



Cash Basis Law of 1937

Dear Reader:

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

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

Sincerely,

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Reference Number: MTAS-559

The Cash Basis Law of 1937 is another old bond law that has not been repealed. The law was enacted to help cities and counties cope with serious financial problems brought on by the Great Depression of the 1930s. It may be used to:

- Fund notes, warrants, or other debts not secured by bonds;
- Refund any existing bonds and accrued interest thereon; and
- Pay bond redemption premiums and other expenses deemed necessary by the governing body.

The governing body is specifically empowered to take final action at one meeting (one reading only) "notwithstanding the provisions of any public or private statute."

The bond order must include a pledge to levy property taxes sufficient to retire the bonds. It becomes effective on passage by the governing body. Publication of the bond order in a newspaper published in the city or county "once in each of two consecutive weeks" is required. Maximum terms are 20 years for funding bonds and 30 years for refunding bonds, but the office of the comptroller may extend these terms by 10 years. Registered bonds are authorized as to principal only or as to principal and interest. No maximum interest rate is specified.

Prior approval of the office of the comptroller is required for issuing bonds under this law; therefore, a detailed financial report must be prepared. T.C.A. § 9-11-108. As long as any bonds issued under this law are outstanding, complete annual budgets for all city or county operations must be submitted to the office of the comptroller at least three weeks before adoption. Each annual budget must have the director's approval before adoption. Bonds or notes issued under this statute are exempt from any other public or private law provisions. T.C.A. §§ 9-11-101, *et seq.*

Some cities used this law as they wrestled with serious debt problems, and a general belief prevailed that it would bring lower interest rates because of the state director's oversight and prior approval requirements. In the mid-1950s, at least 16 cities were subject to the law. As time passed, such bonds were retired. Cities continued using the law because of less financial pressure and the subordination of budget power to the state director of local finance. By 1987, no cities were under this law.

Registering Bonds

Procedures and requirements for registering bonds and other public obligations following the federal requirement that all municipal securities must be registered after July 1, 1983, are contained in T.C.A. §§ 9-19-101, *et seq.*, and T.C.A. § 9-21-111.

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