

## Limitations on Expenditures of Utility Revenue

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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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## Limitations on Expenditures of Utility Revenue

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Although T.C.A. § 7-34-115 is part of the Revenue Bond Law, it probably applies to all utility systems. It requires that "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." T.C.A. § 7-34-115(a). Under this statute, all municipal utility revenues must be spent on:

- Payment of operating expenses;
- Bond interest and retirement or sinking fund payments;
- Acquisition and improvement of public works;
- Contingencies;
- Payment of other operations, maintenance, and service cost obligations;
- Redemption and purchase of bonds;
- Creation and maintenance of a cash working fund;
- Payment to the general fund of a return on equity invested by the general fund to a maximum of 6 percent (the term "equity investment" is defined in the statute); and
- Upon the request of the governing body by resolution, in-lieu-of-tax payments on the property of the public works within the municipality not to exceed the amount of taxes payable on "privately owned property of a similar nature." (For resolution of conflicts between this provision of T.C.A. § 7-34-115 and other tax equivalency statutes, see the next section, Utility System Tax Equivalents.)

Any remaining utility revenues shall be used solely for rate reduction.

Municipalities may make covenants with the purchasers of bonds concerning the use and disposition of revenues as to the application order of such revenues and as to limitations on the amount of the return on the equity of investment or payment in lieu of taxes to the municipality.

The statute contains other information useful in explaining allowed expenditures of municipal utility revenue and procedures for spending the money under the above provisions. It also contains the penalty for the violation of the statute.

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