

RESOLUTION NO. 32864

A RESOLUTION ADOPTING THE VOLATILE REVENUE POLICY, GENERAL FUND: FUND BALANCE STABILIZATION POLICY, STRUCTURALLY BALANCED BUDGET POLICY, AND THE GENERAL FUND: ONE-TIME REVENUE POLICY, SUBJECT TO FUTURE REVISION, COPIES OF WHICH ARE ATTACHED HERETO AND MADE A PART HEREOF BY REFERENCE.

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BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, That it is hereby adopting the Volatile Revenue Policy, General Fund: Fund Balance Stabilization Policy, Structurally Balanced Budget Policy, and the General Fund: One-Time Revenue Policy, subject to future revision, copies of which are attached hereto and made a part hereof by reference.

ADOPTED: April 14, 2026

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## **City of Chattanooga, Tennessee**

### **Volatile Revenue Policy**

#### **Purpose:**

The purpose of this policy is to establish guidelines for managing and mitigating the risks associated with volatile revenue sources that fluctuate unpredictably from year-to-year. Volatile revenues are those that are subject to significant variations due to external factors, such as economic conditions, market trends, or changes in state or federal funding levels. This policy is designed to ensure financial stability and sustainability for the municipality by addressing the challenges posed by these unpredictable revenue streams.

#### **Scope:**

This policy applies to all revenue sources subject to significant volatility, including but not limited to:

- Beer and liquor taxes
- Gross receipts taxes
- Franchise taxes
- License and permits fees
- State and local sales taxes
- Service charges (such as rents and program fees)
- Fines and penalties
- Interest
- Use of property income
- State or federal grants and allocations
- Hotel/motel taxes and other tourism-based revenues
- Other revenues that exhibit significant year-to-year fluctuations

#### **Policy Guidelines:**

1. **Identification of Volatile Revenues:**
  - The Finance and Administration Department (Finance Department) shall annually assess the City of Chattanooga's (the City) revenue sources to identify those that are subject to significant volatility.
  - Significant volatile revenues shall be clearly identified in the City's budget and financial reports, and their potential impact on the budget will be communicated to the City Council.

## **2. Budgeting for Volatile Revenues:**

- When budgeting for volatile revenues, the Finance Department will use conservative revenue projections based on historical trends (3-5 years) and other relevant factors.
- Volatile revenue sources shall be budgeted at a level that reflects a cautious estimate, avoiding over-reliance on unpredictable funds for ongoing operational expenses.
- Baselines for volatile revenues shall be set at the lesser of the 5 year historical average or the most recent year, unless there is a valid reason to use another methodology.

## **3. Use of Volatile Revenues:**

- Extraordinary income from volatile revenues shall not be used for recurring, operational expenditures, such as salaries, benefits, or long-term commitments. Instead, they may be used for:
  - One-time or short-term capital improvement projects
  - Emergency reserves or financial stabilization
  - Temporary funding of special programs or services with an established end date
  - Debt service payments (if the revenue stream is deemed sustainable in the short-term)
- Volatile revenues may also be allocated to replenish or grow the City's reserve funds or other designated accounts.

## **4. Monitoring and Adjustments:**

- The Finance Department will closely monitor volatile revenue sources throughout the fiscal year to identify any significant deviations from projected levels.
- If actual revenue collections fall short of projections, the Finance Department will promptly notify the City Council and recommend adjustments to expenditures to maintain fiscal balance.
- If actual revenue collections exceed projections, the City Council may decide to allocate the surplus to increase fund balance reserves or fund one-time expenditures.

## **5. Risk Mitigation and Diversification:**

- The City will work to diversify its revenue base by exploring additional stable and non-volatile sources of revenue.
- Efforts should be made to reduce the City's reliance on particularly volatile revenue streams by pursuing more predictable, recurring revenue sources.

**6. Long-Term Financial Planning:**

- The City Council will work with the Finance Department and City Administration to develop long-term financial plans that account for the volatility of key revenue sources.
- Financial plans should outline strategies for balancing the City budget during periods of both strong and weak economic conditions.
- The City Council will consider the impact of economic cycles, industry-specific risks, and other external factors in planning for future budgets.

**7. Communication and Transparency:**

- Monthly financial reports will include updates on actual revenue performance compared to budgeted estimates and any adjustments made to mitigate risks.

**Policy Review:** This policy shall be reviewed every four years to ensure it remains in line with the City's objective to exercise fiscal responsibility and be responsive to evolving revenue dynamics. Any amendments or updates to this policy will be subject to City Council approval.

**Effective Date:** This policy is effective immediately upon adoption by the City Council and shall remain in effect unless amended or repealed by the City Council.

## City of Chattanooga, Tennessee

# General Fund: Fund Balance Stabilization Policy

### Purpose:

The purpose of this policy is to establish guidelines for maintaining an appropriate level of fund balance reserves in the City of Chattanooga's (the City) General Fund to ensure financial stability and provide a safety net in the event of unexpected revenue shortfalls, emergencies, or other financial challenges. This policy will set the parameters for a stabilization fund, balancing the need for adequate reserves with fiscal responsibility and long-term planning.

### Scope:

This policy applies to the General Fund of the City, which is used to account for most of the City's core governmental functions and services. The General Fund is the primary operating fund and includes revenues such as property taxes, sales taxes, and other general revenue sources.

### Policy Guidelines:

#### 1. Fund Balance Target Range:

- The City will maintain a **General Fund Fund Balance Reserve** within a target range of **22% to 30%** of the City's **annual general fund revenues**.
- The **floor** will be **22%**, representing the minimum level of reserves to ensure sufficient financial flexibility and to respond to emergency situations or economic downturns.
- The **ceiling** will be **30%**, representing the maximum desired level of reserves to avoid over-accumulation of funds.

#### 2. Use of Fund Balance Reserves:

- Fund balance reserves may be used to address:
  - **Unexpected revenue shortfalls** caused by economic downturns, changes in state or federal funding, or other unforeseen events.
  - **Emergencies** or unexpected expenditures that are not planned for in the annual budget (e.g., natural disasters, unforeseen health crises, etc.).
  - **One-time capital expenditures** or special projects that do not require long-term funding.
- Fund balance will not be used to cover ongoing operational costs, salaries, or other recurring expenses, as such usage would compromise the structural balance of the budget.

**3. Annual Contribution to Fund Balance:**

- The City will seek to maintain its fund balance within the target range by making an **annual contribution to reserves**, as necessary, to achieve the floor of 22% while considering the budgetary and financial needs of the City.
- Any unassigned surplus from the prior fiscal year, after all obligations have been met, will be allocated toward maintaining or enhancing the fund balance, particularly if the balance is below the 22% floor.
- Conversely, if the fund balance exceeds 30%, the City may consider allocating excess funds to **capital projects, debt reduction, or other long-term investments** to enhance community services and infrastructure.

**4. Floor and Ceiling Adjustments:**

- The target range may be reviewed and adjusted by the City Council based on significant changes in economic conditions, revenue volatility, or the City's financial priorities.
- Any adjustment to the target range shall require City Council approval and be based on an assessment of the City's long-term financial health, service needs, and ability to absorb financial risks.

**5. Excess Fund Balance and Allocation:**

- If the General Fund fund balance reserve exceeds the 30% ceiling, the City Finance Officer in conjunction with City Administration will recommend to the City Council a use for the excess fund balance. Potential options for excess funds may include:
  - Funding capital improvement projects, infrastructure needs, or strategic initiatives.
  - Paying down existing debt to reduce long-term liabilities (including unfunded pension and OPEB liabilities).
- The decision on the use of any excess fund balance will be made based on the City's long-term financial priorities and goals.

**6. Debt Management:**

- The General Fund Fund Balance Reserves will not be used to issue new debt or pay off existing debt unless it is consistent with the City's broader financial strategy to reduce debt or address critical capital needs.
- The use of fund balance for debt-related purposes will be evaluated based on the fiscal capacity of the General Fund and any long-term financial implications.

**7. Emergency Access to Fund Balance:**

- In the event of an emergency or financial crisis, the City may access the fund balance reserve to cover urgent and unexpected costs. Such usage will require City Council approval and will be closely monitored to ensure that the fund balance returns to the target range as soon as possible.

**Policy Review:**

This policy shall be reviewed every four years to ensure it remains in line with the City's objective to exercise fiscal responsibility and be responsive to evolving revenue dynamics. Any amendments or updates to this policy will be subject to City Council approval.

**Effective Date:**

This policy is effective immediately upon adoption by the City Council and shall remain in effect unless amended or repealed by the City Council.

## **City of Chattanooga, Tennessee**

### **Structurally Balanced Budget Policy**

#### **Purpose:**

The purpose of this policy is to establish guidelines for ensuring that the City of Chattanooga (the City) maintains a structurally balanced budget. A structurally balanced budget is one where the ongoing, recurring revenues are sufficient to cover the ongoing, recurring expenditures. This policy aims to ensure fiscal responsibility, avoid budgetary imbalances, and safeguard the long-term financial health of the City.

#### **Scope:**

This policy applies to all budgeted City funds, including but not limited to:

- General Fund
- Special Revenue Funds
- Enterprise Funds
- Debt Service Funds
- Any other funds of the City

#### **Policy Guidelines:**

##### **1. Definition of Structurally Balanced Budget:**

- A structurally balanced budget is defined as one where recurring revenues (e.g., taxes, fees, etc.) are sufficient to cover recurring expenditures (e.g., personnel costs, operational expenses, services).
- Non-recurring revenues (e.g., one-time revenues such as asset sales, grants, or surplus funds) shall not be used to fund ongoing operational costs.

##### **2. Revenue Projections:**

- The Finance and Administration Department (the Finance Department) shall provide the City Council with conservative, well-reasoned revenue projections based on historical trends (3-5 years), economic forecasts, and reliable data sources.
- The City will rely on recurring revenue sources (e.g., property taxes, sales taxes, user fees) to support ongoing operations and services.
- Non-recurring or volatile revenue sources (e.g., one-time grants, property sales) shall be excluded from budgeting for funding recurring operational expenses.

### **3. Expenditure Planning:**

- All departmental budgets must be prepared with a focus on recurring expenditures, ensuring that long-term operational needs are prioritized over temporary or one-time spending.
- The Finance Department shall ensure that projected expenditures for personnel, contracts, and operational costs align with projected revenue growth and overall financial capacity.
- Expenditure growth will be constrained proportionate to revenue growth unless justified by essential, non-discretionary spending (e.g., mandates, critical infrastructure needs).

### **4. Avoidance of Structural Deficits:**

- The City will avoid structuring its budget in a manner that relies on non-recurring revenues to cover ongoing operational costs, which could lead to future budget deficits.
- If the City experiences a temporary revenue shortfall, the Finance Department will seek to address the shortfall through cost reductions, expenditure deferrals, or utilization of reserves, rather than using non-recurring revenues or borrowing for operating expenses.

### **5. Debt and Capital Funding:**

- The City will ensure that capital improvements are funded with appropriate funding sources (e.g., bonds, dedicated capital funds, pay-go capital) in accordance with state and/or federal law.
- Ongoing debt service obligations will be funded by stable, recurring revenue sources to ensure that the City's debt burden remains manageable over time.
- Debt issuance will be used for capital projects that provide long-term benefits to the community and for which repayment is supported by stable revenue streams.

### **6. Fiscal Accountability and Transparency:**

- The City Council, City Administration, and Finance Department will ensure that all budget decisions are made with full transparency and in accordance with best practices for fiscal responsibility.
- Regular budget monitoring and mid-year updates will be provided to the City Administration to ensure the budget remains in balance and that any necessary adjustments are made in a timely manner.

### **7. Budget Review and Approval:**

- City Administration will present a balanced budget to the City Council annually, with a clear distinction between recurring and non-recurring revenues and expenditures.
- The City Council will review, discuss, and adopt a budget that aligns with the principles of structural balance, with a focus on sustaining long-term fiscal health while providing essential services to the community.
- Any budget amendments or changes during the fiscal year that impact the structural balance of the budget will require City Council approval.

**8. Long-Term Financial Planning:**

- The City will engage in long-term financial planning, including a multi-year forecast that projects future revenues and expenditures.
- Long-term financial planning will be used to identify potential fiscal challenges and to make informed decisions that will maintain a structurally balanced budget in future years.

**Policy Review:** This policy shall be reviewed every four years to ensure it remains in line with the City's objective to exercise fiscal responsibility and be responsive to evolving revenue dynamics. Any amendments or updates to this policy will be subject to City Council approval.

**Effective Date:** This policy is effective immediately upon adoption by the City Council and shall remain in effect unless amended or repealed by the City Council.

## **City of Chattanooga, Tennessee**

### **One-Time Revenue Policy - General Fund**

#### **Purpose:**

The purpose of this policy is to establish guidelines for the use, allocation, and management of one-time revenue sources that are received in the General Fund by the City of Chattanooga (the City). One-time revenues are those revenues that are non-recurring in nature and are not expected to be received in future fiscal periods. The goal of this policy is to ensure that one-time revenues are used in a manner that supports the long-term financial health and sustainability of the City.

#### **Scope:**

This policy applies to all one-time revenues received by the City, including but not limited to:

- Non-recurring grants
- Donations
- Proceeds from the sale of assets or property
- Settlements or legal awards
- One-time state or federal revenue allocations

#### **Policy Guidelines:**

1. **Identification of One-Time Revenues:**
  - All one-time revenue sources will be identified by the Finance and Administration Department (Finance Department) annually.
2. **Use of One-Time Revenues:**
  - One-time revenues should not be used to fund ongoing operational expenses.
  - Permissible uses of one-time revenues are:
    - Capital improvement projects
    - Debt reduction payments
    - Creation or replenishment of reserves or emergency funds
    - Special programs or initiatives that have a defined timeline and scope
    - Other uses as determined by the City Council, consistent with the long-term financial planning objectives.

**3. Reserve and Fund Balance Considerations:**

- A portion of one-time revenues may be allocated to replenish or build general fund reserves, capital reserves, or other designated funds.
- Reserve levels should be consistent with the City's financial policy governing fund balance reserve levels.

**4. Restrictions on Use:**

- One-time revenues should not be used for regular operating expenses such as salaries and benefits or other ongoing costs that would create an ongoing financial obligation once the one-time revenue is exhausted.
- One-time revenues with specific restrictions or designations must be used in accordance with those restrictions.
- With City Council approval, one-time revenues could be used in an economic downturn to avoid spending cuts such as layoffs or other similar measures.

**5. Approval Process:**

- Use of one-time revenues for specific projects or programs must be approved by the City Council in accordance with other City approval processes.
- Any deviation from the intended use of the one-time revenues must be reviewed and approved by the City Council.

**6. Evaluation and Monitoring:**

- The Finance Department will regularly evaluate the impact and outcomes of the use of one-time revenues, particularly if allocated to special projects or initiatives, to ensure that the funds are being used effectively.

**Policy Review:** This policy shall be reviewed every four years to ensure it remains in line with the City's objective to exercise fiscal responsibility and be responsive to evolving revenue dynamics. Any amendments or updates to this policy will be subject to City Council approval.

**Effective Date:** This policy is effective immediately upon adoption by the City Council and shall remain in effect unless amended or repealed by the City Council.