

RESOLUTION NO. RS2019-1545 (VERCHER) – This resolution would authorize the retroactive issuance of no more than \$391,666,020 in inter-fund tax anticipation notes of the Metropolitan Government. These tax anticipation notes would be issued pursuant to state law for the purpose of meeting appropriations made for the current fiscal year in anticipation of the collection of taxes and revenues.

The resolution was prompted by a recent notification from the Comptroller of the State of Tennessee. The Metropolitan Government's annual operating budget is comprised of six primary funds -- the GSD General Fund, the USD General Fund, the MNPS Operations Fund, and the corresponding Debt Service Funds for each. A portion of property tax revenues is allocated to each of these funds each fiscal year, as depicted in the current operating budget ordinance. (See, Substitute Ordinance No. BL2018-1184, pp. 7 and 23).

These fund balances are maintained in the Metro Investment Pool (MIP). Deposits and disbursements are physically made from the MIP with the appropriate debits and credits being entered for each fund. Actual expenses from any of these funds can exceed the total revenue from property tax receipts (and other revenue sources) during the initial portion of the fiscal year. In compliance with state law, when the bulk of property tax receipts are posted in December and February of each year, the total revenue "catch up" to the expenditures is then allocated.

Money within these funds is commingled in the MIP and, historically, Metro has addressed temporary cash flow deficits by borrowing funds from this pooled cash account. (Of the six primary budgetary funds, only the USD General Fund has not needed to engage in inter-fund borrowings to cover expenditures.) This has the technical effect of one fund using money from another fund to pay for expenditures until property tax receipts are sufficient for the intended purpose. Because money within the funds is commingled, these inter-fund transfers are only observable as accounting entries.

The Comptroller of the State of Tennessee has now advised the Metropolitan Government of the need formalize these transfers by issuing inter-fund tax anticipation notes, as permitted under state law with the required prior approval of the Comptroller's office. (This is the first time the Comptroller's office has issued such an alert to the Metropolitan Government.) The pending resolution is intended to bring Metro into compliance with the Comptroller's requirements. On January 4, 2019, the Director of Finance issued a letter to the Council regarding the resolution, proposing these retroactive inter-fund tax anticipation notes in order to address the Comptroller's concerns.

Fiscal Note: The tax anticipation notes proposed by this resolution would retroactively formalize the process of using commingled funds in the MIP. The minimal interest to be paid for these notes would essentially match the interest income that would be earned from these funds from being in the MIP. While this resolution would issue inter-fund tax anticipation notes, no new money would be borrowed from any sources outside of Metro and no new notes or bonds would be offered to investors or the general public. Though the total of the notes would be \$391,666,020, no new money would be involved. This would be a record-only change to come into compliance with the Comptroller's requirements.