

Fund Balances (Updated 5/27/2020)

Council Inquiries regarding Fund Balances for FY21.

1. Is there a summary somewhere of what the general fund and school balances have been at the end of each year?

Finance response: the link below is our 2019 CAFR and on pages 274 & 275 (which are labeled H10 & H-11) there is a 10-year summary of the fund balances that compare to the \$12M.

<https://www.nashville.gov/Portals/0/SiteContent/Finance/docs/CAFR/CAFR%202019.pdf>

2. Is the proposed amount for rainy day fund \$100 million equivalent to 33 cents of the proposed \$1 increase?
 - a. Thus if we did \$50 million into rainy day, the proposed increase would be 83.5 cents?
 - b. Is the \$100 million in rainy day a mandate of sorts from the TN comptroller?

Finance Response:

The budget must establish fund balances in keeping with Metro's financial policies. A portion of those policies are to maintain a 5% [of annual expenditures] minimum for the general and school funds. The Mayor's budget reaches that minimum for the general fund, and just little under for Metro Schools.

However, Metro Schools is expecting to receive millions in relief monies that we are hopeful will make its overall position similar to the general fund. Significant details about the relief funding have not been released, so we'll be keeping a close eye for those and continuing to work with Dr. Battle and her team as we learn more.

There are strong arguments for increasing our fund balances well beyond these minimums.

Prior to the tornados and the covid crisis, the Mayor and Comptroller Wilson had warned that Metro did not have rainy day funds. Some local governments include rainy day monies within their general fund and others establish a dedicated fund. Essentially, Metro has had neither of those in recent years, and has relied on its ability to borrow across its many other funds to operate normally and through this crisis.

Now we must replenish what has been, and will be, lost on our recent rainy days, and establish funds for future rainy days. We are concerned that our minimum policy amounts will not be enough if there lots of rainy days in the future, but we are also concerned that our taxpayers cannot afford to build larger balances when their own households, and places of work, are suffering these same rainy days.

Establishing the minimums now, and making plans to build more in the future, seems the prudent path. To demonstrate a commitment to building more in the future, we are establishing a dedicated rainy day fund of \$5 million in addition to the minimums for other funds. These will be the first monies used for events like the recent tornados, and it is my hope that we will be making significant contributions to this rainy day fund in the years ahead.

To be more precise in addressing the CM questions below,

- With respect to the assignment of percentages, cents, etc., we don't assign those metrics in the formalities of the proposed budget, but generally, a penny of property tax generates approximately \$3.2 million in total revenue.
 - With respect to the TN Comptroller's office, there is not a specific dollar requirement, but rather, the Comptroller is unlikely to approve a budget that does not comply with Metro's own policies (see above) which already incorporate State laws such as minimums for MNPS. The Comptroller did not approve the budget last year for a multitude of reasons, including non-compliance.
 - With respect to a \$50 million vs \$100 million, the former would not comply with Metro's policies unless annual expenditures dropped to about half of the Mayor's proposed budget.
3. Could we offer a TAN to help manage cash flows in our fund balances so we would not have to replace all \$100m for fund balances or other uses?

Finance Response: The purpose of TANs is to manage cashflow resulting from timing between tax receipts and expenses paid by those receipts. It is not a replacement for an adequate fund balance level. TANs are not revenue, they are borrowed funds and do not impact fund balance.

4. Could you add a TAN to buffer to partially offset a tax increase until all possible revenue funding sources could be determined which I understand could be payable up to 3 years?

Finance Response: Tax anticipation notes are not a revenue source to be appropriated. They provide interim cash for already appropriated taxes until those taxes are received. By state law, TANS are required to be paid back within the fiscal year borrowed. The 3 year payback is only possible due to provisions of the law related to declared emergencies impacting receipt of the taxes required to pay the TANs. The extension of the term does not change the purpose of TANs.

5. Why is the injury-on-duty (IOD) budgeted amount increasing by \$10.7M? Is this based upon anticipated new claims?

Finance Response: The FY20 operating budget did not allocate any funds for IOD costs. Rather, the FY20 IOD expenses were to be paid out of a fund balance that had built up over several years. Annual expenses are expected to be around \$16 million, so the FY 21 budget also assumes some use of fund balance.