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METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY



December 11, 2019

Justin P. Wilson
Tennessee Comptroller of the Treasury
State Capitol
Nashville, TN 37243

Re: Metropolitan Government of Nashville and Davidson County - Corrective Action Plan
for Approval Fiscal Year 2020 Budget

Dear Mr. Wilson:

Thank you for your presentation to the Budget & Finance Committee (“Committee”) of the Metropolitan Government of Nashville and Davidson County (“Metro”) on November 13, 2019. The presentation seems to be widely recognized by the Metro Council (“Council”), Mayor Cooper’s Administration (“Administration”), and the public as a well-intended call to action.

I fully embrace its contents, and as outlined in your remarks and subsequent discussion with me, I agree it is financially responsible of Metro to deliver the following as elements of its Corrective Action Plan:

- Structurally balanced budgets for the current fiscal year ending June 30, 2020 (“Current Fiscal Year”) and all future fiscal years (“Future Fiscal Years”), including the accumulation of reasonable reserves for unexpected events and to service long term obligations to our bondholders and the beneficiaries of our post-employment benefits (“OPEB”);
- Cash management policies reflecting the size and complexity of Metro’s financial infrastructure; and
- Audited Comprehensive Annual Financial Reports & Single Audit Reports by December 31st of each Fiscal Year.

I am writing to request your approval of the Current Fiscal Year budget and your ongoing support for Metro to achieve financial stability and sustainability.

Corrective Action Plan

- **Structurally balanced budget for the Current Fiscal Year**

A structurally balanced budget, as generally defined by the Government Finance Officers Association, is one that relies on recurring revenues equaling or exceeding recurring expenses and supports financial stability for multiple years into the future. When adopted, the Current Fiscal Year budget was a balanced budget, but did not meet this definition. The Current Fiscal Year budget relies on approximately \$41.5 million in non-recurring revenues from two anticipated transactions involving the disposition of Metro assets (“Metro Asset Transactions”), comprised of a long-term lease of parking meters and the sale of an energy system that were anticipated to generate revenues of \$30.0 and \$11.5 million, respectively. More broadly, even if these transactions were completed and all other items in the budget executed as planned, Metro would end the Current Fiscal Year in poor financial condition.

Your presentation reminded Metro that its Current Fiscal Year budget has not been approved by you and requested that a structurally balanced budget be determined and an amended budget be submitted for your approval as soon as possible.

While the Metro Charter does not provide an express process for amending the operating budget, Metro Charter Section 6.09 provides that “[u]pon certification of the director of finance that the revenues or other resources actually realized with respect to any fund are less than was anticipated and are insufficient to meet the amounts appropriated from such fund, it shall be the duty of the mayor to impound such appropriations as may be necessary to prevent deficit operation.”

Metro has not realized revenues from the Metro Asset Transactions in the Current Fiscal Year and is unlikely to do so. The bid process for each transaction has been challenged, and both challenges, under current circumstances, are likely to prevent the transactions from closing this fiscal year. The failure to realize the anticipated revenues from the Metro Asset Transactions will create an operating deficit in Metro’s general services district debt services fund (“Deficit Operation”), and, under such circumstances, Metro Charter Section 7.20 requires that sufficient amounts be paid from the general fund to meet Metro’s bond obligations.

I have certified these conditions to the Mayor, and I have recommended a plan to balance the Current Fiscal Year budget while achieving five primary objectives (“Primary Objectives”):

1. Minimize disruption to the normal course of operations and services to the public;
2. Prioritize essential services to the public over economic development activities until Metro reaches financial stability;
3. Avoid employee layoffs;
4. Maintain continuity of supply and service from vendors and contractors; and

5. Foster a culture of revenue generation and cost control that inspires the public trust and confidence in sound financial management.

While the Charter provides for impoundments as may be necessary to prevent Deficit Operation, it is my view that the Administration should not use this authority, absent dire unforeseen circumstances, to change the general direction and spirit of the Budget Ordinance for Fiscal Year 2020. In this circumstance the public would be best served by the Administration taking only the necessary actions to accomplish the Primary Objectives and then proceeding immediately to the budget process for the next fiscal year. At that time, there can be an inclusive, transparent, and thoughtful forum for deliberating and resolving Metro's financial challenges for the longer term. The deliberation should include longstanding controversial topics such as tax and fee increases as well as the modification of inefficient or ineffective operations. And pursuant to Metro Charter Section 6.02, I intend to begin those discussions with the various officers, departments, boards, commissions and other agencies at the inception of the fiscal year 2021 budget cycle.

The Corrective Action Plan described herein was developed over a short period of time. Budgets inherently rely on computations, estimates, and assumptions that may or may not materialize over the time horizon of the budget period. If it becomes apparent over time that the Corrective Action Plan's underlying assumptions and estimates are inaccurate or do not materialize, then I will ask the Mayor for additional direction to arrive at a structurally balanced budget for the Current Fiscal Year. Of course, I will also continue to search for other opportunities to improve our financial position during our day-to-day operations.

In consideration of the forgoing, the Mayor has directed me to immediately execute the corrective actions summarized below in order to increase the likelihood of producing results as soon as possible.

These actions were selected since they are consistent with the Primary Objectives listed above, and each is specific, measurable, and seemingly within our reach during the Current Fiscal Year. The most common name for each corrective action line item is provided for convenience; however, I will provide more formal names, descriptions, and other details upon your request. The Administration has, or soon will, communicate the details in separate announcements to the public.

Metro is fortunate that new opportunities are on the horizon for recurring revenues and savings that exceed eighty percent (80%) of the Deficit Operation, and at this time, the remainder is available from the partial impoundment of a discretionary fund appropriation. This impoundment will have minimal impact on the operation of the discretionary fund in the near term, and it may be possible to restore the impoundment if an excess balance materializes in the general fund later in the Current Fiscal Year. The Administration will collaborate with impacted parties to mitigate any significant consequences that may arise.

**Corrective Action Plan
For the Fiscal Year Ending June 30, 2020
(Estimated Dollars in Millions)**

Deficit Operation - GSD Debt Service Fund

Parking Meters	\$ 30.0
Energy System	11.5
	<u>41.5</u>

Corrective Actions - GSD General and Debt Service Funds

Recurring Revenues & Savings	
PILOT - Music City Center	\$ 12.6
PILOT - Water Services	10.0
MDHA TIF Payment Reduction	7.2 *
Debt Service Reimbursements - Convention & Visitors Corp	3.6
Program Reimbursements - Sheriff / US Marshal Service	0.5
	<u>33.9</u>
Metro Departments' Excess Target Savings, Fund Balances & Deferrals	<u>2.6</u>
Partial Impoundment - Barnes Fund	<u>5.0 **</u>
	<u>\$ 41.5</u>

* Estimated total is \$10.8 million, allocated \$7.2 to Metro and \$3.6 million to Metro Nashville Public Schools.

** The Barnes Fund, a discretionary fund of Metro, makes grants to non-profit housing developers to increase affordable housing options for Nashvillians. The Barnes Fund has prior monies (\$15 million) to fulfill all of its prior year grants and will maintain half of the monies appropriated for the Current Year Budget (\$5 million) to fulfill all of its recently announced current year grants. No grants have been awarded for the impounded funds (\$5 million), so there will be no unfulfilled grants.

- **Structurally balanced budgets for all Future Fiscal Years & the accumulation of reasonable reserves for unexpected events and long-term obligations.**

The Metro Charter requires that the budget process begin not later than March 1 and that a final budget be adopted not later than June 30 for the ensuing fiscal year. (Metropolitan Charter Section 6.02 and Section 6.06). This four-month budgeting period involves an enormous volume of internal activities and public meetings. Strict adherence to this time period would not allow delivery of a budget for your consideration and approval prior to the beginning of Metro's ensuing fiscal year.

The Administration has already begun the budgeting process, and I have opened a dialogue with others in the Administration, Vice Mayor Shulman, and Committee Chair Mendes about compressing the budgeting period outlined in the Metro Charter in a manner that would permit the delivery of a budget to you no later than June 1, 2020. Of course, Metro Charter requirements and the Metro Council Rules of Procedure may impact the ability to meet the target date. This compressed schedule should allow any issues that may arise from your review and approval process to be addressed prior to the final approval of the budget ordinance. To minimize the possibility of such issues, I request that you assign an analyst to monitor and provide input to the budgeting process, and I will continue my direct communications with you.

With respect to the accumulation of reserves for unexpected events and long-term obligations, especially for bonds and OPEB, I have begun cash flow and other forecasting for the long term. Due to the importance of these topics, I will appoint a Deputy Finance Director to expedite financial planning and analysis beyond customary budgeting processes. I will also prioritize the financial analysis of several areas of concern, such as utilization of Metro-owned properties and performance of operating units.

Overall, I am confident that all parties recognize the need to shape a structurally balanced budget that is complete, accurate, and timely so that Metro can effectively measure and manage its affairs for all Future Fiscal Years. You, on behalf of the State government, have expressed your desire and willingness to help Metro succeed. Mayor Cooper and Committee Chair Mendes are experienced in Metro financial matters. The Council is enthusiastic about achieving financial success. Economic trends for the area appear to be positive and sustainable for the foreseeable future. And, importantly, I have observed a high spirit of cooperation to address specific financial challenges. Examples include Metro Water Services bringing forward a plan to modernize water rates, Metro Nashville Public Schools working closely with the Administration to identify alternative funding sources for a teacher pay program when planned sources did not materialize, and the Metro Nashville Airport Authority committing to identifying revenue sources for Metro in connection with the airport's expansion plans and growing passenger traffic.

- **Cash management policies reflecting the size and complexity of Metro's financial infrastructure**

Metro does not have a comprehensive cash management policy encapsulated in a single document; however, it does have a history of accounting policies, procedures, and controls that have been effective in safeguarding its cash management in all material respects. This has been confirmed by Metro's external auditors as of the last fiscal year ended June 30, 2019, and except for limited areas of concern identified by Metro's internal auditors, I have no reason to believe this condition has changed. I will be working closely with Metro's internal auditors to address those areas of concern.

You have informed me that no other local government in the State is operating with such a comprehensive policy, but I believe that with the growth in the size and complexity of Metro's financial infrastructure, constructing a comprehensive document will demonstrate Metro's commitment to sound cash management practices and overall financial stability. A comprehensive policy will address coordination of Metro's routine operations as well as the terms and conditions of its investments and obligations, including commercial paper, tax anticipation notes, and bonds.

A draft will be delivered to you no later than February 28, 2020. I expect this will be a working draft for the remainder of the Current Fiscal Year since it will be reviewed and approved by the Administration, the Council, and our internal and external auditors. In any event, the preparation and approval processes alone will be healthy and bring about ongoing awareness and improvements.

- **Comprehensive Annual Financial Reports & Single Audit Reports before December 31st of each Fiscal Year**

The Metro Finance Department and external auditors have completed the Comprehensive Annual Financial Report ("CAFR"), and it is moving through the Metro Audit Committee and final stages of approval. I expect the CAFR to receive an unqualified opinion, or so-called "clean opinion," from our external auditors and to be delivered to you by December 31st.

As you are aware, Metro has been awarded a Certificate of Achievement for Excellence in Financial Reporting from the Government Finance Officers Association of the United States and Canada for the last 36 years. Among the criteria required to qualify for this award, a government must publish an easily readable and efficiently organized CAFR, and I am hopeful Metro will achieve the award again this year despite the financial challenges at hand.

Metro CAFRs beginning in 2002 are posted to our website at www.nashville.gov. The 2002 CAFR contains major financial trend data beginning in the 1990's. Numerous other financial reports, budgets, and guides to Metro financial matters are posted as well, and I have been informed that many of these have been available to the public in paper form prior to development of the current website.

Though I have not yet received a draft of the Single Audit Report, a requirement of the U.S Government due to Metro's receipt of federal grants, I have been informed by our external auditors that it is expected to be completed by December 31st.

I request your prompt approval of the Current Fiscal Year budget and your ongoing support for Metro to achieve financial stability and sustainability through implementation of the proposed Corrective Action Plan. Your approval and support will relieve much of the uncertainty surrounding Metro in the Current Fiscal Year. Specifically, it will allow our employees to continue their normal course of operations and services to the public, and it will provide a good starting point for Metro to proceed immediately with its next budget process.

I look forward to your response.

Respectfully,

Kevin Crumbo

Director of Finance