000	7,000	4,000	10,000	7,000	16,000	10,000	11,244	12,842	14,404
Change in Net Position	(306,388)	(301,322)	(282,454)	(267,312)	(247,016)	(77,266)	12,264	50,664	47,951	50,288

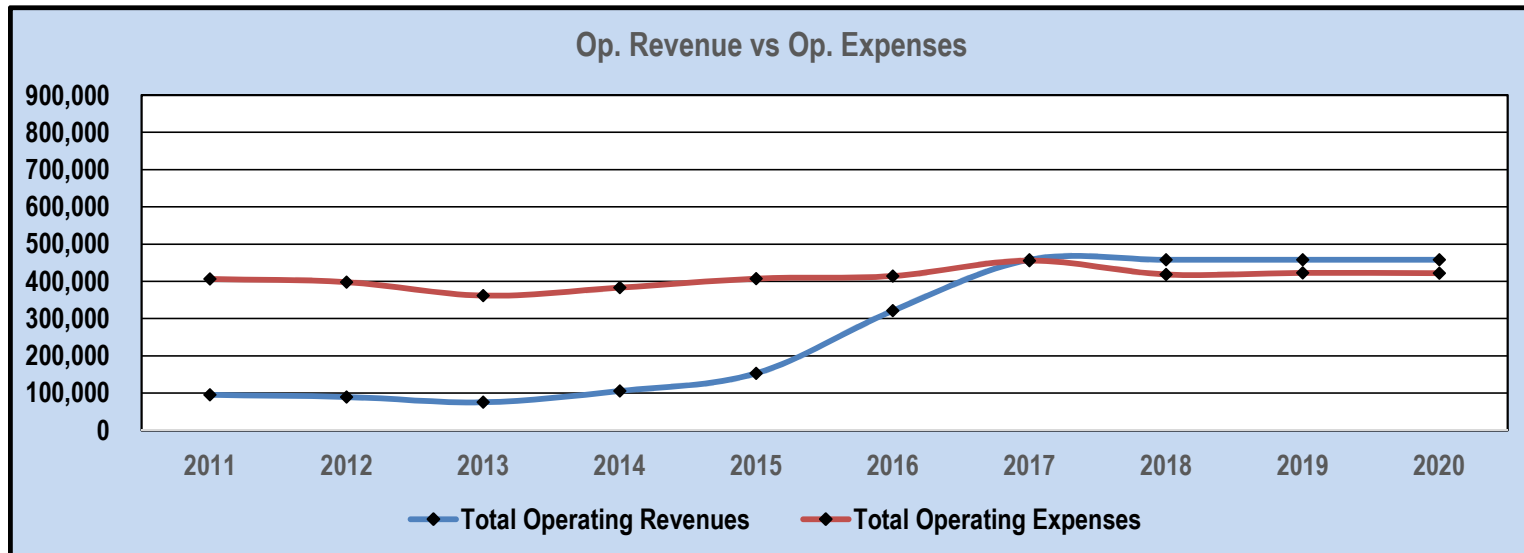


Figure 11

Cash Flow Analysis - 40% Increase & Starting with \$250,000										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cash Beginning July 1							250,000	249,376	410,473	567,891
Income Sources										
Sewer Surcharge	43,993	47,007	51,569	53,260	110,034	240,000	392,000	392,000	392,000	392,000
Percent Change		7%	10%	3%	107%	118%	17%	0%	0%	0%
Rate Increase							40%			
Sewer Permit Fees	700	700	400	1,000	700	1,200	1,000	1,000	1,000	1,000
Sale of Material (Pumps)	50,358	42,074	23,435	51,343	42,539	80,000	65,000	65,000	65,000	65,000
Sewer Tap Fees	5,000	7,000	4,000	10,000	7,000	16,000	10,000	10,000	10,000	10,000
Interest Income								2,494	4,105	5,679
Total Income	100,051	96,781	79,404	115,603	160,273	337,200	468,000	470,494	472,105	473,679
General Expenses										
Personnel	73,552	74,611	51,274	47,095	49,096	50,171	51,224	52,296	53,388	54,499
Repair & Equipment	64,358	80,779	77,537	103,434	121,804	121,000	122,000	125,500	128,000	129,500
Repair & Maint. Svcs. - Pump	21,730						37,500			
Professional Services	8,499	9,932	10,321	10,078	6,808	10,000	10,000	10,000	10,000	10,000
Miscellaneous	3,695	5,214	4,644	4,160	4,496	2,700	3,200	3,700	4,200	4,700
Total General Expenses	171,834	170,536	143,776	164,767	182,204	183,871	223,924	191,496	195,588	198,699
Capital Expense										
Capital Assets & Improvement	131,131	134,643	128,799	90,843	143,308	129,000	244,700	117,900	119,100	120,300
Total Expenses	302,965	305,179	272,575	255,610	325,512	312,871	468,624	309,396	314,688	318,999
Cash Ending June 30							249,376	410,473	567,891	722,571

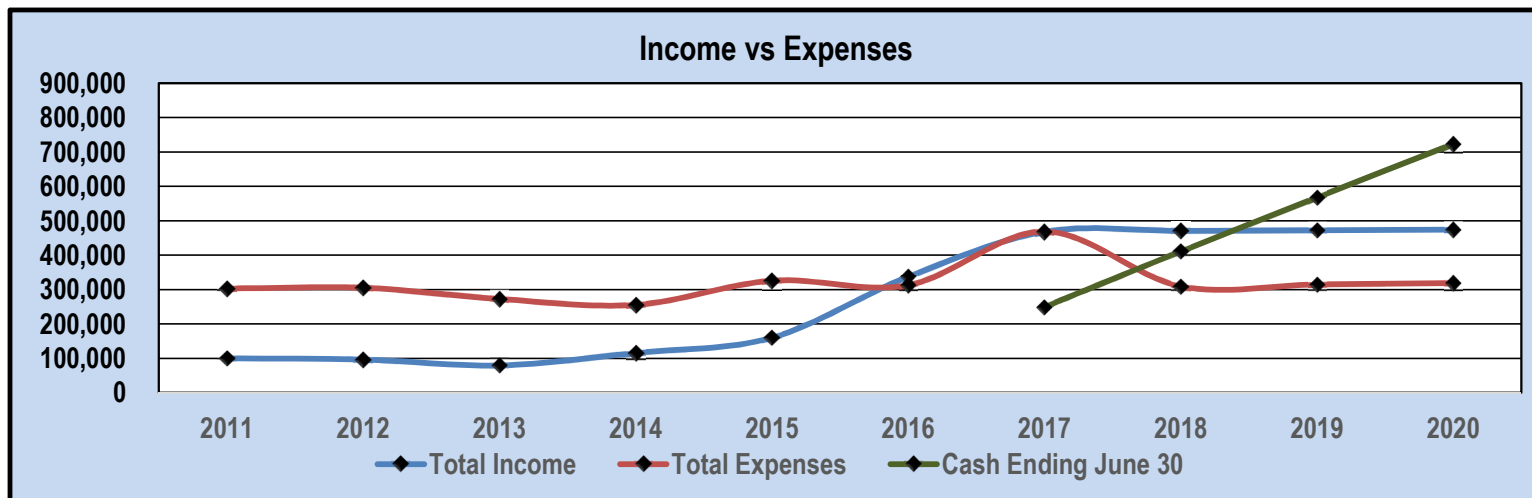


Figure 12

Net Position Analysis - 40% Increase & Starting with \$250,000										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating Revenues										
Sewer Charges	43,993	47,007	51,569	53,260	110,034	240,000	392,000	392,000	392,000	392,000
Sewer Permit Fees	700	700	400	1,000	700	1,200	1,000	1,000	1,000	1,000
Installation Charge	50,358	42,074	23,435	51,343	42,539	80,000	65,000	65,000	65,000	65,000
Total Operating Revenues	95,051	89,781	75,404	105,603	153,273	321,200	458,000	458,000	458,000	458,000
Operating Expenses										
Personnel	73,552	74,611	51,274	47,095	49,096	50,171	51,224	52,296	53,388	54,499
Repair & Equipment	64,358	80,779	77,537	103,434	121,804	121,000	122,000	125,500	128,000	129,500
Cleaning & Televising	21,730						37,500			
Professional Services	8,499	9,932	10,321	10,078	6,808	10,000	10,000	10,000	10,000	10,000
Miscellaneous	3,695	5,214	4,644	4,160	4,496	2,700	3,200	3,700	4,200	4,700
Depreciation	234,605	227,567	218,082	218,148	225,085	230,595	231,812	227,084	227,304	223,417
Total Operating Expenses	406,439	398,103	361,858	382,915	407,289	414,466	455,736	418,580	422,891	422,116
Operating Income (Loss)	(311,388)	(308,322)	(286,454)	(277,312)	(254,016)	(93,266)	2,264	39,420	35,109	35,884
Non-Operating Revenues (Expenses)										
Tap Fees	5,000	7,000	4,000	10,000	7,000	16,000	10,000	10,000	10,000	10,000
Interest Income								2,494	4,105	5,679
SUBTOTAL	5,000	7,000	4,000	10,000	7,000	16,000	10,000	12,494	14,105	15,679
Change in Net Position	(306,388)	(301,322)	(282,454)	(267,312)	(247,016)	(77,266)	12,264	51,914	49,213	51,563

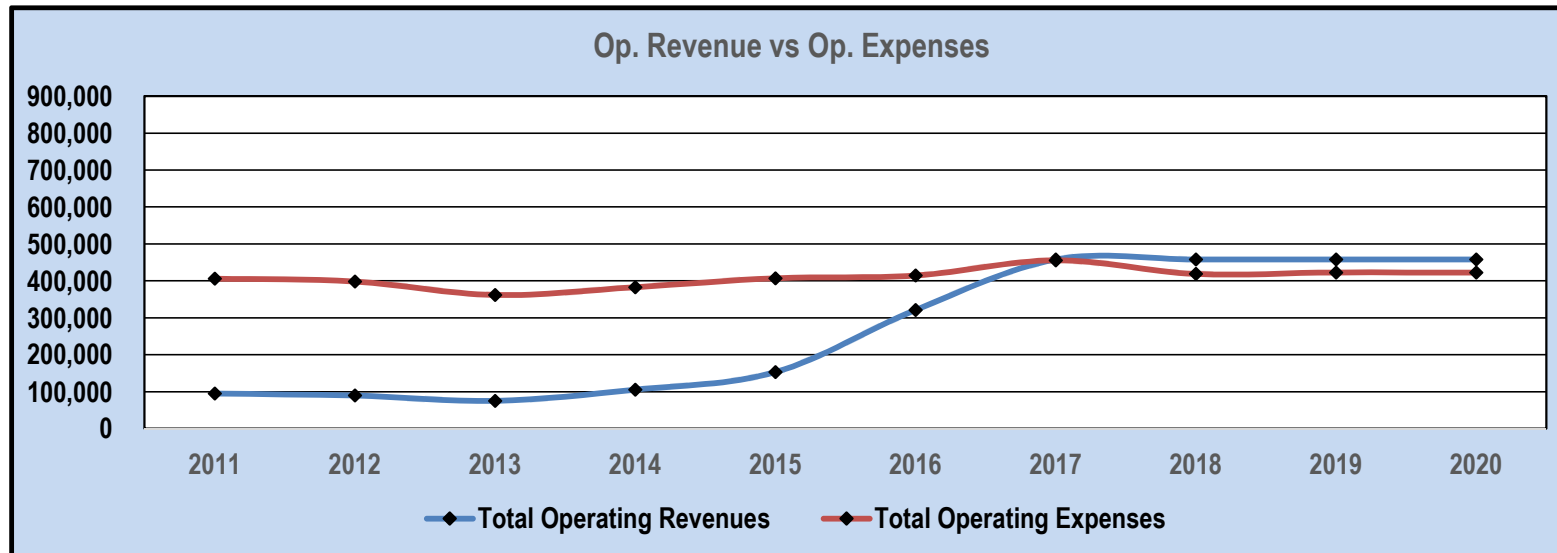


Figure 13

Cash Flow Analysis - 50% Increase & Starting with \$125,000										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cash Beginning July 1							125,000	152,376	340,503	525,221
Income Sources										
Sewer Surcharge	43,993	47,007	51,569	53,260	110,034	240,000	420,000	420,000	420,000	420,000
Percent Change		7%	10%	3%	107%	118%	17%	0%	0%	0%
Rate Increase							50%			
Sewer Permit Fees	700	700	400	1,000	700	1,200	1,000	1,000	1,000	1,000
Sale of Material (Pumps)	50,358	42,074	23,435	51,343	42,539	80,000	65,000	65,000	65,000	65,000
Sewer Tap Fees	5,000	7,000	4,000	10,000	7,000	16,000	10,000	10,000	10,000	10,000
Interest Income								1,524	3,405	5,252
Total Income	100,051	96,781	79,404	115,603	160,273	337,200	496,000	497,524	499,405	501,252
General Expenses										
Personnel	73,552	74,611	51,274	47,095	49,096	50,171	51,224	52,296	53,388	54,499
Repair & Equipment	64,358	80,779	77,537	103,434	121,804	121,000	122,000	125,500	128,000	129,500
Repair & Maint. Svcs. - Pump	21,730						37,500			
Professional Services	8,499	9,932	10,321	10,078	6,808	10,000	10,000	10,000	10,000	10,000
Miscellaneous	3,695	5,214	4,644	4,160	4,496	2,700	3,200	3,700	4,200	4,700
Total General Expenses	171,834	170,536	143,776	164,767	182,204	183,871	223,924	191,496	195,588	198,699
Capital Expense										
Capital Assets & Improvement	131,131	134,643	128,799	90,843	143,308	129,000	244,700	117,900	119,100	120,300
Total Expenses	302,965	305,179	272,575	255,610	325,512	312,871	468,624	309,396	314,688	318,999
Cash Ending June 30							152,376	340,503	525,221	707,474

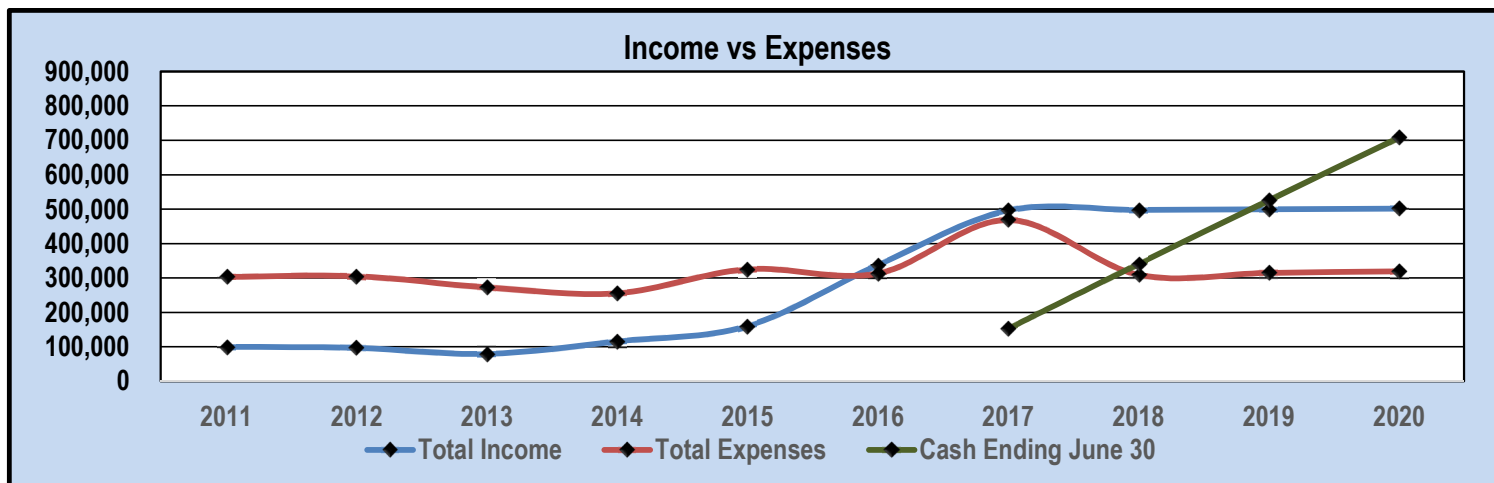


Figure 14

Net Position Analysis - 50% Increase & Starting with \$125,000										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating Revenues										
Sewer Charges	43,993	47,007	51,569	53,260	110,034	240,000	420,000	420,000	420,000	420,000
Sewer Permit Fees	700	700	400	1,000	700	1,200	1,000	1,000	1,000	1,000
Installation Charge	50,358	42,074	23,435	51,343	42,539	80,000	65,000	65,000	65,000	65,000
Total Operating Revenues	95,051	89,781	75,404	105,603	153,273	321,200	486,000	486,000	486,000	486,000
Operating Expenses										
Personnel	73,552	74,611	51,274	47,095	49,096	50,171	51,224	52,296	53,388	54,499
Repair & Equipment	64,358	80,779	77,537	103,434	121,804	121,000	122,000	125,500	128,000	129,500
Cleaning & Televising	21,730						37,500			
Professional Services	8,499	9,932	10,321	10,078	6,808	10,000	10,000	10,000	10,000	10,000
Miscellaneous	3,695	5,214	4,644	4,160	4,496	2,700	3,200	3,700	4,200	4,700
Depreciation	234,605	227,567	218,082	218,148	225,085	230,595	231,812	227,084	227,304	223,417
Total Operating Expenses	406,439	398,103	361,858	382,915	407,289	414,466	455,736	418,580	422,891	422,116
Operating Income (Loss)	(311,388)	(308,322)	(286,454)	(277,312)	(254,016)	(93,266)	30,264	67,420	63,109	63,884
Non-Operating Revenues (Expenses)										
Tap Fees	5,000	7,000	4,000	10,000	7,000	16,000	10,000	10,000	10,000	10,000
Interest Income								1,524	3,405	5,252
SUBTOTAL	5,000	7,000	4,000	10,000	7,000	16,000	10,000	11,524	13,405	15,252
Change in Net Position	(306,388)	(301,322)	(282,454)	(267,312)	(247,016)	(77,266)	40,264	78,944	76,514	79,136

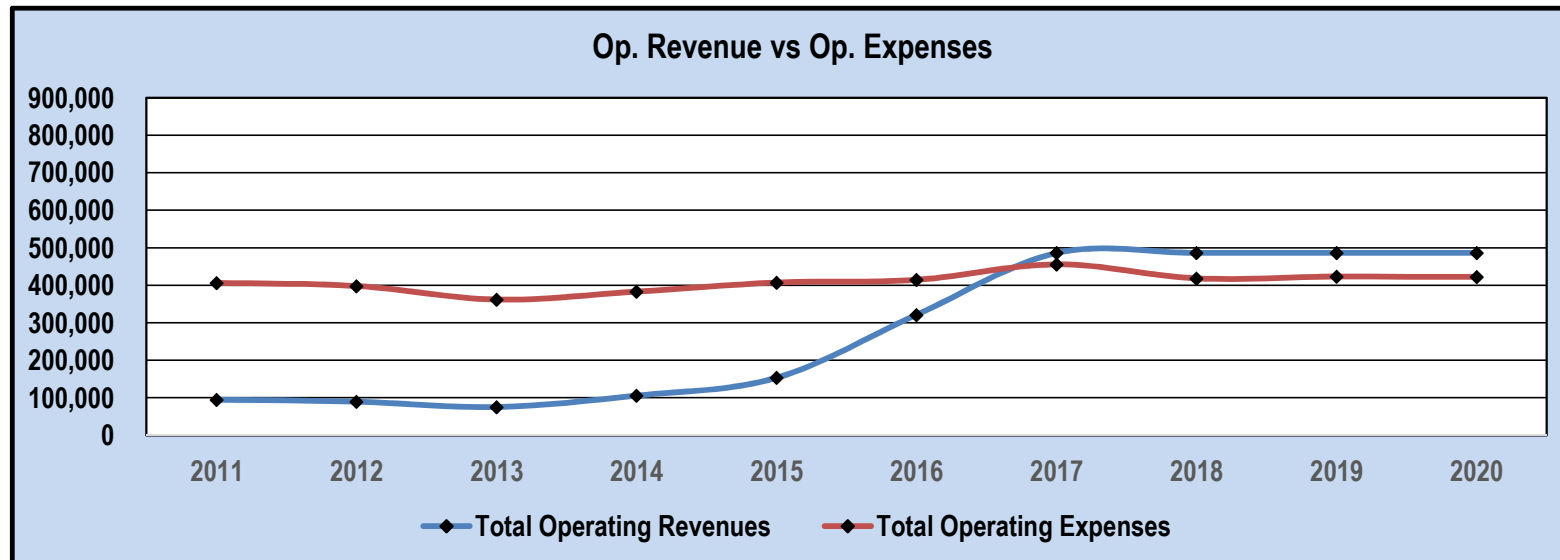


Figure 15

Cash Flow Analysis - 50% Increase & Starting with \$250,000										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Cash Beginning July 1							250,000	277,376	466,753	652,733
Income Sources										
Sewer Surcharge	43,993	47,007	51,569	53,260	110,034	240,000	420,000	420,000	420,000	420,000
Percent Change		7%	10%	3%	107%	118%	17%	0%	0%	0%
Rate Increase							50%			
Sewer Permit Fees	700	700	400	1,000	700	1,200	1,000	1,000	1,000	1,000
Sale of Material (Pumps)	50,358	42,074	23,435	51,343	42,539	80,000	65,000	65,000	65,000	65,000
Sewer Tap Fees	5,000	7,000	4,000	10,000	7,000	16,000	10,000	10,000	10,000	10,000
Interest Income								2,774	4,668	6,527
Total Income	100,051	96,781	79,404	115,603	160,273	337,200	496,000	498,774	500,668	502,527
General Expenses										
Personnel	73,552	74,611	51,274	47,095	49,096	50,171	51,224	52,296	53,388	54,499
Repair & Equipment	64,358	80,779	77,537	103,434	121,804	121,000	122,000	125,500	128,000	129,500
Repair & Maint. Svcs. - Pumps	21,730						37,500			
Professional Services	8,499	9,932	10,321	10,078	6,808	10,000	10,000	10,000	10,000	10,000
Miscellaneous	3,695	5,214	4,644	4,160	4,496	2,700	3,200	3,700	4,200	4,700
Total General Expenses	171,834	170,536	143,776	164,767	182,204	183,871	223,924	191,496	195,588	198,699
Capital Expense										
Capital Assets & Improvements	131,131	134,643	128,799	90,843	143,308	129,000	244,700	117,900	119,100	120,300
Total Expenses	302,965	305,179	272,575	255,610	325,512	312,871	468,624	309,396	314,688	318,999
Cash Ending June 30							277,376	466,753	652,733	836,262

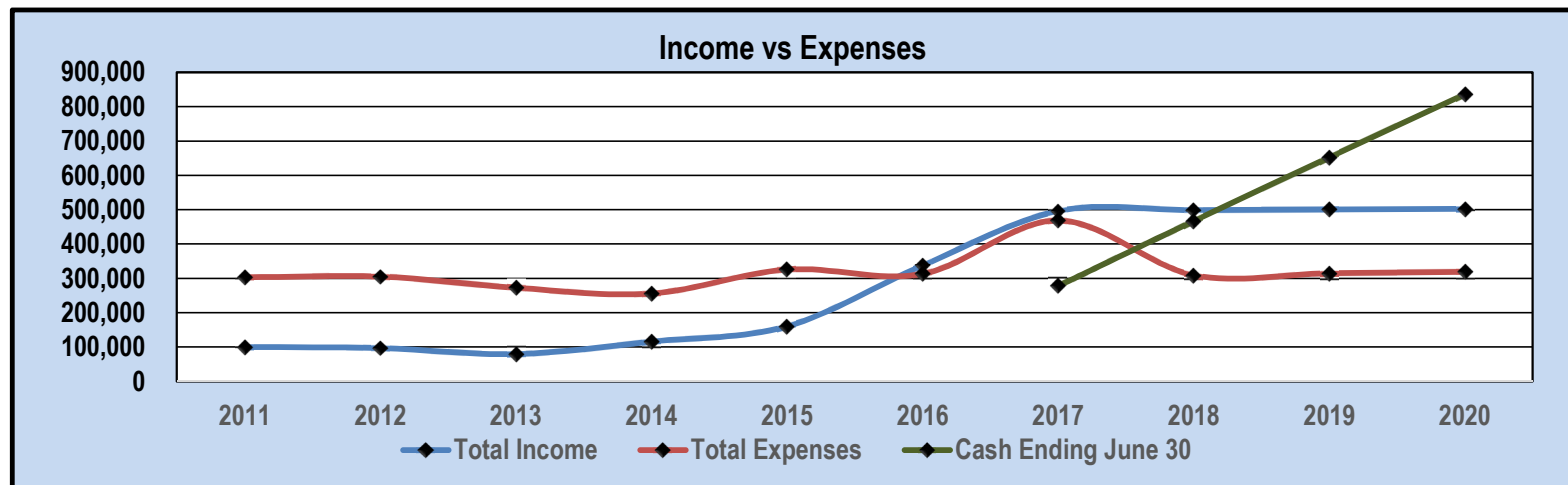


Figure 16

Net Position Analysis - 50% Increase & Starting with \$250,000										
	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Operating Revenues										
Sewer Charges	43,993	47,007	51,569	53,260	110,034	240,000	420,000	420,000	420,000	420,000
Sewer Permit Fees	700	700	400	1,000	700	1,200	1,000	1,000	1,000	1,000
Installation Charge	50,358	42,074	23,435	51,343	42,539	80,000	65,000	65,000	65,000	65,000
Total Operating Revenues	95,051	89,781	75,404	105,603	153,273	321,200	486,000	486,000	486,000	486,000
Operating Expenses										
Personnel	73,552	74,611	51,274	47,095	49,096	50,171	51,224	52,296	53,388	54,499
Repair & Equipment	64,358	80,779	77,537	103,434	121,804	121,000	122,000	125,500	128,000	129,500
Cleaning & Televising	21,730						37,500			
Professional Services	8,499	9,932	10,321	10,078	6,808	10,000	10,000	10,000	10,000	10,000
Miscellaneous	3,695	5,214	4,644	4,160	4,496	2,700	3,200	3,700	4,200	4,700
Depreciation	234,605	227,567	218,082	218,148	225,085	230,595	231,812	227,084	227,304	223,417
Total Operating Expenses	406,439	398,103	361,858	382,915	407,289	414,466	455,736	418,580	422,891	422,116
Operating Income (Loss)	(311,388)	(308,322)	(286,454)	(277,312)	(254,016)	(93,266)	30,264	67,420	63,109	63,884
Non-Operating Revenues (Expenses)										
Tap Fees	5,000	7,000	4,000	10,000	7,000	16,000	10,000	10,000	10,000	10,000
Interest Income								2,774	4,668	6,527
SUBTOTAL	5,000	7,000	4,000	10,000	7,000	16,000	10,000	12,774	14,668	16,527
Change in Net Position	(306,388)	(301,322)	(282,454)	(267,312)	(247,016)	(77,266)	40,264	80,194	77,776	80,412

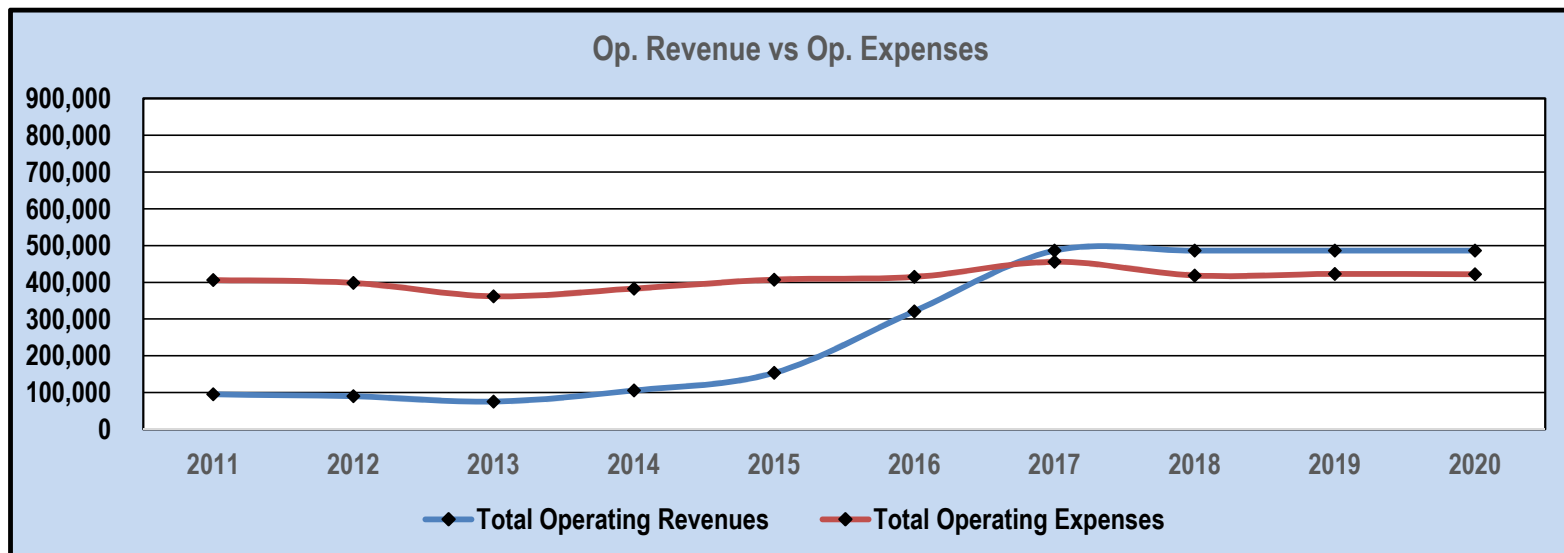


Figure 17

Rate Schedule

A rate schedule for each of the recommended increases can be seen in Figures 18 and 19. The current Belle Meade schedule charges a minimum bill of \$17.50 for the first 800 cubic feet (6,000 gallons) and \$1.90 per 100 cubic feet (750 gallons) after the minimum amount. Metro has a current volume charge of \$1.32 per cubic feet and 10% of the volume fee is charged directly to Belle Meade customers as a sewer user surcharge, a fee imposed by a Metro ordinance. The Metro volume fee is increased, or decreased, each year and is based on the consumer price index. The Metro fee goes into effect each October 1st. For the 40% rate increase the minimum bill will be \$24.50 for the first 800 cubic feet and \$2.66 per 100 cubic feet after the minimum amount. For the 50% rate increase the minimum bill will be \$26.25 for the first 800 cubic feet and \$2.85 per 100 cubic feet after the minimum amount.

A range of monthly usages is provided at the bottom of the rate schedule with corresponding monthly bills. Highlighted is the average user of 7,500 gallons per month. The combination of the Belle Meade rate increase and the Metro rate increase results in a combined rate that is lower than the recommended Belle Meade rate. A 40% increase, customers will result in an overall increase of 25% and a 50% increase will result in an overall increase of 31% for the average usage of 7,500 gallons per month.

2017 Rate Schedule - 40% increase					
Current Belle Meade Rates			Proposed 2017 Belle Meade Rates		
CCF		Minimum	CCF		Minimum % Inc.
First	8	\$ 17.50	First	8	\$ 24.50 40%
		Per 100 cf			Per 100 cf
Over	8	\$ 1.90	Over	8	\$ 2.66 40%
Current Metro Rates			Proposed 2017 Metro Rates		
CCF		Per 100 cf	CCF		Per 100 cf % Inc.
Volume		\$ 1.32	Volume		\$ 1.35 2%
Sewer User Surcharge		\$ 0.13	Sewer User Surcharge		\$ 0.14 2%
Water Sold	2016		2017		Percent
Cubic Feet	Monthly Charge		Monthly Charge		Difference Increase
2	\$	20.40	\$	27.46	\$ 7.06 35%
5	\$	24.76	\$	31.91	\$ 7.15 29%
8	\$	29.12	\$	36.36	\$ 7.24 25%
10	\$	35.82	\$	44.64	\$ 8.82 25%
25	\$	86.10	\$	106.77	\$ 20.67 24%
50	\$	169.90	\$	210.32	\$ 40.42 24%
100	\$	337.50	\$	417.42	\$ 79.92 24%
250	\$	840.30	\$	1,038.73	\$ 198.43 24%

Average Customer Monthly Usage



New Rates Effective July 1, 2016

2017 Rate Schedule - 50% increase					
Current Belle Meade Rates			Proposed 2017 Belle Meade Rates		
CCF		Minimum	CCF	Minimum	% Inc.
First	8	\$ 17.50	First	8	\$ 26.25 50%
		Per 100 cf		Per 100 cf	
Over	8	\$ 1.90	Over	8	\$ 2.85 50%
Current Metro Rates			Proposed 2017 Metro Rates		
CCF		Per 100 cf	CCF	Per 100 cf	% Inc.
Volume		\$ 1.32	Volume	\$ 1.35	2%
Sewer User Surcharge		\$ 0.13	Sewer User Surcharge	\$ 0.14	2%
Water Sold	2016		2017		Percent
Cubic Feet	Monthly Charge		Monthly Charge		Difference Increase
2	\$	20.40	\$	29.21	\$ 8.81 43%
5	\$	24.76	\$	33.66	\$ 8.90 36%
8	\$	29.12	\$	38.11	\$ 8.99 31%
10	\$	35.82	\$	46.77	\$ 10.95 31%
25	\$	86.10	\$	111.75	\$ 25.65 30%
50	\$	169.90	\$	220.05	\$ 50.15 30%
100	\$	337.50	\$	436.65	\$ 99.15 29%
250	\$	840.30	\$	1,086.46	\$ 246.16 29%

Average Customer Monthly Usage



New Rates Effective July 1, 2016

Customer Profile

A customer profile was made based on data from January 2016 provided by the Metro Water Services. The data used includes the number of customers, their usage and the amount of revenue billed. The profile shows the percentage of total number of customers, percentage of the total usage and percentage of total revenue for customers using between 0 and 3,000 gallons per month, 3,001 and 5,000 gallons per month, 5,001 and 10,000 gallons per month, 10,001 and 25,000 gallons per month, 25,001 and 50,000 gallons per month and those using greater than 50,000 gallons per month.

A review of the customer profile (Figure 20) shows that 19% of the total customers are using less than 3,000 gallons per month, which represents about 3% of the total usage and provide about 14% of the total revenue. The group of customers who use between 5,000 gallons represent 42% of the total customers, represents 40% of the total usage and provides 33% of the total revenue and on the far end of the profile there are 1% of the customers who use 12% of total usage and provide 9% of the total revenue.

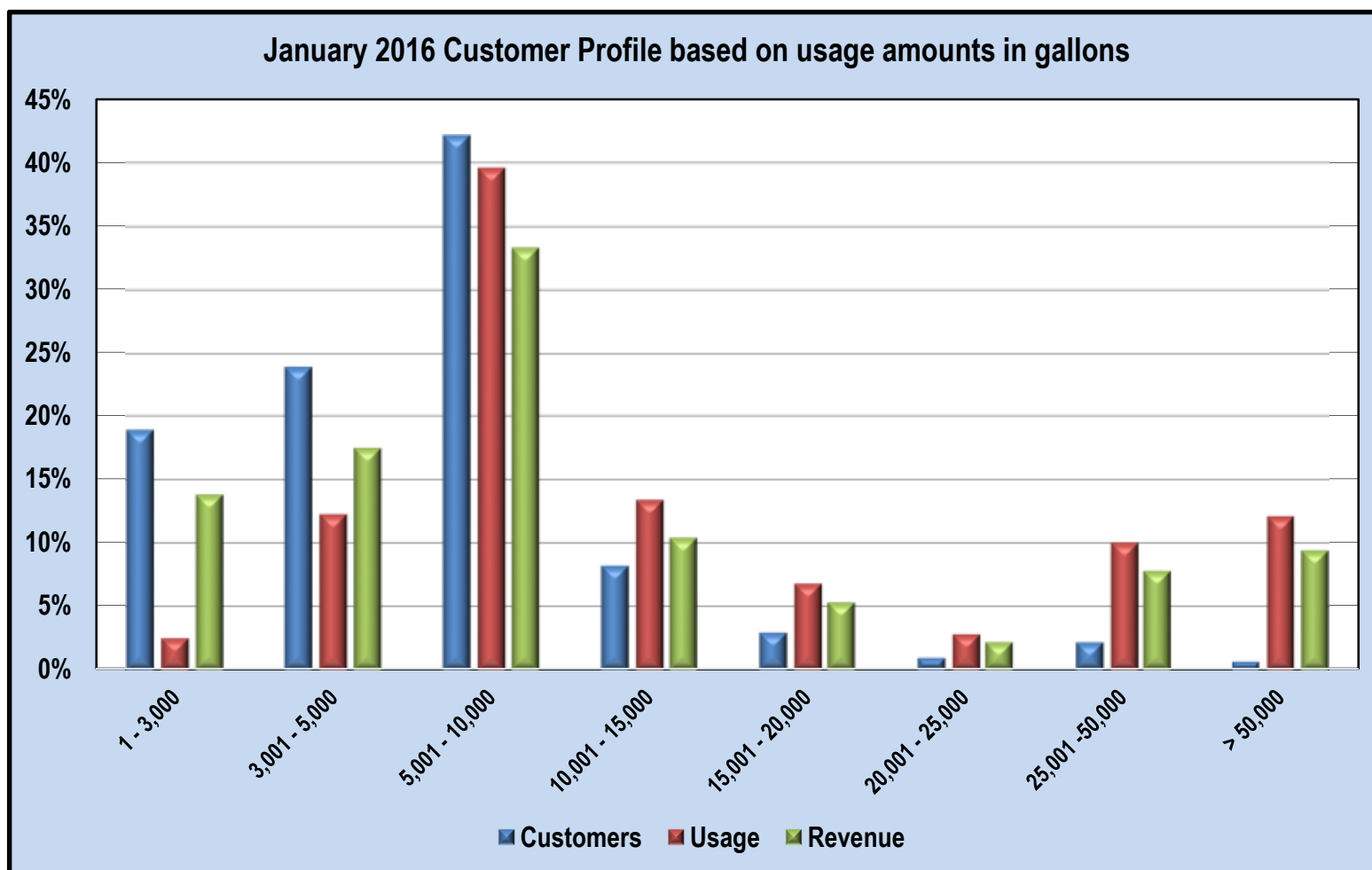


Figure 20

Comparison with Other Utilities

Although there has been two rate increases over the past two years and projecting another increase and projecting another rate increase for 2017, Belle Meade remains competitive in wastewater rates with several of its surrounding communities and utility districts. There are two comparisons given, one for a 40% increase (Figure 21) and one for the 50% rate increase (Figure 22).

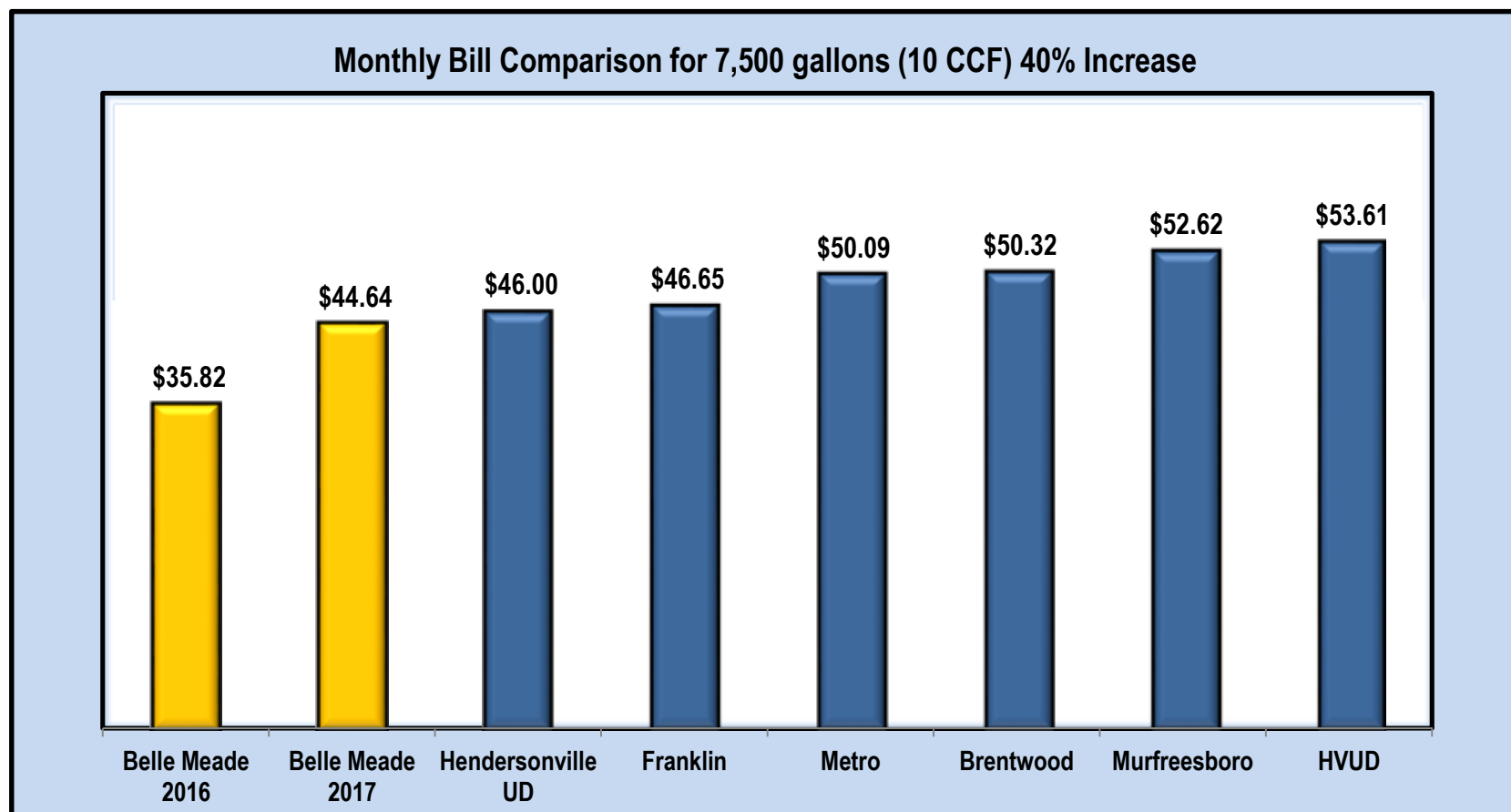


Figure 21

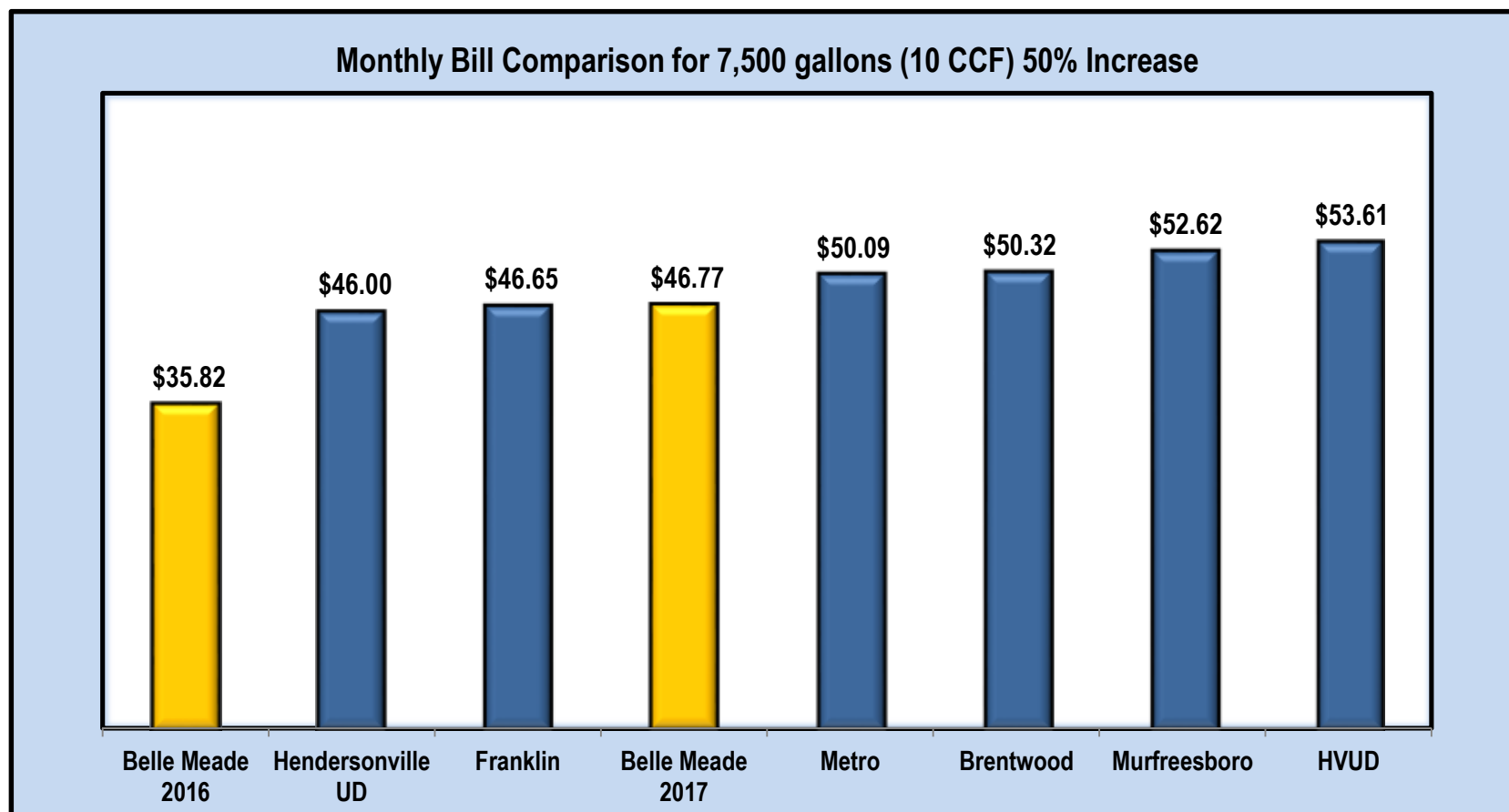


Figure 22

TENNESSEE CODE ANNOTATED
Title 7 Consolidated Governments and Local Governmental Functions and Entities
Municipal Functions
Chapter 34 Revenue Bond Law
Tenn. Code Ann. § 7-34-115 (2015)
7-34-115. Operation of utility systems -- Disposition of revenue.

(a) Notwithstanding any other law to the contrary, as a matter of public policy, municipal utility systems shall be operated on sound business principles as self-sufficient entities. User charges, rates and fees shall reflect the actual cost of providing the services rendered. No public works shall operate for gain or profit or as a source of revenue to a governmental entity, but shall operate for the use and benefit of the consumers served by such public works and for the improvement of the health and safety of the inhabitants of the area served. Nothing in this section shall preclude a municipal utility system from operating water and sewer systems as individual or combined entities. Nothing in this section shall preclude a municipal utility system from operating a public works system as a special revenue fund when the governing body of the municipality determines that it is in the best interest of the customers of the public works system and the citizens of the municipality. All water systems and wastewater facilities must utilize an enterprise fund for accounting and reporting its operations. Any water system or wastewater facility currently not operating as an enterprise fund must be doing so by July 1, 2016. To the extent of any conflict between this section and the Wastewater Facilities Act of 1987, compiled in title 68, chapter 221, part 10, the latter statute shall control. Any municipality shall devote all revenues derived from a public works to or for:

- (1) The payment of all operating expenses;
 - (2) Bond interest and retirement or sinking fund payments, or both;
 - (3) The acquisition and improvement of public works;
 - (4) Contingencies;
 - (5) The payment of other obligations incurred in the operation and maintenance of the public works and the furnishing of services;
 - (6) The redemption and purchase of bonds, in which case such bonds shall be cancelled;
 - (7) The creation and maintenance of a cash working fund;
 - (8) The payment of an amount to the general fund of the municipality not to exceed a cumulative return of six percent (6%) per annum of any equity invested from the general fund, if any, of the municipality. Equity investment includes any contributions or purchases made by the municipality from the general fund, including, but not limited to, cash contributions, retirement of debt service and purchases of equipment, so long as these contributions are reflected in the utility's financial statement; provided, that such definition of equity investment shall not change the status under this section of any payments made pursuant to any city charter in existence on or before July 1, 1993; and
 - (9) If the governing body of the municipality by resolution so requests, payments to the municipality in lieu of ad valorem tax on the property of the public works within the corporate limits of the municipality not to exceed the amount of taxes payable on privately owned property of similar nature.
- (b) Any surplus remaining, after establishment of proper reserves, if any, shall be devoted solely to the reduction of rates.

(c) In the event a municipality establishes a pension plan for employees of public works, expenditures incident to inaugurating and maintaining such plan shall be deemed an operating expense for purposes of this section.

(d) In computing the equity investment of the municipality, the value of the public works shall be taken as its historical cost. The payment of bonds or the acquisition or improvement of property from the receipts derived from a public works or any other operation of the public works as such shall not be considered to increase the equity investment of the municipality.

(e) Nothing in this section shall be construed to limit the power of the municipality to make contracts with the purchasers of bonds:

(1) As to the use and disposition of the revenues otherwise than as set forth in subsection (a);

(2) As to the order of application of such revenues; or

(3) As to limitations on the amount of payments to the municipality either as a return on the equity investment of the municipality, if any, or as a payment in lieu of taxes.

(f) If a municipality violates this section, it must repay any funds illegally transferred. If the municipality does not have sufficient funds to repay any funds illegally transferred, the municipality is required to submit a plan covering a period not to exceed five (5) years in which to repay the funds. The plan shall be submitted to and approved by the comptroller of the treasury or the comptroller's designee. Upon discovery of such violation through an audit, any city official in violation of this section is subject to ouster under title 8, chapter 47.

(g) Nothing in this section shall preclude a local government from being entitled to receive from a utility the amount of direct and properly allocated and disclosed indirect operating expenses incurred by the municipality on behalf of the utility.

(h) To the extent of any conflict between this section and § 7-39-404, or chapter 52, part 3 of this title, § 7-39-404, or chapter 52, part 3 of this title shall control.

(i) (1) In addition to the authority granted under otherwise applicable law, a municipality operating a municipal utility system has the power and is authorized, acting through the authorization of the board or supervisory body having responsibility for the municipal utility system, to accept and distribute voluntary contributions for bona fide charitable purposes pursuant to programs approved by the board or supervisory body, which programs may include, but shall not be limited to, programs in which utility bills are rounded up to the next dollar when such contribution is shown as a separate line on the utility bill.

(2) Contributions accepted by a municipal utility system pursuant to programs authorized by subdivision (i)(1) shall not be considered revenue to the municipal utility system, and such contributions shall be used only for charitable purposes.

(3) For purposes of this subsection (i), a "charitable purpose" is one that provides relief to the poor or underprivileged, advances education or science, addresses community deterioration, provides community assistance, assists in economic development, provides for the erection of public buildings, monuments or works, assists in historic preservation, or promotes social welfare through nonprofit or governmental organizations designed to accomplish any of the purposes listed in this subdivision (i)(3).

TENNESSEE CODE ANNOTATED
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*** Current through the 2013 Regular Session ***

Title 68 Health, Safety and Environmental Protection
Environmental Protection
Chapter 221 Water and Sewerage
Part 10 Wastewater Facilities

Tenn. Code Ann. § 68-221-1010 (2013)

68-221-1010. Facilities with earnings or operating deficit, or operating in default.

(a) Within sixty (60) days from the time that an audit of a water system or wastewater facility is filed with the comptroller of the treasury, the comptroller of the treasury shall file with the board the audit report of any water system or wastewater facility that has a deficit total net assets in any one (1) year, has a negative change in net assets for two (2) consecutive years or is currently in default on any of its debt instruments.

Notwithstanding any other law to the contrary, a government joint venture that supplies or treats water or wastewater for wholesale use only to other governments, shall not fall under the jurisdiction of the water and wastewater financing board for the purpose of reporting negative change in the net assets annually, but shall be referred to the board if the government joint venture is in a deficit or default position as provided herein.

(b) (1) Within sixty (60) days from the receipt of the audit report filed by the comptroller of the treasury, the board shall schedule a hearing to determine whether the water system or wastewater facility described in the report is likely to continue in a deficit position. In reaching its determination, the board shall consider current user rates charged by the water system or wastewater facility, the size of the facility and the local government served by it, the quality of the facility's operation and management, and other relevant criteria.

(2) Upon a determination that the water system or wastewater facility is likely to remain in a deficit position, the board may order the management of the water system or wastewater facility to adopt and maintain user rate structures necessary to:

(A) Fund operation, maintenance, principal and interest obligations and adequate depreciation to recover the cost of the water system or wastewater facility over its useful life;

(B) Liquidate in an orderly fashion any deficit total net assets; and

(C) Cure a default on any indebtedness of the water system and wastewater facility.

(3) Any such order shall become final and not subject to review unless the parties named therein request by written petition a hearing before the board, as provided in §§ 68-221-1007 -- 68-221-1013, no later than thirty (30) days after the date such order is served. Any hearing or rehearing provided by §§ 68-221-1007 -- 68-221-1013 shall be brought pursuant to the Uniform Administrative Procedures Act, compiled in title 4, chapter 5, part 3. Such hearing may be conducted by the board at a regular or special meeting by any member or panel of members as designated by the chair to act on its behalf, or the chair may designate an administrative judge who shall have the power and authority to conduct hearings in the name of the board to issue initial orders pursuant to the Uniform Administrative Procedures Act.

(c) In the event a water system and wastewater facility fails to adopt user rate structures pursuant to a final order of the board, the board may petition the chancery court in a jurisdiction in which the water system and wastewater facility is situated or in the chancery court of Davidson County to require the adoption of the user rate structures ordered by the board or to obtain other remedial action, which, in the discretion of the court, may be required to cause the water system and wastewater facility to be operated in a financially self-sufficient manner.

(d) (1) Within sixty (60) days from the time that an audit of a water system is filed with the comptroller of the treasury, the comptroller of the treasury shall file with the board the audit report of any water system whose water loss as reported in the audit is excessive as established by rules promulgated by the board. Failure of the water system to include the schedule required in this section constitutes excessive water loss and the water system shall be referred to the water and wastewater financing board.

(2) In the event a water system fails to take the appropriate actions required by the board to reduce the water loss to an acceptable level pursuant to § 68-221-1009(a)(7), the board may petition the chancery court in a jurisdiction in which the water system is operating to require the water system to take such actions.

(3) By February 1 of each year, the comptroller of the treasury shall provide a written report to the speaker of the house of representatives and the speaker of the senate listing the average annual water loss contained in the annual audit for those utility systems described in § 68-221-1007.