



## Additional Debt and Funding New Projects

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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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## Additional Debt and Funding New Projects

Reference Number: MTAS-799

***“How do we handle the additional debt requirements that are necessary to complete all the projects?”***

The City’s engineer worked with city staff to develop a schedule of planned capital improvements and their estimated costs. These are shown in Table 4. Some of the new projects would require new debt.

**Table 4: Any City Capital Projects**

| PROJECTS               | ESTIMATED COST      | ESTIMATED COMPLETION |
|------------------------|---------------------|----------------------|
| Water Line Replacement | \$ 1,500,000        | F/Y 2013             |
| Sewer Line Rehab       | \$ 3,000,000        | F/Y 2014             |
| Water Line Extension   | \$ 2,500,000        | F/Y 2015             |
| Sewer Line Extension   | \$ 3,500,000        | F/Y 2015             |
| <b>Total</b>           | <b>\$10,500,000</b> |                      |

***“Do we have enough money to pay debt service and fund new projects?”***

The staff was ready to calculate the rate changes the city needed in order to fund operations. But an important question had to be answered first: Would the income translate into enough cash flow to meet the principal payments on debt and pay for new projects? To answer that question, staff decided to use a simplified cash flow statement, projecting the future cash needs of the water and sewer system. Table 5 shows current and projected cash flow.

**Table 5: Any City  
Water/Sewer Fund Cash Flow**

|   | AUDIT<br>F/Y 2010 | AUDIT<br>F/Y 2011 | CURRENT<br>F/Y 2012 | PROJECTED<br>F/Y 2013 | PROJECTED<br>F/Y 2014 | PROJECTED<br>F/Y 2015 |
|---|-------------------|-------------------|---------------------|-----------------------|-----------------------|-----------------------|
| <b>INCOME (LOSS) BEFORE<br/>CONTRIBUTIONS AND TRANSFERS</b> |                   |                   | \$239,821           | \$73,259              | (\$396,811)           | (\$560,594)           |
| ADD:  |                   |                   |                     |                       |                       |                       |
| Depreciation-Existing                                       |                   |                   | \$618,471           | \$618,471             | \$618,471             | \$618,471             |
| Depreciation - New  |                   |                   |                     | \$67,508              | \$159,295             | \$232,363             |
| Grants  |                   |                   |                     | \$768,000             | \$0                   | \$0                   |
| Proceeds from Existing Debt                                 |                   |                   | \$3,215,708         | \$5,800,000           | \$0                   | \$0                   |
| Proceeds from New Debt                                      |                   |                   |                     | \$0                   | \$0                   | \$0                   |
| <b>TOTAL FUNDS AVAILABLE</b>                                |                   |                   | <b>\$4,074,000</b>  | <b>\$7,327,238</b>    | <b>\$380,955</b>      | <b>\$290,240</b>      |
| Capital Projects  |                   |                   | (\$734,053)         | (\$3,320,032)         | (\$5,280,600)         | (\$1,446,260)         |
| Debt Principal -Existing                                    |                   |                   | (\$521,436)         | (\$461,571)           | (\$407,657)           | (\$350,855)           |
| Debt Principal - New Debt                                   |                   |                   |                     |                       | (\$175,558)           | (\$184,336)           |
| Transfers Out   |                   |                   | (\$87,130)          | (\$113,441)           | (\$156,108)           | (\$167,130)           |
| <b>CASH INCREASE (DECREASE)</b>                             |                   |                   | <b>\$2,731,381</b>  | <b>\$3,432,194</b>    | <b>(\$5,638,968)</b>  | <b>(\$1,858,341)</b>  |
| <b>BEGINNING CASH</b>                                       |                   |                   | <b>\$902,965</b>    | <b>\$3,634,346</b>    | <b>\$7,066,540</b>    | <b>\$1,427,572</b>    |
| <b>ENDING CASH</b>  |                   | <b>\$902,965</b>  | <b>\$3,634,346</b>  | <b>\$7,066,540</b>    | <b>\$1,427,572</b>    | <b>(\$430,769)</b>    |

*DISCLAIMER: The letters and publications written by the MTAS consultants were written based upon the law at the time and/or a specific sets of facts. The laws referenced in the letters and publications may have changed and/or the technical advice provided may not be applicable to your city or circumstances. Always consult with your city attorney or an MTAS consultant before taking any action based on information contained in this website.*

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