Jason E. Mumpower
Comptroller

TENNESSEE STATE FUNDING BOARD
DECEMBER 16, 2024
AGENDA

1. Call meeting to order, establish that there is a physical quorum, and receive public comment on actionable items in accordance with 2023 Public Chapter 300 and Board guidelines

2. Consideration for approval of minutes from November 4 and November 25, 2024, meetings

3. Report from the Department of Economic and Community Development for approval of funding for the following FastTrack projects:

   - **AAON, Inc. – Memphis (Shelby County)**
     FastTrack Economic Development Grant $12,000,000

4. Consideration for approval of staff recommendation for Financial Advisor for the Tennessee State Funding Board

5. Consideration and approval of revisions to the Tennessee Budget Manual for Local Governments

6. Report on approval of note issuance by Johnson County pursuant to Tenn. Code Annotated § 9-13-210

7. Report on Notice of Default of Conduit Financing Debt Obligation by the Industrial Development Board of the Metropolitan Government of Nashville and Davidson County, Tennessee

8. Adjourn

TENNESSEE STATE FUNDING BOARD
November 4, 2024

The Tennessee State Funding Board (the "Board") met on Monday, November 4, 2024, at 1:33 p.m., CT in the Volunteer Conference Center, 2nd Floor, Cordell Hull Building, Nashville, Tennessee. The Honorable Jason Mumpower, Comptroller of the Treasury, was present and presided over the meeting.

The following members were also present:

The Honorable Tre Hargett, Secretary of the State of Tennessee
The Honorable David H. Lillard Jr., State Treasurer
Commissioner Jim Bryson, Department of Finance and Administration

The following member was absent:

The Honorable Bill Lee, Governor

Seeing a physical quorum present, Comptroller Mumpower called the meeting to order. Comptroller Mumpower, in accordance with Public Chapter 300 and Board guidelines, asked Ms. Sandra Thompson, Assistant Secretary to the Board and Director of the Division of State Government Finance ("SGF"), if any requests for public comment had been received. Ms. Thompson responded that no requests had been received.

Comptroller Mumpower then presented the minutes from the meeting held on October 2, 2024, for consideration and approval. Commissioner Bryson made a motion to approve the minutes, and Comptroller Mumpower seconded the motion. The minutes were unanimously approved.

The Board then heard testimony regarding the economy from the following presenters: Dr. Don Bruce of the University of Tennessee Boyd Center for Business and Economic Research; Dr. Joseph Newhard of East Tennessee State University; Commissioner David Gerregano and Mr. Jeff Bjarke of the Tennessee Department of Revenue; and Mr. Bojan Savic and Mr. Joe Wegenka of the legislative Fiscal Review Committee ("FRC") of the State of Tennessee (the "State"). Pursuant to Tenn. Code Ann. § 9-4-5202(e), the Board is charged with the responsibility of developing estimates of state revenue growth. In doing so, the Board evaluates and interprets economic data and revenue forecasts provided by various economists as well as persons acquainted with the Tennessee revenue system.

The presenters forecasted economic growth and state tax revenue growth that reflected negative growth in the current fiscal year and slow growth the next fiscal year. Factors cited to support negative growth in the current and slow growth in next year included Tennessee's relative economic strength compared to the nation, slow Tennessee GDP growth, and price inflation being controlled – all set against multiple state tax policy changes that complicated revenue forecasts. Those factors all combine to urge caution when estimating both economic and state tax revenue growth. Comptroller Mumpower thanked the presenters for their reports.

Comptroller Mumpower then called for presentations regarding the Tennessee Education Lottery Corporation (TELC) from Mr. Savic and Mr. Wegenka; and Ms. Rebecca Paul, President and CEO, and Mr. Andy Davis, Chief Financial Officer, from the TELC. Legislation in 2003 created the TELC (Tenn. Code Ann. §§ 4-51-101 et seq.). Pursuant to Tenn. Code Ann. § 4-51-111(c), the Board is required to establish a projected revenue range for the "Net Lottery Proceeds" [defined in § 4-51-102(14)] for the remainder of the current fiscal year and for the next four (4) succeeding fiscal years.

The presenters reported on historical results and growth reported in previous years for the various instant and numbers games, and Powerball and Mega Millions jackpot games, of the Tennessee Lottery program. The presenters also summarized recent changes for TELC and reported on year-to-date revenue and expenses for fiscal year 2024-2025. Comptroller Mumpower thanked the presenters for their reports.

Tenn. Code Ann. § 4-51-111(c)(2)(A)(ii) requires the Board, with the assistance of the Tennessee Student Assistance Corporation (TSAC), to project long-term funding needs of the lottery scholarship and grant programs. These projections are necessary to determine if adjustments to lottery scholarship and grant programs are needed to prevent the funding for these programs from exceeding Net Lottery Proceeds. For this purpose, the Board heard testimony from Mr. Tim Phelps, Senior Director for Grants and Scholarship Programs of TSAC, who reported the projected expenditures in lottery scholarship and grant programs for fiscal years ending 2025 through 2029. The lottery-funded scholarship programs as authorized through the 2024 session of the General Assembly included the HOPE Scholarship, General Assembly Merit Scholarship, ASPIRE Award, Wilder-Naifeh Technical Skills Grant, HOPE Scholarship for Non-traditional Students, Dual Enrollment Grant, Helping Heroes Grant, Foster Child Tuition Grant, STEP UP Scholarship, TCAT Reconnect Grant, the Tennessee Middle College Scholarship, and Tennessee Reconnect Grant. Comptroller Mumpower thanked Mr. Phelps for the report.

Comptroller Mumpower then recognized Ms. Mary Beth Thomas, Executive Director of the Tennessee Sports Wagering Council (the "SWC"), for a presentation on sports wagering revenue estimates. The SWC is responsible for regulating online sports wagering and fantasy sports wagering in the state, including annual vetting/licensing of sportsbooks and fantasy sports operators, and the registering of vendors that provide services to the online sport books. The SWC is also responsible for compliance functions throughout the year. Ms. Thomas' presentation discussed mobile sports wagering, licensed sportsbooks in the state, new player accounts, total wager estimates, and sports betting revenue estimates for the State. Ms. Thomas noted the following:

- Sports wagering was legalized by the Tennessee General Assembly in 2019 and was initially regulated by the TELC. The SWC was created by the legislature in 2021 and assumed regulatory authority in January 2022.
- There were currently 12 licensed online sportsbooks operating in the state with one additional licensed online sportsbook in the pipeline. Additionally, there were 15 licensed fantasy sports operators within the state.
- There were 59 registered vendors providing services such as geolocation services, player account management, and other essential services to the sportsbooks business.
- Sports betting generated revenue through a 1.85% privilege tax collected on the total volume of wagers placed in the state with the privilege tax collections distributed to the Lottery Education account (80%), to the general fund of counties and local governments for infrastructure and emergency projects (15%), and to the Department of Mental Health for responsible gaming initiatives (5%).
- Since going live in November of 2020, licensed online sportsbooks have generated $14.6B in wagers and in fiscal year 2024 the privilege tax revenue increased seven percent (7%) over the prior fiscal year.
- Currently, thirty (30) states and the District of Columbia have legal mobile betting. Included in the number was both Kentucky and North Carolina which added mobile sports betting within the last year. The SWC was starting to see a decrease in border activity with residents of border states no longer traveling into Tennessee to place wagers as border states started legalizing sports betting. The presence of sports betting in bordering states would disincentivize travel to bet in Tennessee leading to a reduction in the wagering volume in the future.

- The SWC found it challenging to forecast revenue that would be generated due to how new sports wagering has been everywhere outside Las Vegas, which has a vastly different betting environment than the state. Overall betting had been growing at a very rapid pace.
- The SWC is responsible for collecting privilege taxes from the sportsbooks each month and in doing so receives wagering data on a daily basis that is utilized for compliance purposes.
- Based on data provided by operators, player accounts numbered approximately one million for residents of Tennessee and an additional 250,000 accounts from outside of the state. The player account data will be provided to the SWC on a six-month basis in the future.
- Based on operator provided data, the average bet ranged between $10-$150 among the 12 operators with median ranges from $5 to $30, and modes ranging from $5 to $10 depending on the sportsbook. This data will be provided to the SWC on a six-month basis in the future.
- The American Gaming Association reported that while wagering has grown significantly across the country year-over-year with a reported 35% growth rate from 2023 to 2024, that there could be some cooling due to economic uncertainty and better establishment of markets.
- The SWC compared data with the Commonwealth of Virginia and the State of Indiana because of comparable population sizes. The SWC found that the growth rate based on total wagering activity from 2023 to 2024 (20%) was close to Virginia's growth rate in the comparable year of operations (3rd year). Indiana had a slowing of the growth rate to 8.3% in their 4th year of operations and the SWC believed Tennessee would have a slowing in its growth rate as well.
- The SWC assumed a conservative growth rate of 5% in gross handle (total wagers) for fiscal years 2025, 2026, and 2027.
- The change in the privilege tax structure that went into full effect in fiscal year 2024 resulted in a year-over-year increase in collections of 7% from fiscal year 2023.
- Total Privilege Tax collections amounted to $87,568,810 in FY2024, and the SWC estimated collections in the amount of $91,947,251 for FY2025, $96,544,613 in FY2026, and $101,371,844 for FY2027 based on the estimated 5% year-to-year growth in total wagers.

Comptroller Mumpower then asked if the state earned its revenue based on wagers placed by a wagerer that is physically located within the state even if they reside in another state. Ms. Thomas responded in the affirmative. Comptroller Mumpower then inquired about the location of where most of the bets were placed within the state. Ms. Thomas stated that the geolocation platform allows the SWC to see when individuals are accessing their accounts for geolocation purposes to ensure the individual is in the state, but it is not a continuous monitor but a picture in time at various times. Ms. Thomas then replied that the large cities within the state have the largest wagering concentration. Ms. Thomas further replied that Memphis had frequent wagering activity. Comptroller Mumpower then asked if there were businesses akin to a betting parlor where customers could go for drinks and make bets. Ms. Thomas responded that restaurants and bars are not allowed to have betting kiosks as individuals are required to place wagers from their own mobile device. Secretary Hargett then asked for confirmation that there are certain establishments, while not having a kiosk, that do set up multiple TVs in an area and highlight having strong Wi-Fi that customers can come to watch sporting events and place wagers from their mobile device. Ms. Thomas responded in the affirmative. Comptroller Mumpower thanked Ms. Thomas for the report. No further action was necessary.

Comptroller Mumpower then presented a request from the Department of Education for $23,000 from Net Lottery Proceeds for Lottery Scholarship Day for fiscal year 2025-2026, pursuant to Tenn. Code Ann. § 4-51-111(c)(2)(B). The requested funds will support improvements and enhancements for educational programs and purposes and such net proceeds shall be used to supplement, not supplant, non-lottery educational resources for educational programs and purposes. The Board acknowledged the request from the Department of Education. No further action was necessary.

Comptroller Mumpower then recognized Mr. Steve Osborne, Assistant Director of the Division of Local Government Finance ("LGF"), to report on the approval of the issuance of notes by Cocke County pursuant to Tenn. Code Ann. § 9-13-210. Mr. Osborne stated that Tenn. Code Ann. § 9-13-206 allows the Comptroller of the Treasurer to approve the issuance of a tax anticipation note ("TAN") by a local government with a maturity date that is after the close of the fiscal year that the notes were issued in the event of economic distress due to natural disasters certified by the Federal Emergency Management Agency (FEMA) within the area. Mr. Osborne further stated that Tenn. Code Ann. § 9-13-210 required the Comptroller of the Treasury to report LGF's approval of these note issuances to the Board. Mr. Osborne then stated that as of the date of the meeting LGF had approved three (3) TANs for Cocke County due to the flooding in east Tennessee. Further, Mr. Osborne stated that each of the three (3) TANs was in the amount of $1 million and were interfund loans to be made from the debt service fund to the general, highway, and the solid waste funds, with maturity dates of June 30, 2026. Mr. Osborne then reported that subsequent to the posting of the meeting's agenda, an additional TAN had been approved and that LGF anticipated the approval of additional TANs in the future. No further action was necessary.

After requesting other business and hearing none, Comptroller Mumpower made a motion to recess the meeting and to reconvene on November 25, 2024, at 9:30 a.m. CT, in the Cordell Hull Building, 2nd Floor, Volunteer Conference Center. Treasurer Lillard seconded the motion. The motion was unanimously approved, and the meeting was recessed.

RECONVENED
November 25, 2024
9:30 a.m.

The Board reconvened on Monday, November 25, 2024, at 9:30 a.m. CT, in the Cordell Hull Building, 2nd Floor, Volunteer Conference Center, Nashville, Tennessee. The Honorable Jason Mumpower, Comptroller of the Treasury, was present and presided over the meeting.

The following members were also present:

The Honorable Tre Hargett, Secretary of the State of Tennessee
The Honorable David H. Lillard Jr., State Treasurer
Commissioner Jim Bryson, Department of Finance and Administration

The following member was absent:

The Honorable Bill Lee, Governor

Seeing a quorum present, Comptroller Mumpower called the meeting to order. Comptroller Mumpower, in accordance with Public Chapter 300 and Board guidelines, asked Ms. Sandra Thompson, Assistant Secretary to the Board and Director of the Division of State Government Finance ("SGF"), if any requests for public comment had been received. Ms. Thompson responded that no requests had been received.

Comptroller Mumpower then recognized Mr. David Thurman, Director of the Division of Budget with the Department of Finance and Administration, who presented the staff recommendations of the recurring revenue estimates expressed in ranges of growth rates in State taxes.

	FY 2024–2025		FY 2025-2026	
	Low	High	Low	High
Total State Taxes	-1.68%	-1.34%	1.25%	2.15%
General Fund	-2.50%	-1.91%	1.00%	2.00%

Comptroller Mumpower then asked for any additional insights from the staff discussions of the revenue growth rate ranges. Mr. Thurman responded that what was heard from the presenters was that the economy and the underlying fundamentals of the economy were in fairly good order, but there were concerns about slowing growth as revenue trends started to normalize as the remaining federal dollars from the COVID recovery were spent. Mr. Thurman further stated that we were starting to see the shift in spending patterns from a period of accelerated growth to a much slower period of growth. Mr. Thurman then stated that there was an additional underlying concern for fiscal year 2025-2026 resulting from policy changes that impacted growth.

Comptroller Mumpower then asked Mr. Thurman how he as budget director thought about the proposed revenue growth ranges in relation to the policy changes that are accounted for in the budgeting process. Mr. Thurman replied that it was approached as two separate thought processes. Mr. Thurman further replied that both the policy changes and the estimated growth ranges would be a huge part of developing a budget framework for fiscal year 2025-2026 but they would be looked at through the two separate lenses. Mr. Thurman then stated that the slowing growth was not a surprise, and it had been anticipated as they crafted the prior budgets. Mr. Thurman then stated that with the prior accelerated growth, the last two budgets had been built to use recurring money for non-recurring purposes allowing for some cushion as there were concerns of what the economy would look like coming out the COVID recovery period. Mr. Thurman further stated that the current budget was constructed to allow the state to endure slowing revenue growth but still be able to address the normal growth of government. Commissioner Bryson then asked what was considered normal growth in a typical year not including the COVID years. Mr. Thurman responded that somewhere between 3.50% and 5.00% would be a normal growth range. Comptroller Mumpower made a motion to approve the state revenue growth estimates as recommended by staff. Commissioner Bryson seconded the motion, and the motion was unanimously approved.

Mr. Thurman then presented the staff recommendations of the estimates of the growth rate ranges for Net Lottery Proceeds to be deposited in the Lottery for Education Account and used for various statutory purposes.

	FY 2024-2025	FY 2025-2026	FY 2026-2027	FY 2027-2028	FY 2028-2029
Low	-9.00%	0.90%	1.00%	1.00%	1.00%
High	-6.00%	1.69%	2.00%	2.00%	2.00%

Comptroller Mumpower made a motion to approve the lottery revenue estimates as recommended by staff and Treasurer Lillard seconded the motion. Comptroller Mumpower then asked for any additional insights from the staff discussions of the net lottery proceeds growth rate ranges. Mr. Thurman stated that the negative growth in the current fiscal year and the slower growth in fiscal year 2025-2026 was to recognize the large jackpots in fiscal year 2023-2024 that incentivized non-recurring revenue activities, as noted in the presenters' discussions, and were considered unusual events that would take two years of normal lottery activities to achieve those levels again. Mr. Thurman noted that the growth rate estimates were also based on the presenters' discussions of sports wagering providing competition for some of the normal participants in the lottery programs. Mr. Thurman then stated that the growth estimates for the later years reflected a normalization of growth moving forward. Comptroller Mumpower took the vote, and the motion was unanimously approved.

Pursuant to Tennessee Code Annotated 4-51-111(a)(3), the TELC may make a determination that returning a specific percentage of sales as net proceeds (35%) would not result in the maximum dollar amount of net proceeds being achieved. Comptroller Mumpower acknowledged receipt of a letter from TELC notifying the Board that TELC had determined that an amount that maximizes net lottery proceeds to the State of Tennessee Lottery for Education Account is projected to be less than 35% of lottery proceeds for fiscal year 2024-2025. The amount currently projected for the fiscal year ranges from $455 million to $475 million. The Board acknowledged the letter. No further action was necessary.

Comptroller Mumpower then recognized Mr. Allen Borden, Deputy Commissioner of Business, Community and Rural Development, Tennessee Department of Economic and Community Development ("ECD") and Ms. Jamie Stitt, Assistant Commissioner of Business and Workforce Development, ECD, to present FastTrack projects for consideration, and Ms. Jessica Johnson, Assistant Commissioner of Administration and Operations, ECD, to present the "FastTrack Report to State Funding Board" (the "Report"). Ms. Johnson reported that, as of the date of the October 2, 2024, Board meeting, the FastTrack balance was $613,183,244.38. Since that time, $12,120,000.00 in funds had been deobligated; $5,624,887.00 in new grants or loans greater than $750,000.00 had been approved; $5,292,775.00 in new grants or loans less than $750,000.00 had been approved; and $238,523.19 in funds had been spent on FastTrack administrative expenses, which resulted in an adjusted FastTrack balance available for funding grants and loans of $614,147,059.19 as of the date of the Report. Ms. Johnson reported that total commitments had been made in the amount of $441,611,282.72, representing 71.9% of the FastTrack balance, and resulted in an uncommitted FastTrack balance of $172,535,776.47. Ms. Johnson reported that the amount of proposed grants for projects to be considered at this meeting totaled $6,800,000.00, and if these projects were approved, the uncommitted balance would be $165,735,776.47, with a total committed balance of $448,411,282.72, which represented 73.0% of the FastTrack balance. Comptroller Mumpower then asked Mr. Borden to present the following FastTrack projects:

- **DENSO Manufacturing Athens Tennessee, Inc. – Athens (McMinn County)**
  FastTrack Job Training Assistance Grant $ 1,800,000.00

- **TruGreen Limited Partnership; Highwoods Realty Limited – Franklin (Williamson County)**
  FastTrack Economic Development Grant $ 1,000,000.00

- **Schneider Electric USA, Inc. – Mount Juliet (Wilson County)**
  FastTrack Economic Development Grant $ 4,000,000.00

Comptroller Mumpower made a motion to approve the projects, and Commissioner Bryson seconded the motion. Comptroller Mumpower then asked how ECD justified the use of the proposed economic development grant to TruGreen Limited to move the entity's headquarters from the City of Memphis to the City of Franklin. Mr. Borden responded that while technically the company's headquarters was in Memphis the HQ personnel worked remotely from across the country. Mr. Borden further responded that the creation of the new headquarters was an attempt to consolidate those jobs into one location. Mr. Borden then responded that any projects receiving grant funds must provide net new jobs for the state, and incentives are not provided to any project that would simply be moving jobs from one county to another county within the state. Comptroller Mumpower then asked if it would be fair to assume that some employees in the current headquarters in Memphis or working remotely across the country would be offered the opportunity to relocate to middle Tennessee to continue their employment. Ms. Stitt replied that it was ECD's understanding that there was one company team member living in Memphis with the remainder working remotely from Dallas, Florida and other locations across the United States. Ms. Stitt further replied that TruGreen Limited wanted to have all HQ personnel in a centralized location with a closer proximity to the state capitol and maintain the Memphis office as a support system.

The Board member packets included letters and FastTrack checklists signed by Mr. Stuart McWhorter, Commissioner, ECD, and incentive acceptance forms signed by company representatives. Comptroller Mumpower then inquired if the companies that had signed the incentive acceptance forms fully understood the agreements, and Mr. Borden responded affirmatively. Comptroller Mumpower then inquired if the checklists had been completed for the projects, and Mr. Borden responded affirmatively. Comptroller Mumpower then inquired if the projects included accountability agreements which would provide protections for the state in the event the entities could not fulfill the agreements, and Mr. Borden responded affirmatively. Comptroller Mumpower then called for a vote, and the motion to approve the projects was unanimously approved.

Comptroller Mumpower then recognized Mr. Charly Lyons, President and Chief Executive Officer of the Tennessee Central Economic Authority (the "Authority") and Ms. Kelsey Givens, Executive Administrator from the Authority, who presented a report on the Authority operations and financials over the past year. The report was provided to the Board members in their meeting packets. Mr. Lyons explained that the Authority is an economic development organization that operates in the counties of Macon, Smith, Sumner, Trousdale, and Wilson, with a primary focus on the rural counties. Mr. Lyons then stated, while unusual for an economic development organization, that the Authority owned property with an industrial park. Mr. Lyons then stated that the Authority had put a lot of resources into a port that would be opening in 2025 to serve the Upper Cumberland area providing another gateway for commodities transport. The Board acknowledged the report. No further action was necessary.

Comptroller Mumpower then recognized Mr. Ed Harries, Executive Director, and Mr. Adam Fleming, Director of Finance from the Tennessee State Veterans' Home Board (the "TSVHB"), who presented a report on TSVHB operations. The Board had received a financial report in their packet for the period July 1, 2024, through October 31, 2024. Mr. Fleming presented a summary of the financial position of the TSVHB noting the year-to-date losses of $1,079,411 due to the patient mix, occupancy rate, agency nurse costs, startup costs, and inflation. Mr. Harries then presented on the audit and regulatory compliance of the TSVHB noting the results of the audit for the fiscal year ended June 30, 2023, and the annual survey of each facility conducted by the Tennessee Department of Health in February of 2024. Mr. Harries noted that TSVHB had contract (agency) nurses in three of the homes, and they are working diligently to replace the agency nurses because of the negative financial impact on the organization and the lower quality of care.

Commissioner Bryson then confirmed with TSVHB that their reserves amounted to $7.6 million and that the TSVHB had a loss of approximately $1.1 million in the first four months of fiscal year 2024-2025. Commissioner Bryson then asked if that put the TSVHB on the trajectory to lose $3.3 million by the end of the fiscal year. Mr. Fleming responded that he believed once the TSVHB improved their census numbers and replaced the contracted agency nurses with internal staff the TSVHB should at least break even for the fiscal year. Mr. Fleming then stated that the higher expenses were driven by the use of agency nurses, but the TSVHB was on a good trajectory with hiring nurses aided by new employee engagement programs. Mr. Fleming further noted that the TSVHB had also experienced some unforeseen anomalous maintenance expenses.

Commissioner Bryson then stated that he was concerned as the TSVHB had only two years of reserves if the finances of TSVHB were to continue on the same track. Commissioner Bryson also stated that he was additionally concerned by the fact that more beds were coming online requiring more staffing when there was already a shortage of nursing staff requiring the expense of contract nurses. Commissioner Bryson then asked how they would keep up with staffing when adding the new beds, noting a concern at the Murfreesboro facility. Mr. Fleming responded that the Murfreesboro facility was the leader in agency (contract) nurse use and that 33% of every dollar spent on agency nurses could be saved with staffed nurses. Mr. Fleming then stated that most of the new bed potential was in the Cleveland facility which does not use contract nurses. Commissioner Bryson requested TSVHB send information to the members on how TSVHB expects to address the nursing staff issue and what revenues will look like going forward. Treasurer Lillard then noted concerns with the deficiencies reported in the Tennessee Department of Health annual surveys. Mr. Harries provided additional information related to the findings. Secretary Hargett asked about end-of-life care, and Mr. Harries discussed what was provided at the TSVHB facilities. The Board acknowledged the report, and no further action was necessary.

Comptroller Mumpower then recognized Mr. Michael Brakebill, Chief Investment Officer, and Mr. Markus Klar, Director of Fixed Income, from the Tennessee Treasury Department ("Treasury"), to present a report on the State Pooled Investment Fund ("SPIF") for the fiscal year ended June 30, 2024.

Mr. Klar made initial comments on the current market and Federal Reserve Board (the "Fed") policy. Mr. Klar noted the following:

- The Fed ended its fastest rate hike cycle in over forty years in July of 2023, bringing the Fed Funds Rate to 5.5% and maintaining that interest rate for the entire fiscal year.
- Following the beginning of fiscal year 2025, the Fed cut the Fed Funds Rate by 50 basis points in September and another 25-basis point cut following the election, with the current target rate of 4.75%. The Fed was able to cut the rate because of its progress in the fight against inflation.
- The Fed preferred measure of inflation was the Personal Consumption Expenses Index ("PCE"). The PCE was 4.36% at the beginning of fiscal year 2024 and at 2.63% at fiscal year-end . The target rate for the Fed is 2.00%.
- Most market participants were surprised by the strength of the economy in general. Despite elevated interest rate levels, the Gross Domestic Product (GDP) was higher than in fiscal year 2023. The average GDP growth rate was 3.00% for fiscal year 2024 compared to 2.80% for fiscal year 2023.
- The GDP growth had been elevated to some degree by a very high level of fiscal spending primarily directed at infrastructure and green energy investment. The private sector had also funneled heavy investment towards the artificial intelligence (AI) sector buying graphics cards and building data centers with surprising effects on the GDP.
- Despite the high GDP growth, the unemployment rate had increased. The rate was 3.6% at the beginning of the fiscal year and ended the fiscal year at 4.1%.
- It was difficult to ascertain the effect of the recent election on the economy moving forward. There were worries about the impact of the President Elect's policies on inflation. The yield curve had reacted significantly, pricing in an uptick in inflation pushing the long end of the yield higher despite the Fed starting to cut rates.

Mr. Klar then presented a report on the annual investment activity of the State Pooled Investment Fund (the "SPIF") for fiscal year 2024. Mr. Klar noted the following:

- The high interest rates helped with the performance of the SPIF with a return of 5.45% for fiscal year 2024 after expenses, which was over 170 basis points higher than the previous fiscal year and the highest return in over 15 years. The SPIF benchmark (30-day U.S. Treasury Bill) came in at 5.51%.
- The SPIF maintained a monthly average fund size of approximately $35,000,000,000 of invested assets for fiscal year 2024 compared to approximately $30,000,000,000 the prior fiscal year, a growth of 17%. Mr. Klar noted that if one compared the SPIF size from the end of fiscal year 2023 to end of fiscal year 2024 the growth had plateaued at about 4%.
- The SPIF can be subdivided into three separate components, the general fund, the Local Government Investment Pool ("LGIP"), and other state funds that are restricted. The general fund had maintained its size at approximately $20,500,000,000. The LGIP saw an inflow of about $1,300,000,000 producing most of the total SPIF growth. The restricted funds were elevated from the presence of stimulus funds that were allocated for specific uses but still remained in the SPIF. The stimulus funds were expected to be spent over the next two years.
- The portfolio composition of the SPIF changed with an increase of 2% in the allocation to the two safest sectors, U.S. Treasuries and U.S. Agencies, to a total of 89% of the invested amounts from fiscal year 2023 to fiscal year 2024. The growth in the allocation to those components came at the expense of investments in commercial paper that was down to 4% of the total composition. Due to spreads being tight and the issuance being low among Treasury's approved list of commercial paper issuers, commercial paper was not as attractive an investment as in prior years.
- The portfolio composition of collateralized CDs also increased from 1.7% in fiscal year 2023 to 2.0% in fiscal year 2024.
- The weighted average maturity (the "WAM") of the SPIF had a range of 38 to 51 days throughout fiscal year 2024 with an average of approximately 45 days. This was very similar to the prior year's WAM of 46 days.
- The weighted average life (the "WAL") of the SPIF for fiscal year 2024 was the same as the WAM. The only difference in the calculation of the WAL from the WAM is the treatment of floating rate securities which can have long term maturities with short durations. The WAM considers the floating rate security's term to be the reset time for the interest rate while the measure of WAL considers the security's term to be the time until the instrument matures, and you receive your money back. The SPIF's portfolio had no floating rate securities resulting in the curves for WAM and WAL being the same for fiscal year 2024.
- There were two measures of the liquidity of the SPIF, the daily liquidity and the weekly liquidity. The daily liquidity was quite volatile during the fiscal year with the daily liquidity starting the fiscal year around 60%, dropping to around 25% during the middle of the fiscal year and rebounding to around 50% by the end of fiscal year 2024. The volatility in the daily liquidity was the result of the trade-offs between investing in U.S. Treasuries and U.S. Agencies. All U.S. Treasury Bills are considered daily liquidity regardless of term under GASB Statement 79, and U.S. Agencies are not considered to be daily liquid. The volatility in the daily liquidity of the SPIF was therefore the result of which investment vehicle was more attractive at the time. The daily liquidity was at least 150% above the required daily minimum for the entire fiscal year. The weekly liquidity was at least 100% above the required minimum for the entire fiscal year. The minimum standards for daily liquidity and weekly liquidity, as determined by GASB Statement 79 are 10% and 30% respectively.

Mr. Klar noted that the Intermediate Term Investment Fund (“ITIF”) had been liquidated at the beginning of fiscal year 2023, therefore there would be no report provided. The Board acknowledged the report. No further action was necessary.

After Comptroller Mumpower requested other business and heard none, he made a motion to adjourn the meeting, and Secretary Hargett seconded the motion. The motion was unanimously approved, and the meeting was adjourned.

Approved this ______ day of ______________________ 2024.

Respectfully submitted,

Sandra Thompson
Assistant Secretary

FastTrack Report to State Funding Board

12/16/2024

1.	Previous FastTrack Balance, as of Last Report	614,147,059.19	
2.	+ New Appropriations:	0.00	
3.	+ Newly Deobligated Funds:	99,939.05	
4.	+ Funds Transferred to FastTrack:	0.00	
5.	- Funds Transferred from FastTrack:	0.00	
6.	- FastTrack Grants or Loans Approved Greater Than $750,000:	0.00	
7.	- FastTrack Grants or Loans Approved Less Than $750,000:	(987,740.00)	
8.	- FastTrack Administration	(145,557.98)	
9.	Adjusted FastTrack Balance Available for Funding FastTrack Grants or Loans:		613,113,700.26
10.	Total Amount of Commitments:	437,897,042.72	
11.	Uncommitted FastTrack:		175,216,657.54
12.	Percentage Committed:		71.4%
13.	Amount of Proposed Grants or Loans:	12,000,000.00	
14.	Uncommitted FastTrack Balance if Proposed Grants or Loans Approved:		163,216,657.54
15.	Percentage Committed:		73.4%

See next page for explanations of the above questions.

I have reviewed the above and believe it to be correct:

Date: 12·11·24

Commissioner of Economic and Community Development

Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

December 16, 2024

Comptroller Jason Mumpower
First Floor, State Capitol
Nashville, TN 37243

Dear Comptroller Mumpower:

The Department of Economic & Community Development (the "Department") seeks approval by the State Funding Board (the "Board") pursuant to T.C.A. § 4-3-717(a) authorizing FastTrack infrastructure, training, and economic development grants where there is a commitment by an eligible business to create or retain private sector jobs or engage in private investment or where the Commissioner of Economic and Community Development determines that such investment will have a direct impact on employment and investment opportunities in the future. The following projects meet the statutory requirements, and the Department presents these projects to the Board pursuant to the mandates of T.C.A. § 4-3-717(e), which requires approval of grants and loans under the FastTrack Infrastructure Development Program, the FastTrack Job Training Assistance Program, and the FastTrack Economic Development Program that exceed $750,000 per eligible business within a three (3) year period.

1. AAON, Inc. – Memphis (Shelby County)

Based in Tulsa, Oklahoma, AAON, Inc. is a global leader in HVAC solutions, employing nearly 4,000 people worldwide. The company engineers, manufactures and sells premium HVAC equipment consisting primarily of semi-custom and custom rooftop units, data center cooling solutions, cleanroom systems, packaged outdoor mechanical rooms, air handling units, makeup air units, energy recovery units, condensing units, geothermal/water-source heat pumps, coils and controls.

AAON has selected the former American Snuff facility in Memphis to house its new HVAC production operations. The expansion to Tennessee will position AAON to better serve its customer base, and upon completion, the 787,000-square-foot facility will produce various types of thermal management equipment for data centers under the BASX brand, including air-cooled systems, computer room air handlers (CRAHs), direct evaporative coolers and liquid cooling distribution units (CDUs).

AAON, Inc. has committed to create 828 net new jobs and make a $238,050,000 capital investment within five (5) years. The company will have an average hourly wage of $28.25 for the new positions.

Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

FastTrack Economic Development Grant Funds will help offset expenses such as building retrofit, building expansion, building improvements and acquisition of real property for a total of $12,000,000. **($12,000,000)**

Total FastTrack funds for this project - $12,000,000

Sincerely,

Stuart McWhorter

SM/js

State Funding Board FastTrack Checklist

FastTrack grants or loans exceeding seven hundred fifty thousand dollars ($750,000) per eligible business within a three-year period require state funding board approval T.C.A. § 4-3-717(e).

Please identify the type of FastTrack funding requested and the grant or loan amount:

TYPE OF FUNDING		RECIPIENT ENTITY	GRANT AMOUNT	LOAN AMOUNT
	INFRASTRUCTURE			
	TRAINING*			
	ECONOMIC DEVELOPMENT	Economic Development Growth Engine Industrial Development Board for the City of Memphis & County of Shelby, TN	$12,000,000	
TOTAL			$12,000,000	

(Recipient entity must be a local government, their economic development organization, a political subdivision of the state, or an eligible business beneficiary [for training only].)

***ELIGIBLE BUSINESS BENEFICIARY (if different than Recipient Entity):** AAON, Inc.

Complete the General Statutory Compliance section below and the section(s) that corresponds with the type of funding indicated above. General Statutory Compliance items apply to all types of funding represented above.

GENERAL STATUTORY COMPLIANCE

1. Will this new commitment cause the FastTrack appropriations to be over-committed *T.C.A. § 4-3-716(g)*? If "yes," state funding board concurrence is required. Attach the commissioner's rationale used to determine the amount of actual commitments unlikely to be accepted based on historical program trends (maximum allowed is 130% of the appropriations available for new grants). ☐ Yes ☒ No

2. Will this new commitment place in jeopardy compliance with the legislative intent that actual expenditures and obligations to be recognized at the end of the fiscal year not exceed available reserves and appropriations of the programs *T.C.A. § 4-3-716(g)*? ☐ Yes ☒ No

3. Does this grant or loan comply with the legislative intent to distribute FastTrack funds in all areas of the state to the extent practicable *T.C.A. § 4-3-716(f)*? ☒ Yes ☐ No

4. Has the commissioner of economic and community development provided to the commissioner of finance and administration (with copies transmitted to the speaker of the house of representatives, the speaker of the senate, the chairs of the finance, ways and means committees, the state treasurer, the state comptroller, the office of legislative budget analysis, and the secretary of state) the most recent quarterly report regarding the status of the appropriations for the FastTrack fund *T.C.A. § 4-3-716(h)*? ☒ Yes ☐ No

Identify which of the following apply:

5. a. Does the business export more than half of their products or services outside of Tennessee *T.C.A. § 4-3-717(h)(1)(A)*? ☒

   b. Do more than half of the business' products or services enter into the production of exported products *T.C.A. § 4-3-717(h)(1)(B)*? ☐

   c. Does the use of business' products primarily result in import substitution on the replacement of imported products or services with those produced in the state *T.C.A. § 4-3-717(h)(1)(C)*? ☐

   d. Has the commissioner of economic and community development determined the business has other types of economic activity that contributes significantly to community development education and has a beneficial impact on the economy of the state *T.C.A. § 4-3-717(h)(1)(D)*? If "yes," attach the commissioner's rationale. ☐

Applicant must answer "Yes" to a <u>or</u> b.

6. a. Is there a commitment by a responsible official in an eligible business for the creation or retention of private sector jobs and investment *T.C.A. § 4-3-717(a)*? If "yes," attach documentation. ☒

   b. Has the commissioner of economic and community development determined that this investment will have a direct impact on employment and investment opportunities in the future *T.C.A. § 4-3-717(a)*? If "yes," attach the commissioner's rationale. ☐

TRAINING

7. Will the grant support the training of new employees for locating or expanding industries *T.C.A. § 4-3-717(c)(1)*? ☐ Yes ☐ No

8. Will the grant support the retraining of existing employees where retraining is required by the installation of new machinery or production processes *T.C.A. § 4-3-717(c)(2)*? ☐ Yes ☐ No

INFRASTRUCTURE

9. Is the land to be improved publicly owned and not subject to a purchase option by a private entity where the purchase option covering the land may be exercised within a period of five (5) years following the date of the infrastructure grant? *T.C.A. § 4-3-717(b)(2-3)*? ☐ Yes ☐ No

10. Is this grant or loan made to a local government, a local government economic development organization or other political subdivision of the state *T.C.A. § 4-3-717(d)(1)*? ☐ Yes ☐ No

11. In determining the level of assistance for infrastructure and site preparation, was consideration given to local ability-to-pay with areas of lesser ability being eligible for higher grant rates *T.C.A. § 4-3-717(f)*? ☐ Yes ☐ No

Applicant must answer "Yes" to a <u>or</u> b.

12. a. Will the grant or loan address infrastructure, such as, water, wastewater, transportation systems, line extensions, industrial site preparation or similar items where it is demonstrated that such improvements are necessary for the location or expansion of business or industry *T.C.A. § 4-3-717(h)(2)*? ☐

    b. Has the commissioner of economic and community development determined the funds make significant technological improvements such as digital switches or fiber optic cabling that would have a beneficial impact on the economy of this state *T.C.A. § 4-3-717(h)(2)*? If "yes," attach the commissioner's rationale. ☐

ECONOMIC DEVELOPMENT

13. Is this grant or loan made to a local government, a local government economic development organization or other political subdivision of the state *T.C.A. § 4-3-717(d)(1)*? ☒ Yes ☐ No

14. Is this grant or loan eligible for FastTrack infrastructure development or job training assistance funds *T.C.A. § 4-3-717(d)(1)*? ☐ Yes ☒ No

15. Will this grant or loan be used to facilitate economic development activities that include, but are not limited to, retrofitting, relocating equipment, purchasing equipment, building repairs and improvements, temporary office space or other temporary equipment related to relocation or expansion of a business *T.C.A. § 4-3-717(d)(1)*? ☒ Yes ☐ No

16. Will the funds be used in exceptional circumstances wherein the funds will make a proportionally significant economic impact on the affected community *T.C.A. § 4-3-717(d)(1)*? If "yes," attach an explanation of the exceptional circumstances and the proportionally significant economic impact. ☒ Yes ☐ No

17. The department of economic and community development is required to notify and provide the state funding board a detailed written explanation of the purpose for which this economic development grant or loan is being awarded or used *T.C.A. § 4-3-717(d)(2)*. Attach documentation. ☒ Yes ☐ No

I have reviewed this document and believe it to be correct.

[signature]
Commissioner of Economic and Community Development

12-11-24
Date

Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

November 20, 2024

INCENTIVE ACCEPTANCE FORM

This form serves as notice that AAON, Inc. intends, in good faith, to create 828 private sector jobs in Memphis, Shelby County and make a capital investment of $238,050,000 in exchange for incentives that will be memorialized in a grant agreement between AAON, Inc. and the State of Tennessee. New jobs must be in addition to the company's baseline of 0 jobs at the project site in Tennessee.

ECD OFFER SUMMARY

FastTrack Economic Development Grant:	$ 12,000,000
Total ECD Commitment:	**$ 12,000,000**

Please sign your name in the space below to signify AAON, Inc.'s acceptance of ECD's offer set forth above and return it by February 18, 2024, to:

Tennessee Department of Economic and Community Development
Attn: Sydney Forrest
312 Rosa Parks Avenue, 27th Floor
Nashville, TN 37243
Sydney.Forrest@tn.gov

Please note that this Incentive Acceptance Form does not give rise to any legal obligations on the part of the State of Tennessee, any department or instrumentality of the State of Tennessee (including ECD and the Department of Revenue) or the Company. The terms and conditions governing the award of the incentive package described herein will be set forth in a grant agreement, the form of which will be provided to the Company following the delivery of an executed copy of the Incentive Acceptance Form. The incentives described in this letter are based upon the representations made by the Company to ECD regarding the project. ECD reserves the right to revise the incentives described in this Incentive Acceptance Form if any aspect of the project changes after receipt of this form. Changes that could result in revision of incentives include, but are not limited to, number of jobs, amount of capital investment, composition of company vs. contract jobs, average wage, or location of the project. ECD reserves the right to recover funds for this project if grant contracts are not executed within one year of the date of signature below.

Signature: Rebecca Thompson
(Authorized Representative of Company)

Date: 12/10/24

Department of Economic and Community Development

Stuart McWhorter
Commissioner

Bill Lee
Governor

December 16, 2024

Comptroller Jason Mumpower
First Floor, State Capitol
Nashville, TN 37243

Dear Comptroller Mumpower:

Pursuant to Tennessee Code Annotated §4-3-717 (d)(1)-(2), I am writing to inform you that the Department of Economic and Community Development is awarding a FastTrack Economic Development Grant to the Industrial Development Board of Economic Development Growth Engine Industrial Development Board for the City of Memphis & County of Shelby, TN for the benefit of AAON, Inc. in the amount of $12,000,000 to offset the costs AAON, Inc. will incur in building retrofit, building expansion, building improvements and acquisition of real property. The project activities would not be eligible for the FastTrack Infrastructure Development Program.

This project will yield a proportionately significant impact on this community due to the number of net new, high wage jobs and capital investment. AAON, Inc. has committed to create 828 net new jobs and make a $238,050,000 capital investment within five (5) years. The company will have an average hourly wage of $28.25 for the new positions. This project will have an exceptional impact on this area of the state.

Sincerely,

Stuart McWhorter

SM/js

Tennessee Comptroller of the Treasury

Jason E. Mumpower
Comptroller

MEMORANDUM

Date: December 16, 2024

To: Members of the Tennessee State Funding Board

From: Sandi Thompson, Director, Division of State Government Finance

Re: Staff Recommendation to the Tennessee State Funding Board on Selection of Financial Advisor

On Monday, October 7, 2024, the Division of State Government Finance (SGF) distributed a request for proposal (RFP) seeking a financial advisor for the State to serve the State Funding Board (for the state's general obligation debt) and the two State-level revenue debt issuers: Tennessee Local Development Authority (TLDA) and Tennessee State School Bond Authority (TSSBA) (together "the Issuers") for the period commencing January 1, 2025, through December 31, 2027.

The RFP was emailed to the following 13 independent financial advisory firms. The list of firms was compiled by SGF from The Bond Buyer's list of "Top Financial Advisors for the First Nine Months 2024" and included other financial advisory firms doing business in the state of Tennessee.

Acacia Financial Group
BLX Group
CSG Advisors, Inc
Cumberland Securities
Frasca & Associates, LLC
Hilltop Securities
Kaufman, Hall & Assoc.
KNN Public Finance
Lamont Financial
Kidwell & Company
Piper Sandler
Public Financial Management, Inc. (PFM)
Public Resources Advisory Group (PRAG)

Questions regarding the proposal from potential respondents were due by email on Monday, October 14, 2024. There were no questions received. However, our office received an email from Kaufman, Hall & Assoc. thanking us for including them in the RFP process. They stated that they were politely declining to respond to the RFP.

The Technical and Cost proposals were due by 12:00 PM, noon CT, Friday, November 1, 2024. One proposal was received from PFM Financial Advisors, LLC (PFM), on Thursday, October 31, 2024. The Technical Proposal was emailed to the staff of the board members for their review on November 15, 2024. The Cost Proposal was opened on Friday, November 22, 2024, to prepare an analysis of the costs (and comparison to the prior contract term costs) to be provided to staff at the meeting to be held on Monday, December 9, 2024.

At the meeting on Monday, December 9, 2024, staff discussed the proposal. It was communicated, and all agreed, that since one proposal was received, there would be no in-person interviews. SGF noted that PFM had provided exemplary services to the state over the past five years. The following attributes were highlighted to support the strengths of the services that PFM had provided:

- Excellence in structuring the state's financial transactions
- Readily accessible analysts to respond to, and provide assistance in, various requests/needs
- Depth of professional expertise and resources
- Guidance in securing proper short-term, long-term financing, and credit products (RCF)
- Knowledge of and commitment to the Tennessee market, market participants, etc.

Based on the results of the review of the technical response, staff concluded that PFM, as the state's current financial advisor; i) was the only firm to respond to the RFP; ii) is the largest financial advisory firm in the country; iii) has the largest amount of expertise and resources with responsive staff/analysts, and iv) is the most qualified to serve the Issuers.

An analysis was performed of the current cost proposal, and it was noted that the cost of the contract in the amount of $708,314 for the three-year contract period was $6,646 less than the previous three-year contract amount of $714,960. It was determined that most of the variance in cost was a combination of an increase in retainer fees in the amount of $12,854, a decrease in the advisory fees (transactional fees) in the amount of $46,500, and an increase in expenses in the amount of $27,000. The decrease in advisory fees reflected the impact of the Tax Reform Act of 2018 with the elimination of tax-exempt advance refundings. Based on a preliminary review of the proposal, it appeared that the pricing was reasonable.

Based on the foregoing discussion, staff concluded that it would make its recommendation for PFM to serve as financial advisor for the period of January 1, 2025, through December 31, 2027. This recommendation is to be presented to the State Funding Board at its meeting on December 16, 2024, as well as the Tennessee State School Bond Authority and the Tennessee Local Development Authority at their scheduled meetings on that date as well.

COST PROPOSAL

(Note, all fees and expenses must be disclosed in this form)

Proposer: PFM Financial Advisors LLC

(Firm name)

By: Lauren S. Lowe

(signature)

ANNUAL BUDGETED BILLINGS*

	Calendar Year 2025	Calendar Year 2026	Calendar Year 2027
Advisory Fee	$80,000	$130,000	$225,000
Advisory Fee Expenses	$7,000	$14,000	$21,000
Special Project	$22,500	$0	$0
Retainer Fee	$64,800	$66,096	$67,418
Retainer Fee Expenses	$3,500	$3,500	$3,500
TOTAL	$177,800	$213,596	$316,918

* Any subcontracted financial advisory services must be included in the contract cap.

COST PROPOSAL (cont'd)

HOURLY RATES*

Names	Calendar Year 2025	Calendar Year 2026	Calendar Year 2027
Managing Directors	$380	$388	$395
Lauren Lowe	$380	$388	$395
Joshua McCoy	$380	$388	$395
Todd Fraizer, CFA	$380	$388	$395
Ryan Conway	$380	$388	$395
Daniel Kozloff	$380	$388	$395
Matthew Eisel, CFA	$380	$388	$395
Sarah Schirmer[(a)]	N/A[(a)]	N/A[(a)]	N/A[(a)]
Directors			
George Hu[(a)]	N/A[(a)]	N/A[(a)]	N/A[(a)]
Senior Managing Consultants	$275	$281	$286
Marcie Lewis	$275	$281	$286
Elise Lomel	$275	$281	$286
Senior Analysts/Analysts	$240	$245	$250
Albert Brown	$240	$245	$250

* Hourly Rate(s) per contract year for each employee listed in II. B. above

(a) Services provided by PFM affiliates(if requested) are provided upon request and under separate agreement and fee schedules.

1. Are the hourly rates listed above applicable for special projects?

The hourly rates for special projects is $375/hour.

2. Would the financial advisory fee vary based on the identity of the Issuer, the size or structure of the issue and whether the sale is competitive or negotiated?

Yes, budget assumes a minimum fee of: $65,000 for State of TN General Obligation & TLDA transactions & $80,000 for TSSBA transactions.

MAXIMUM CONTRACT CAP

State procurement policy requires that every contract have a maximum cap for the period of the contract. Please provide your not-to-exceed cap for services and for expenses for the contract period January 1, 2025, through December 31, 2027.

Advisory Fee	$ 457,500
Retainer Fee	$ 198,314
Expenses	$ 52,500
Total	$ 708,314

1. As a service provider do you believe there is a more efficient way to price your services? If so, please describe this pricing and quantify the savings benefit to the Issuers.

Many of PFM's FA client's transaction fees are based on the size of the financing; however, we are not proposing an alternative to how the State and PFM's contract is currently structured.

Financial Advisor Request for Proposal
Cost Proposal Analysis

Cost Proposal 2020

	FY 2020 (6 months)	FY 2021	FY2022	FY2023 (6 months)
Retainer Fees	$ 30,000.00	$ 61,200	$ 62,424	$ 31,836
per month	5,000	5,100	5,202	5,306
Retainer Fee Expense	1,750	3,500	3,500	1,750
per month	292	292	292	292
Advisory Fees		75,000	85,000	320,000
per issuance		75,000	85,000	106,667
Advisory Fee Expenses		3,000	3,000	9,000
per issuance		3,000	3,000	3,000
Special Project	24,000			
TOTAL	$ 55,750.00	$ 142,700.00	$ 153,924.00	$ 362,586.00

Cost Proposal 2025

	2025	2026	2027
Retainer Fees	$ 64,800	$ 66,096	$ 67,418
per month	5,400	5,508	5,618
Retainer Fee Expense	3,500	3,500	3,500
per month	292	292	292
Advisory Fees	80,000	130,000	225,000
per issuance (TSSBA)	80,000		80,000
per issuance (GO)		65,000	65,000
per issuance (TLDA)		65,000	
Advisory Fee Expenses	7,000	14,000	21,000
per issuance	7,000	7,000	7,000
Special Project	22,500.00		
TOTAL	$ 177,800.00	$ 213,596.00	$ 316,918.00

TENNESSEE COMPTROLLER OF THE TREASURY

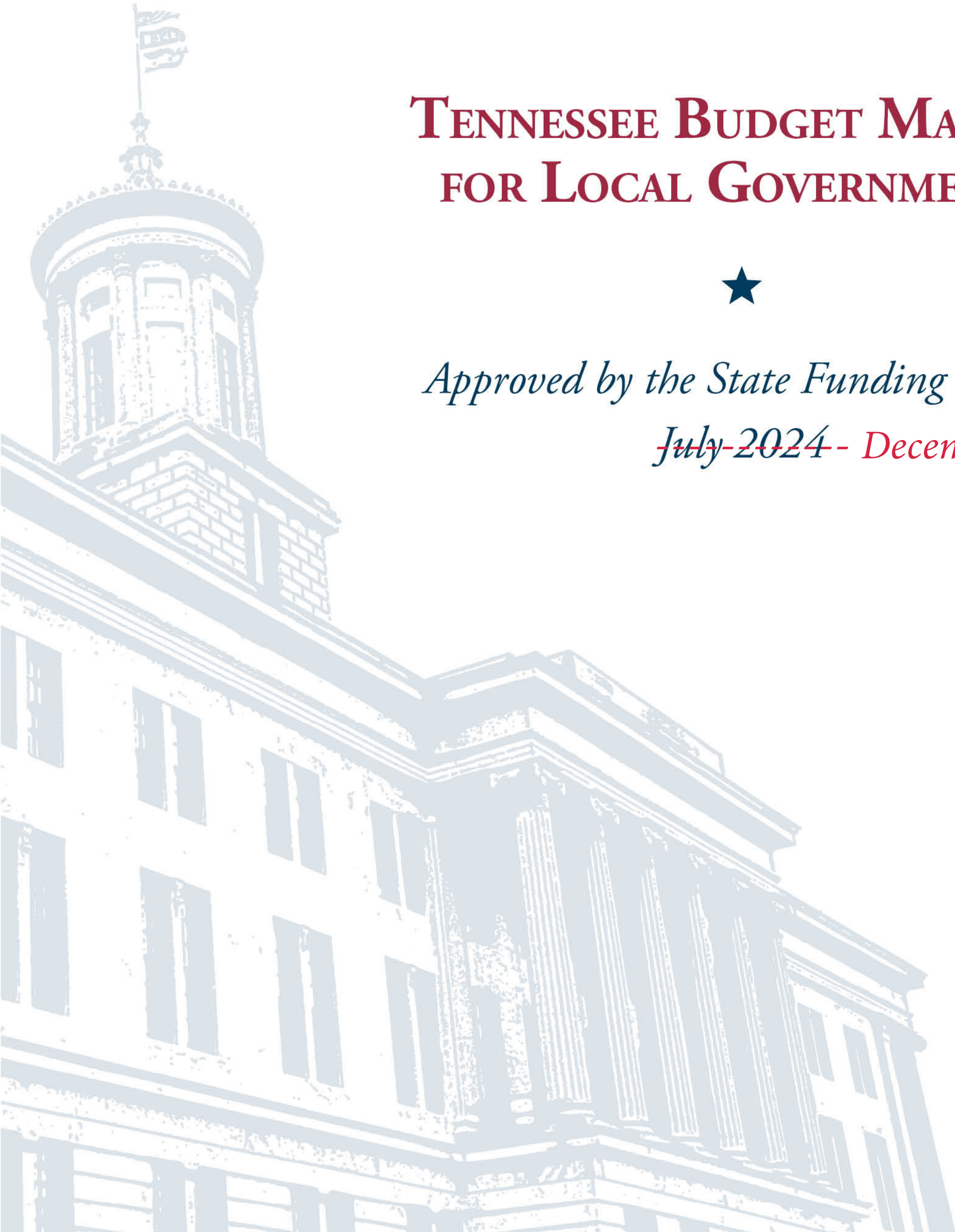
JASON E. MUMPOWER
Comptroller

Date:	December 16, 2024
To:	Members of the State Funding Board
From:	Mr. Steve Osborne, Assistant Director, Division of Local Government Finance
CC:	Ms. Sheila Reed, Director, Division of Local Government Finance
Subject:	Update to the *Tennessee Budget Manual for Local Governments*

The Comptroller's Division of Local Government Finance (LGF) presents the following changes to the *Tennessee Budget Manual for Local Governments* for approval by the Tennessee State Funding Board:

Page(s)	**Description**
6-7	Updates annual budget submission requirements.
8	Adds additional examples for conditionally approved budgets.
9-10	Updates available online resources provided by LGF.
Various	Removes reference to LGF's email address for budget submissions in anticipation of an upcoming online submission process.
Various	Replaces, removes, and corrects different wording throughout the manual as part of our normal editing process.

Tennessee Comptroller of the Treasury



Tennessee Budget Manual for Local Governments

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Approved by the State Funding Board

~~July 2024~~ - December 2024

Jason E. Mumpower
Comptroller of the Treasury

Division of
Local Government Finance

Contents

Section 1 – Introduction

Purpose

The purpose of the Tennessee Budget Manual for Local Governments (the "Manual") is to provide uniform guidance for the annual budget process in Tennessee's local governments. The Manual is not designed to be all-inclusive but to provide guidance and requirements related to specific budget issues with an emphasis on areas of oversight by the Comptroller of the Treasury.

The Manual is divided into the following areas:

- State Oversight and Support – Sections 2 and 3
- Budget Basics – Sections 4 and 5
- The Budget Process – Section 6
- Best Practices – Section 7

The Manual, as approved by the State Funding Board on ~~July 22, 2024~~ December 16, 2024, is the fourth~~third~~ edition issued pursuant to Tenn. Code Ann. §§ 4-3-305 and 9-21-403.

Applicability

Any reference to the term "local government" applies to the following entities:

- Counties
- Municipalities
- Metropolitan Governments
- Utility Districts
- Municipal Energy Authorities
- Water and Wastewater Treatment Authorities
- Other entities that have a financial relationship to a county, municipality, metropolitan government, utility district, municipal energy authority, or water and wastewater authority, such as joint ventures created by an interlocal agreement.

Section 2 – Comptroller Oversight and Support

State legislators recognize the importance of financial stability and resilience for Tennessee's local governments and have passed laws that strengthen financial accountability for public dollars. Some of those laws specifically address budgetary oversight and support from the Comptroller of the Treasury.

Forms, Procedures, and Manuals

The Comptroller's Office has authority to prescribe forms and procedures and provide guidance manuals for the preparation of annual budgets by local governments (Tenn. Code Ann. § 4-3-305).

The Comptroller's Office is also responsible for providing guidance on the form of the budget, including supplemental schedules, as necessary, to demonstrate local governments have adequate cash to meet their current obligations, including principal and interest, as applicable. See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-403, 68-221-611, and 68-221-1306.

Balanced Budget Oversight for Local Governments

Adopting a balanced budget is the responsibility of the governing body; however, if the governing body fails to fulfill this responsibility, our Office has the authority to take measures to ensure a local government pays its obligations, including principal and interest requirements. Pursuant to Tenn. Code Ann. § 9-21-403, the Comptroller has the authority to direct a local government to balance its budget by adjusting estimates to reduce spending or by raising property taxes to increase available cash to meet its obligations.

A local government may be subject to other requirements of the Comptroller as part of this oversight, including, but not limited to, the following:

- implementation of a corrective action plan;
- requesting approval from the Comptroller prior to disbursement of funds;
- building and maintaining cash balances sufficient for operations and contingencies;
- additional reviews, audits, and inquiries; and
- additional periodic reporting requirements.

Annual Budget Oversight

Pursuant to state law, local officials are required to adopt a balanced annual budget and submit the budget to our Office for approval. The annual budget review and approval process can be divided into three basic steps:

✓ STEP ONE – Submission Requirements for Approval

Due Date

Prior to the beginning of each fiscal year, a local government should adopt a budget that meets all legal and program requirements. ~~and email it,~~ The budget, along with the other required documents described below, should be electronically submitted to the Division of Local Government Finance ~~at LGF@cot.tn.gov~~ within 15 days after adoption. A budget calendar should be followed during the planning and adoption process.

If a budget is not submitted to our Office within 2 months of the beginning of the fiscal year, the budget cannot be approved and your local government may not issue debt or financing obligations. In the case of an emergency, our Office may waive the requirement of budget approval to allow your local government to enter into emergency financial transactions. See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-404, 68-221-611, 68-221-1306.

Required Submission Information – Municipalities, Counties, and Metropolitan Governments

1. Cover letter on the local government's letterhead.
    a. Complete contact information should be included. At a minimum, email addresses for the following individuals must be identified:
        i. Mayor or County Executive
        ii. City Manager, as applicable
        iii. Finance Director or equivalent position

2. Signed/certified copy of the appropriation act and tax levy (ordinance or resolution).

3. Detailed budgets for all funds, including proprietary/enterprise funds and school funds, as applicable.

4. Copy of the annual adopted budget for any entity that results in a financial benefit or financial burden to your local government. Refer to Section 6 for guidance in making this determination.

5. Budget ~~Summary Schedule~~Submission Worksheet.

6. Cash Flow Forecast Schedules for:
    a. *Operating funds* with a budgeted ending cash balance of less than 15% of annual expenditures.
    b. *Operating funds* that reflected an ending cash balance of less than 15% of annual expenditures in the prior year's audit.
    c. Any fund that received proceeds from a tax and revenue anticipation note (TRAN) for the past two consecutive years.
    d. Any fund as requested by our Office during our review of the annual budget.

e. ~~All operating funds if the prior year's audit has not been issued and is late.~~

Operating Funds are defined as funds that account for expenditures/expenses that are recurring or day-to-day, such as salaries, benefits, utilities, etc. The General Fund and General Purpose School Fund will always meet the definition of an operating fund. Special Revenue Funds that meet the definition of an operating fund but nonetheless maintain a low cash balance due to the nature of the fund are excluded. For example, a special revenue sanitation fund that receives General Fund transfers to subsidize the fund. In that situation, the cash flow will be addressed in the analysis for the General Fund.

7. ~~Schedule of Outstanding Debt and Budgeted Debt Service, as applicable.~~

8. ~~Revenue forecasts for property and sales tax for the budget year, as applicable.~~

~~A~~ Example budget resolutions and ordinances as well as Microsoft Excel templates that include~~s~~ the required ~~schedules~~ Budget Submission Worksheet and Cash Flow Schedules referred to above are~~is~~ available on the Comptroller of the Treasury's website at: tncot.cc/budget.

Required Submission Information – Utility Districts, Municipal Energy Authorities, Water and Wastewater Treatment Authorities, and Other Water and Wastewater Treatment Entities Created by Interlocal Agreement.

Each year your local government is required to submit the following information electronically to the Division of Local Government Finance ~~at LGF@cot.tn.gov~~:

1. Cover letter on the local government's letterhead.
   a. Complete contact information should be included. At a minimum, email addresses for the following individuals must be identified:
      i. Chairman or President of the Board
      ii. General Manager

2. Resolution adopting the budget.
   a. The governing board must take official action by resolution to adopt its annual budget. An example resolution may be found on our website.

3. Budget document that identifies all anticipated revenues by source and all anticipated expenses by type of expense. If the local government has multiple funds (or systems), a budget for each fund (or system) must be submitted.

4. Budget Submission Worksheet ~~Schedule of Outstanding Debt and Budgeted Debt Service, as applicable~~.

~~Budgets should be submitted as one document.~~ Further information concerning budgeting requirements, a budget submission checklist, budget submission worksheet, and a model budget and resolution may be found on the Comptroller of the Treasury's website at tncot.cc/budget.

✓ **STEP TWO – Approval by the Comptroller's Office**

1. The budget will be reviewed within 30 days of receipt by the Division of Local Government Finance. If the budget submission is incomplete, the 30-day review period will not begin until the needed information is received.

2. With regard to programs included in the budget, such as education, roads, and corrections, we do not make any attempt to determine that the local government has complied with specific program statutes or guidelines or with any financing requirements prescribed by any state or federal agency. Additionally, local officials are required to ensure the budget remains balanced throughout the fiscal year and that all maintenance of effort requirements are met—our Office does not review or approve any maintenance of effort programs.

3. Once the review process is complete, your local government will receive a letter via e-mail from the Division of Local Government Finance indicating the results of our review as either: approved, conditionally approved, or not approved.

   Approved: An approved budget means that based upon our review, it was determined that projected revenues and other available funds are sufficient to meet anticipated expenditures (or expenses). An approved budget may still result in recommendations to your local government. An example recommendation includes developing a process to monitor the budget throughout the fiscal year.

   Conditionally Approved: A conditional approval results when there is some required action by your governing body that must be fulfilled before the budget can be approved. ~~An~~ ~~e~~Example conditional approvals include~~s~~ when our Office requires a budget amendment to legally appropriate principal and interest payments that were inadvertently omitted from the budget ordinance or resolution; ~~.~~to correct an unbalanced budget; to eliminate a financial distress concern; and to reflect reasonable estimates. Your local government will have 45 days after our letter is issued to meet the condition(s). If any~~the~~ condition for approval is not met within that timeframe, the budget will not be approved.

   For Municipalities: Pursuant to Tenn. Code Ann. § 9-21-108, amendments required by the Comptroller's Office as a condition for budget approval may be passed by resolution instead of ordinance (See sample resolution in Appendix 9).

   Not Approved: A budget that is not approved may be the result of a delinquent budget, a delinquent audit, continued noncompliance issues while under the oversight of the Tennessee Board of Utility Regulation, noncompliance with the Certified Municipal Finance Officer Act, noncompliance with statutorily-required utility training, or failure to meet conditions for approval. State legislators have recognized the importance of having an approved budget by passing legislation specifying that if your budget is not approved, your local government may not issue debt or financing obligations. In the case of an emergency, our Office may waive the requirement of budget approval to allow your local government to enter into emergency financial transactions. See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-404, 68-221-611, and 68-221-1306.

✓ STEP THREE – Requirements after Approval

1. The budget is based upon estimates, and it may become apparent during the monitoring of the budget that an amendment is necessary. Budget amendments must be sent to our Office for acknowledgement after they are approved by the local governing body. Our Office only requires your local government to send budget amendments that impact total appropriations for an organizational unit (or department). Refer to Section 6 for a description of the legal level of budgetary control and a discussion on budget amendments.

2. If there are conditions for approval, those will have to be met. If we make recommendations, those should be followed. If you have any questions related to the items addressed in the review letter, please contact your Analyst in the Comptroller's Division of Local Government Finance responsible for your region. A contact list is available at tncot.cc/lgf-contacts.

3. If our review of the budget results in concerns about the local government's financial health, we may continue to work closely with local officials to help them restore stability to their finances and develop policies and procedures to support a strong financial future.

Annual Budget Certificate

Local officials that adopt budgets meeting the following specific criteria are awarded an annual certificate from the Comptroller of the Treasury:

- The budget was adopted on or before the fiscal year end;
- The budget was filed with the Division of Local Government Finance within 15 days of adoption;
- No issues of concern were raised during our review of the budget*; and
- The local government is not currently under the oversight of the Tennessee Board of Utility Regulation.

*To be effective, a budget should be adopted prior to the beginning of the fiscal year. The budget should also be based on reliable estimates, be structurally balanced, provide for cash liquidity, allow for adequate reserves, be monitored throughout the year, and be amended, as necessary. If concerns are identified in these areas, it will impact your local government's eligibility to receive a certificate. Monitoring is fundamental to the budget process. Accordingly, as part of our review, we look to see if your local government amends its budget at the legal level of spending throughout the year, as evidenced by your most recent audit. Likewise, concerns related to the other areas listed above will impact your local government's eligibility to receive a certificate.

We congratulate local officials who have been awarded a budget certificate for a job well done. The names of the most recent recipients of the Annual Budget Certificate are posted on our website at: tncot.cc/budgetcertificates.

Online Resources

To help support your local government in the budget preparation and monitoring process, as well as the financial health of your local government, the Comptroller's Office has developed multiple tools and resources, including but not limited to, the following:

- Budget summary sheet
- Budget debt service schedule
- Revenue forecasting and expenditure/expense estimating tool
- Sample budget ordinances, resolutions, and schedules
- Sample utility budget ~~and adoption resolution~~
- Annual report on prior year budgets
- Instructional videos

~~To help support your local government in the budget process, we developed online instructional videos on the following topics:~~

- ~~Basic Revenue Estimating~~
- ~~Annual Budget Memorandum~~
- ~~Cover Letter~~
- ~~Budget Summary Schedule~~
- ~~Schedule of Outstanding Debt~~
- ~~Municipal Budget Ordinance~~
- ~~Cash Flow Forecast Schedule~~
- ~~Basic Cash Flow Estimating~~

These resources are available at: tncot.cc/budget~~We~~ and will continue to be expanded~~ our~~. ~~instructional video library. To view these videos, please visit our website.~~

~~We also have helpful documents, schedules, and examples available on our website for your local government to utilize during the budget process.~~ If you have any questions related to our online tools and resources, please contact your Analyst in the Comptroller's Division of Local Government Finance responsible for your region. A contact list is available at tncot.cc/lgf-contacts.

Section 3 – Oversight and Support from Other State Agencies and Boards

Tennessee Board of Utility Regulation

The Comptroller's Division of Local Government Finance serves as staff to the Tennessee Board of Utility Regulation (TBOUR). Information about TBOUR is available on the Comptroller's website: www.comptroller.tn.gov.

TBOUR supports municipalities, counties, districts, and authorities that operate water, sewer, and natural gas enterprises by ensuring that they are financially self-supporting. The Board also establishes the parameters for water accountability.

The Board addresses certain complaints by utility customers, approves or disapproves the creation of new utility districts, approves or disapproves the purchase, development, acquisition, or construction of a new water or wastewater system by a city or county, requires mergers and consolidations subject to statutory limitations, and conducts ouster proceedings for utility district commissioners related to misconduct, neglect, or training. The Board also establishes the parameters for water accountability.

Tennessee Department of Education

The Tennessee Department of Education's Office of Local Finance works directly with local school systems. The Office of Local Finance provides budgetary oversight and guidance, and local governments with school systems are responsible for complying with those requirements. More information is available at: www.tn.gov/education.

Tennessee Department of Treasury

The Tennessee Department of Treasury provides oversight to local governments that participate in the Tennessee Consolidated Retirement System (TCRS) as well as those that have defined benefit pension plans outside of TCRS. The State Treasurer also operates the Local Government Investment Pool (LGIP) and has certain administrative responsibility for the Collateral Pool for Public Deposits. More information is available at https://treasury.tn.gov.

County Technical Assistance Service (CTAS)

CTAS is an agency of the University of Tennessee Institute of Public Service and provides technical, training, consulting, and field services to elected and appointed county and metropolitan officials and finance directors. CTAS assists county governments with the budget process in the areas of budget preparation, policy, training, and guidance. CTAS partners with the Comptroller's Office to provide the training and testing program for the Certified County Finance Officer (CCFO) designation. Resource information is available at: www.ctas.tennessee.edu.

Municipal Technical Advisory Service (MTAS)

MTAS is an agency of the University of Tennessee Institute of Public Service and provides technical, training, consulting, and field services to elected and appointed municipal and metropolitan government officials and finance directors. MTAS assists with the budget process in the areas of budget preparation, policy, training, and guidance. MTAS provides the training and testing program for the Certified Municipal Finance Officer (CMFO) designation. Resource information is available at: www.mtas.tennessee.edu.

Tennessee Association of Utility Districts (TAUD)

TAUD provides Tennessee utility systems with training, industry information and publications, and legislative updates. TAUD's commissioner manual has budget guidance, and they also teach classes on the budget process. Information and resources regarding TAUD is available at: www.taud.org.

Tennessee Emergency Communications Board (TECB)

The TECB is a statutorily created board that assists emergency communication districts, also known as E-911 districts, in the areas of management, operations, and accountability. The TECB ensures emergency communication districts are financially self-supporting pursuant to specific criteria defined by state law. Information about the TECB is available on the Tennessee Department of Commerce and Insurance's website: https://www.tn.gov/commerce/emergency-communications.html

Section 4 – Budget Terminology, Definitions, and Concepts

Budget

The budget is an annually adopted document that outlines the expected revenues and expenditures (expenses) for each fund. Budgets should be structurally balanced, realistic, and contain all debt service payments for governmental funds and interest expense and depreciation expense for proprietary funds. All revenue estimates should be meaningfully forecasted. The budget is used and reviewed throughout the fiscal year and amended when necessary.

A budget does the following:

- establishes policies;
- identifies revenues and other resources to support planned spending;
- appropriates monies, thus authorizing spending (expenditures);
- provides accountability to citizens or customers; and
- provides a means of control.

Appropriated Budget vs. Non-appropriated Budget

Appropriated budgets are governed by state and local laws and create spending authority limits that are legally binding. An appropriation bill, ordinance, or resolution is signed into law.

Non-appropriated budgets are approved in a manner authorized by state or local laws and not subject to appropriation. For example, utility funds budgeted pursuant to the 1982 Budget Law. In this situation, we recommend the use of the budget resolution template available on our website: tncot.cc/budget.

<u>Municipalities, Counties, and Metropolitan Governments</u>
State laws require appropriated budgets for the general fund, special revenue fund(s), and debt service fund(s).

State laws differ for proprietary funds. Municipalities that have adopted the General Law Modified City Manager – Council Charter pursuant to Tenn. Code Ann. § 6-35-304(a) are legally required to include proprietary funds as part of the appropriation ordinance. Other municipal forms of government, county governments, and metro governments have no general law requirement to legally appropriate the operations of a proprietary fund. Budget policies and procedures should address how budgets for proprietary funds will be approved and monitored for municipalities, counties, and metro governments that have no legal requirement to adopt a proprietary fund budget as part of its appropriation ordinance or resolution. In this situation, we recommend the use of the budget resolution template available on our website: tncot.cc/budget.

Utility Districts, Municipal Energy Authorities, and Water and Wastewater Authorities
Utility districts, municipal energy authorities, and water and wastewater treatment authorities follow proprietary fund accounting and are required by state law to adopt an annual budget.

Balanced Budget Requirements

The following statutes require local governments to adopt balanced budgets:

Tenn. Code Ann. § 5-12-110(b)&(c) – 1957 Act Counties
§ 5-12-210(d) – 1993 Act Counties
§ 5-21-110(d)(5) and 112 – 1981 Act Counties
§ 6-22-124 – City Manager-Commission Charter
§ 6-56-205 – Municipal Budget Law of 1982
§ 7-2-108(a)(15) – Metropolitan Governments – Urban Services District
§ 7-2-108(c)(2) – Metropolitan Governments – Each Special Service District
§ 7-36-113 (i)(1) – Municipal Energy Authorities
§ 7-82-501 – Utility Districts
§ 9-21-403 – Local Governments
§ 68-221-611 – Water and Wastewater Treatment Authority
§ 68-221-1306 – Regional Water and Wastewater Treatment Authority

Chart of Accounts

A standardized chart of accounts should be used for the budget, accounting records, and financial statements. The Division of Local Government Audit within the Comptroller's Office maintains a uniform chart of accounts for counties and municipalities: www.tncot.cc/chart. All counties must use this uniform chart of accounts except for the Metropolitan Government of Nashville and Davidson County, Knox County, Hamilton Conty, and Shelby County. Municipalities are encouraged, but not required to use the uniform chart of accounts.

Fund Types and Budget Requirements

Certain fund types are legally required to be appropriated, such as the general fund, debt service funds, and special revenue funds. However, other fund types, such as proprietary funds, fiduciary funds, or trust funds, may not be subject to appropriation, depending upon the laws that apply to your local government.

Legal Authority

When determining what legal authority governs your local government's budget document, the general principle of law that will apply is: if your unique general, private act, or home rule charter is less restrictive than a general law governing budgetary practices, the more restrictive law applies.

Section 5 – Budget Laws

This section addresses laws that govern the general budget process for your local government. For a discussion of laws regarding budgetary oversight by the Comptroller of the Treasury, refer to Section 2.

Municipalities

When determining what laws govern the budget process for your municipality, you should begin with referencing the Municipal Budget Law of 1982 (Tenn. Code Ann. § 6-56-201 et seq.).

Next, you will need to understand the requirements of your municipality's form of government and how it relates to the Municipal Budget Law of 1982.

There are five different forms of government for municipalities in the state of Tennessee. Three of these are general law as authorized by the following state statutes:

- General Law Mayor Aldermanic Charter (Tenn. Code Ann. § 6-1-101 et seq.)
- General Law City Manager Commission Charter (Tenn. Code Ann. § 6-18-101 et seq.)
- General Law Modified City Manager Council Charter (Tenn. Code Ann. § 6-30-101 et seq.)
- Home Rule Charter
- Private Act Charter

If your charter does not mandate expenditure and revenue information in the annual budget ordinance that is at least as detailed as that required by the Municipal Budget Law of 1982, the 1982 budget law will apply.

Last, municipalities should also be aware of separate ordinances that have been adopted that will govern the annual budget process.

As a general principle of law, if your municipality's general, private act, or home rule charter is less restrictive than a general law governing budgetary practices, the more restrictive law applies. Advice from legal counsel may be necessary to determine which specific budget laws apply for your municipality.

Counties

When determining what laws govern the budget process for your county, first you will need to identify the law(s) adopted by your county's governing body that are specific to the budget process. There are basically six laws, and four of these laws are found in state general law statutes. A county is authorized to perform its budgeting function under the following:

- General Law (Tenn. Code Ann. § 5-9-401, et seq.)
- Local Option Law 1957 Fiscal Control Act (Tenn. Code Ann. § 5-12-101 et seq.)
- Local Option Law 1981 Financial Management Act (Tenn. Code Ann. § 5-21-101 et seq.)
- Local Option Law 1993 Budget Law (Tenn. Code Ann. § 5-12-201 et seq.)
- Home Rule (Charter Government)
- Private Act

Next, you will need to determine if your county has enacted private acts that are more stringent than the basic requirements of the general or local option budget laws adopted by your county. In this situation, the more stringent law will apply. Likewise, there may be requirements under the general law that exceed specific home rule and private act requirements for a respective county. In this case, the general law requirement should be followed. Advice from legal counsel may be necessary to determine which specific budget laws apply for your county.

Metropolitan Governments

Budgetary requirements for metropolitan governments are governed by general state law, private act, and/or local ordinance or resolution. Because the general laws for metropolitan governments do not address some of the basic budget requirements, such as adoption date, continuation authority, amendments, etc., local officials should ensure key budget policies are clarified in the charter or ordinance. Advice from legal counsel may be necessary to determine the specific budget laws that apply for your government.

Utility Districts, Municipal Energy Authorities, & Water and Wastewater Treatment Authorities

When determining what laws govern the budget process for utility districts and authorities, local officials should begin with how your local government was originally created. General state law provides authority for the incorporation of utility districts, municipal energy authorities, and water and wastewater authorities. The incorporation of utility districts is subject to approval by the Tennessee Board of Utility Regulation. The different charter forms in the state of Tennessee are:

- General Utility District Law of 1937 (Tenn. Code Ann. § 7-82-101 et seq.)
- Municipal Energy Authority Act (Tenn. Code Ann. § 7-36-101 et seq.)
- Water and Wastewater Treatment Authority Act (Tenn. Code Ann. § 68-221-601 et seq.)
- Regional Water and Wastewater Treatment Authority Act (Tenn. Code Ann. § 68-221-1301 et seq.)
- Private Act Charter

The budget process will be governed by the state general laws referred to above as well as any private act. As a general principle of law, utility districts and authorities created by private act will need to follow any general law budget requirements that exceed the private act requirements. Advice from legal counsel may be necessary to determine which specific budget laws apply for your government.

Other Entities

Other entities that have a financial relationship to a county, municipality, metropolitan government, utility district, municipal energy authority, or water and wastewater authority, such as joint ventures created by an interlocal agreement, should follow budget requirements pursuant to their creation authority. If creation documents do not address budget policy, the entity should follow the budget requirements of the creating entity or entities.

Section 6 – The Budget Process

Budgeting is a broadly defined process that has political, planning, financial, communication, and managerial dimensions.

There are four basic phases to the budget cycle:

- Preparation
- Adoption
- Execution
- Oversight

This Section highlights some of the aspects related to the different elements in the budget process, from initial planning to adoption, execution, and managing the budget throughout the fiscal year. It is not intended to be comprehensive. If a local government has not developed policies and procedures to support the budget cycle for your local government, we recommend municipalities, counties, and metropolitan governments work with their MTAS or CTAS representative for assistance. Additionally, we recommend utility districts and authorities work with TAUD for assistance.

Preparation

Budget preparation begins months before the budget is adopted and approved. Preparation involves a review of policy and benchmarks established by your local government, collaboration with other departments, budget committee meetings, publication requirements, and other actions. Preparation is essential to the budget process because it lays the groundwork. Appendix 1 includes an outline of key budget issues that may assist your local government in developing or updating budget policies and procedures. This outline is included as a resource and not a mandate.

Policies and Procedures

The governing body serves in a fiduciary capacity as they manage the finances and assets of the local government they serve. When preparing the budget, local officials are governed by internal and external laws and regulations that help ensure the responsible management of public dollars. Before the budget process begins, local officials should already have in place foundational policies to ensure the budget supports both the short-term and long-term financial health of their local government.

As you begin to prepare your budget, one of the first steps will be to review established policies that define the budget process. Such policies should include the following:

- Budget calendar;
- Cash flow management;
- Revenue forecasting and expenditure/expense estimation;
- Minimum fund balance levels;
- Contingency spending plan;
- Long-term capital planning;
- Program and service goals (public safety, sanitation, utilities, streets, schools);
- Legal spending requirements, such as maintenance of effort;
- Department head responsibilities in the budget process;
- Rainy day fund levels; and
- Structurally balanced budgeting.

Refer to Section 7 for recommended best practices.

Component Units, Joint Ventures, and Similar Entities

As part of the budget preparation process, you should identify entities that have been created by your local government that function to support the local government and its citizens. For example, two neighboring municipalities may create a joint venture to provide water service to its citizens. The key issue is whether there is a financial benefit or burden that exists between your local government and the other entity that could have an impact on your budget.

STEP ONE Identify the entities. One source for this information is the notes to the financial statements in your annual financial audit report.

STEP TWO For each identified entity, determine the nature of the financial relationship to your local government, if any. Is your local government:

- Responsible for providing ongoing financial assistance;
- Contingently responsible for paying debt in the case of default or has guaranteed the entity's debt in some other manner;
- Required to fund any deficits;
- Responsible for the review and approval of the entity's budget;
- Reliant on revenue from the entity; or
- Responsible for the financial oversight or governance of the entity such that local officials should have a process of intentional review of certain financial information of the entity?

STEP THREE If an entity meets any of the above criteria, develop a process to receive and review their budget as part of your annual budget process.

STEP FOUR Send a copy of the respective budget with your annual budget submission to the Division of Local Government Finance.

Revenue Forecasting and Expenditure Estimating

Forecasting revenues and estimating expenditures (or expenses) is integral to budget preparation. Estimates should be both reliable and realistic. Our Office has developed an instructional video related to estimating that is available on our website: tncot.cc/budget. Municipalities, counties, and metropolitan governments can also receive assistance from their respective MTAS or CTAS consultant.

Local governments should not delay the budget process during a reappraisal year (see Appendix 8 for tips on adopting the budget during a reappraisal year). The budget is based on estimates and the expectation of our Office is for the certified property tax rate and annual budget to be adopted simultaneously and timely during a reappraisal year. If the certified property tax rate is not available at the time of budget adoption, local officials should follow the guidance in Appendix 8. If there are special circumstances, local officials should reach out to our Office and we will work with the local government and State Board of Equalization to address the situation.

Adoption

The budget adoption and approval process may result in changes to the proposed budget. Several key areas related to the adoption process are discussed below.

Timely Adoption – Budget Calendar

Timely budget adoption is foundational to the budget process and ensures your local government begins the fiscal year with a sound financial spending plan. Accordingly, your local government should have a formal timeline for the budget process. We have developed budget calendar that includes key dates in Appendix 2. We recommend that you add to the budget calendar any specific needs related to the size and structure of your local government. Both state and local laws govern the budget calendar.

Continuation/Extension

For your budget document to be relevant, timely adoption is essential; however, state law recognizes there will be circumstances when the governing body is not able to adopt the budget prior to the beginning of the fiscal year. Nevertheless, if the annual adopted budget is not submitted to our Office within two months of the beginning of the fiscal year, the budget cannot be approved and your local government may not issue debt or financing obligations. In the case of an emergency, our Office may waive the requirement of budget approval to allow your local government to enter into emergency financial transactions. See Tenn. Code Ann. §§ 7-36-113, 7-82-501, 9-21-404, 68-221-611, 68-221-1306.

Counties

Tennessee law gives authority for certain counties to operate on a continuation budget until August 31, or a continuation budget extension until September 30. Refer to Appendix 3 to determine if this applies to your county.

A September 30 continuation budget extension is allowed under extraordinary circumstances and must be approved by the Comptroller of the Treasury. For more information regarding a request for approval, refer to Appendix 3.

Municipalities
Pursuant to the Municipal Budget Law of 1982, if a budget ordinance is not adopted prior to the beginning of the fiscal year, the appropriations for the last fiscal year become the appropriations for the next fiscal year, until the adoption of a new budget ordinance (Tenn. Code Ann. § 6-56-210). If your municipality's general law, home rule, or private act charter is more restrictive, you must follow the requirements of your charter.

Metropolitan Governments
General laws for metropolitan governments do not specifically address budget continuations and/or extensions. You should ensure that you have adopted a private act to address the legal budget process, including, but not limited to, budget continuations and extensions.

Utility Districts, Municipal Energy Authorities, and Water and Wastewater Authorities
State law does not provide for an extension or continuation for utility districts, municipal energy authorities, or water and wastewater authorities.

Legal Form of the Annual Budget Document

A budget resolution or ordinance is the budget document used by local governments. A legally-adopted budget provides spending authority for the general operations of counties, municipalities, and metropolitan governments. When a local government expends more than legally appropriated, they are in noncompliance with state law. For utility districts and authorities, the budget is legally required to be adopted, but it is not a legal document in the sense of an appropriated budget. Refer to Section 4 for an explanation of the difference between appropriated and non-appropriated budgets. Our website has example budget documents for use by your local government: tncot.cc/budget.

Balanced Budget

Budgets must be balanced when adopted, remain balanced throughout the fiscal year, and be sustainable going forward. Estimated expenditures and other financing uses (or expenses) should not exceed estimated revenue, other financing sources, and beginning unrestricted fund balance (or net position). A process should be in place to actively monitor the budget throughout the budget year and to make any necessary budget amendments to maintain a balanced budget, including paying all debt service. Section 4 includes a listing of state laws that require a balanced budget.

A budget is structurally balanced when recurring revenues are budgeted to pay for recurring expenditures (or expenses). A structurally unbalanced budget is often a sign of financial distress. If your local government plans to adopt a structurally unbalanced budget, you should contact the Analyst in the Comptroller's Division of Local Government Finance who is responsible for your region. A contact list is available at tncot.cc/lgf-contacts.

Legal Level of Budgetary Control/Spending Authority

The legal level of budgetary control refers to the level of detail at which the governing body appropriates resources. Management can reassign expenditures or expenses without approval of the governing body for items below the legal level of budgetary control. For example, when the budgetary control is at the organizational or department level, any increase in appropriations for the police department will require a budget amendment by the governing body; however, changes between object level expenditures, such as salaries, supplies, or utilities that are within the organizational or department level, do not require legal action by the governing body. Requirements of state law vary depending upon your form of government. Utility districts, municipal energy authorities, and water and wastewater authorities are required to identify anticipated revenues by source and anticipated expenses by type of expense.

Budgetary Basis (Legal Basis of Accounting)

The budgetary basis is the method used to determine when revenues and expenditures (expenses) are recognized for budgetary purposes. The annual budget is required to be on the same basis of accounting as required by generally accepted accounting principles (Tenn. Code Ann.§§ 9-21-403, 7-36-113, 7-82-501, 68-221-611, 68-221-1306). For smaller governments that maintain their accounting records on the cash basis, a budgetary cash basis is acceptable, for governmental funds, when the cash basis does not materially differ from the budget on the modified-accrual basis. Local governments may also utilize the method of reconciling between two different bases of accounting in the budget document. Having the same budgetary basis used for accounting and reporting purposes helps the governing body, investors, the public, and other stakeholders better understand and analyze budget to actual results.

Capital Budgets

The capital budget provides the basis for control of capital expenditures. This budget should correspond with the capital improvement plan. The capital budget is related to long term nonrecurring spending.

The capital improvement program presents estimates of revenue and capital outlay expenditures for a period of several years—five years is recommended. The proposed means to finance capital projects should be clearly identified in the capital improvement program.

Both MTAS and CTAS have online resources and can assist municipalities, counties, and metropolitan governments in the preparation of a capital budget and capital improvement program.

School Budgets

County, municipal, and metropolitan governments with school systems are required to follow the requirements of the Tennessee Department of Education when preparing their budget. Both MTAS and CTAS also have information available on their websites regarding requirements for school budgets. Some of the key issues for school budgets involve the following:

- The budget must be balanced.
- The budget must agree with the budget ordinance or resolution adopted by the governing body.
- The budget must include beginning and ending unassigned fund balance information.
- Both summary and detailed budget information should be prepared.
- Annual principal and interest information should be clearly identified in the budget, as applicable.
- Pursuant to state law, the governing body's authority is limited to modifying the total amount of the school budget. The governing body has no other authority to modify or delete any item of the school budget. The governing body must still approve the school budget in total (Tenn. Code Ann. Title 49, Chapter 2).

Utility Systems

<u>Self-Supporting Requirement</u>
Pursuant to Tenn. Code Ann. § 7-34-115, municipal utilities are required to be self-supporting and utility revenue cannot be used to subsidize other operations of the local government. Any unlawful use of utility revenue is subject either to immediate repayment or the submission of a corrective action plan not to exceed five years as approved by, and overseen by, the State Comptroller. Elected and appointed local officials are subject to ouster for failure to repay. County, municipal, and metropolitan governments that have issued revenue debt pursuant to Tenn. Code Ann. Title 9, Chapter 21, Part 3 are subject to the same statutory requirements.

<u>Oversight by Tennessee Board of Utility Regulation</u>
Water, wastewater, and natural gas systems of municipalities, counties, metropolitan governments, authorities, and utility districts are subject to the jurisdiction of the Tennessee Board of Utility Regulation (TBOUR).

Statutes require the State Comptroller to refer governmental water, sewer, and natural gas systems that are in financial distress to the TBOUR~~, respectively,~~ for oversight and corrective action (Tenn. Code Ann. § 7-82-703). The State Comptroller is also required to refer a utility system to TBOUR for excessive water loss, failure to file audited financial statements for two consecutive years, and the unlawful use of utility funds.

TBOUR exercises oversight by ensuring the financial sustainability of Tennessee's utility systems. The board has specific statutory criteria to identify financially distressed systems. The budget should be designed to (1) result in a statutory increase in net position, which is defined as:

Change in Net Position (GAAP Basis)	$__________
Less:	
Grants – Capital	$__________
Grants – Operating	__________
Capital Contributions	__________
Interfund Transfers from Other Funds	__________
Statutory Change in Net Position	$__________

(2) pay all debt service as it becomes due, and (3) generate sufficient revenue to sustain a positive unrestricted net position and a positive total net position.

Pensions – Defined Benefit Plans

Local governments are eligible to participate in the Tennessee Consolidated Retirement System (TCRS). TCRS is a statewide pension system that is administered by the Tennessee Department of Treasury. The annual actuarially determined contribution for TCRS defined benefit pension plans must be 100% funded in TCRS's annual budget [Tenn. Code Ann. § 8-37-310]. Local governments that have defined benefit pension plans that are not part of TCRS are subject the Public Employee Defined Benefit Financial Security Act of 2014 (the "Act") which requires local governments to annually fund at least 100% of the actuarially determined contribution. Pursuant to the Act, local governments are also required to adopt a funding policy and file it with the state Comptroller who serves as the depository for polices that are reviewed and maintained by the state Treasurer. [Tenn. Code Ann. § 9-3-501 et seq.]

State Street Aid Fund

Pursuant to Tenn. Code Ann. § 54-4-204, upon written request from a municipality, the Comptroller of the Treasury may authorize that state street aid funds be kept and accounted for in the general fund instead of a special revenue fund. Approval is conditioned upon the requirement that the state street aid revenues and expenditures be accounted for separately in the general fund in a manner that allows identification of the source of revenue and the expenditures related to the revenue. If you are not sure if your municipality has received approval, you may contact the Division of Local Government Audit within the Comptroller's Office.

School Federal Projects Fund

Budget Resolution/Ordinance and Detailed Budget

There are two acceptable practices for appropriating expenditures accounted for in the School Federal Projects Fund. Expenditures may be appropriated in the annual budget resolution or ordinance in the same manner as other special revenue funds; alternatively, language may be included within the appropriation section of the annual budget resolution or ordinance stating, "the budget for School Federal Projects Fund shall be the budget and all amendments approved for separate projects within the Fund the Tennessee Department of Education and the local Board of Education." The State Department of Education provides both guidance and oversight related to federal grants administered by the local board of education.

School Federal Projects Fund – Funding the Grant Reimbursement Cycle

Cash flow shortages can occur in the School Federal Projects Fund because of the grant reimbursement cycle. This can result in an audit finding if there is a cash overdraft at June 30. In order to provide operating funds until federal reimbursement of grant expenditures is received by a school system, it may become necessary for local officials to authorize the transfer of available unassigned fund balance from the General Purpose School Fund to the School Federal Projects Fund. This transfer should be a sufficient amount for the stated purpose. The resolution should specify the amount of the transfer and indicate that the transfer is restricted for the purpose of providing operating funds for federal reimbursement of grant expenditures. An example resolution may be found in Appendix 4. These transferred funds would remain in the School Federal Projects Fund indefinitely or until the School Board and/or Funding Body (county commission or city governing body) act to transfer the funds back to the General Purpose School Fund.

The transfer from the General Purpose School Fund would be accounted for as an Operating Transfer Out and a reduction of Cash, which reduces the unassigned fund balance of the General Purpose School Fund. The transfer into the School Federal Projects Fund would be accounted for as an Operating Transfer In and an increase to Cash which would become part of fund equity as Restricted Fund Balance in the School Federal Projects Fund. The local Board of Education should not transfer excessive funds from the General Purpose School Fund to the School Federal Projects Fund to intentionally reduce the fund balance of the General Purpose School Fund to manipulate the budgetary process. The amount needed will depend upon the timing of cash inflows and outflows of the School Federal Projects Fund.

If you need assistance in determining an appropriate amount, please contact your Analyst in the Comptroller's Division of Local Government Finance.

Execution

Execution involves assigning responsibility to administration and department heads, including the school system, for executing the budget adopted by the governing body. Monitoring the budget is important to the execution process to ensure actual spending agrees with what the governing body approved in the budget and that projected revenues are realized. There should be a process in place to monitor budget spending levels and the need for a budget amendment to increase the spending authority. Because a government has a specific amount of resources available to spend, systematic review of budget variations is an important part of the budget process. Monitoring establishes an expectation of accountability related to spending. It also enables the finance department and the governing body to respond quickly to financial distress identified as part of the monitoring process.

Budget Amendments

Counties
The amendment process varies based on the budget law that applies to your county; please refer to Appendix 5 for applicable guidance.

Municipalities
Pursuant to the Municipal Budget Law of 1982, the governing body may amend the budget ordinance in the same manner as any other ordinance may be amended. We have included a list of frequently asked questions for municipal budget amendments in Appendix 6. Additionally, pursuant to Tenn. Code Ann. § 9-21-108, amendments required by the Comptroller's Office as a condition for budget approval may be passed by resolution instead of ordinance (See sample resolution in Appendix 9).

Metropolitan Governments
General laws for metropolitan governments do not specifically address budget amendments. You should ensure that your government has legal authority to amend its budget through a charter provision, private act, or public ordinance.

Utility Districts, Municipal Energy Authorities, and Water and Wastewater Authorities
General laws for utility districts, municipal energy authorities, and water and wastewater authorities do not specifically address budget amendments. We recommend that the governing body take the same action to amend the budget as taken to adopt the budget. Amendments should be approved by the governing body for increases and decreases to revenues and/or expenses that impact the change in net position.

Allotments and Impoundments

Counties and metropolitan governments may have impoundment authority. The governing body of a county that operates under the Acts of 1957, 1981, and some private acts can place departments on quarter allotments or impound funds in case of a financial crisis. There is no provision for such allotments or impoundments under the general law for counties or municipalities. Metropolitan governments should ensure they have legal authority to enforce allotments and impoundments.

Oversight

State legislators have passed laws that directly impact budgetary oversight for Tennessee's local governments. The Comptroller's Office plays an integral role in that oversight through:

- Approvals;
- Audits; and
- Tennessee Board of Utility Regulation.

Approvals

As fully discussed in Section 2, our Office, the Division of Local Government Finance, has a comprehensive review and approval process for the annual budget. The Office of Local Finance with the Tennessee Department of Education provides specific budgetary oversight for school systems.

Audits

The Comptroller's Division of Local Government Audit is responsible for the annual audit of Tennessee's local governments. Each financial and compliance audit is conducted in accordance with the requirements of *Government Auditing Standards*. Compliance with budgetary laws, including appropriated spending levels, is audited, and any resulting findings requires action by the local governing body to correct those findings.

Tennessee Board of Utility Regulation

Water, wastewater, and gas systems of municipalities, counties, metropolitan governments, authorities, and utility districts ("utility systems") are subject to the jurisdiction of the Tennessee Board of Utility Regulation (TBOUR).

Statutes require that the Comptroller's Office refer utility ~~-~~systems that are in financial distress to the TBOUR~~, respectively,~~ for oversight and corrective action (Tenn. Code Ann. § 7-82-703).

A system is in financial distress pursuant to state law if any of the following conditions are demonstrated in their annual financial audit report:

- Statutory negative change in net position for two consecutive years
- Deficit ~~unassigned~~unrestricted net position balance
- Deficit total net position balance
- Default on debt

Local officials are statutorily required to comply with the directives of the ~~respective utility board~~TBOUR to restore the fiscal health of the utility system. Utility systems may also be referred to TBOUR for other reasons, including, but not limited to, excessive water loss, failure to receive required board member training, failure to file audited financial statements for two consecutive years, and the unlawful use of utility funds.

Section 7 – Best Practices

Various resources are available to local government entities to assist with the budget process. The resources referenced in this Section will be helpful to local officials as they manage and exercise oversight over the finances of their local government.

Seven Keys to a Fiscally Well-Managed Government

The Seven Keys to a Fiscally Well-Managed Government is a document produced by the Comptroller's Office that outlines various characteristics present in financially well-managed governments. Follow this link for a printable copy for your board and for related videos: tncot.cc/7keys

Keys 1-3 – Building a Strong Budget for a Resilient Government

1. *Structurally Balanced Budget*

A budget is structurally balanced when recurring revenues are sufficient to pay recurring expenditures. Recurring revenues can be relied on every year (property taxes, sales taxes, wheel taxes). Recurring expenditures are those required for normal governmental operations (debt payments, salaries, pension payments). Using overly optimistic revenue projections or underestimating expenditures, as well as relying on one-time revenue from selling assets, restructuring debt, spending savings, or deferring maintenance, indicate the budget is not structurally balanced. [Tenn. Code Ann. § 9-21-403]

2. *Cash Flow Management*

A local government's ability to track how much revenue is coming into the government and how much is going out is vital to its fiscal health. Local governments that rely heavily on property taxes will need larger cash reserves to fund governmental services until tax revenue is received. Prior to its adoption, the budget must contain adequate revenues, along with cash on hand, to fund the government throughout the year. In addition, local governments need to have plans in place if additional sources of liquidity, either internally (interfund tax anticipation note "TAN") or externally (bank issued TAN), prove to be necessary. [Tenn. Code Ann. § 9-21-801]

3. *Forecasting Budgetary Amounts*

Mechanisms for forecasting revenues and expenditures that consider economic trends and growth rates provide reliable revenue estimates. Local governments that do not routinely forecast budgetary amounts may find revenues overstated and expenditures understated. [Tenn. Code Ann. § 9-21-403]

Keys 4-5 – Planning for Unknowns

4. *Rainy Day Reserve*

Beyond liquidity management, local governments need to have reserves for unforeseen events like natural disasters or economic downturns. A government that creates a rainy day fund should, at times, expect to use the reserves but also have a policy for replacing the funds.

5. *Contingency Spending Plans*

Knowledge of what part of a budget is discretionary and can be legally and practically cut is necessary for dealing with unforeseen circumstances. If an event decreases a significant revenue source or increases spending during a year, and revenues cannot be adjusted quickly, then cuts to expenditures are necessary. Prior planning as to what cuts will be made will expedite the recovery.

Keys 6-7 – Planning for Tomorrow

6. *Long-Term Liability Planning*

Debt, pension, and OPEB payments are set amounts in the annual budget. The larger these payments are, the less ability the governing body has to make changes to the budget. Ongoing decisions of whether to issue additional debt or to make changes to benefits have a direct budgetary impact that must be considered. When the repayment of long-term liabilities comprises a large percentage of the budget, consistent management of the government's obligations is essential.

7. *Multi-Year Financial Planning*

Having a plan that considers the long-term affordability of programs or projects before they become an item in the annual budget is crucial. Assets will need to be replaced, maintenance performed, and programs expanded; advanced planning of these items will help ensure the funding is available in the future.

Steps To a Well-Managed Budget

The Steps to a Well-Managed Budget is a document produced by the Comptroller's Office that outlines various steps a local government can take to manage its budget throughout the fiscal year. Follow this link for a printable copy for your board: tncot.cc/budget

The most important action a governing body takes each year is the adoption of the annual budget. Through the budget, elected officials establish spending authority and set the priorities of the local government. One community's priority could be the reduction of crime, while another's maybe investing in better parks and sidewalks. Whatever the plan, if the budget is not monitored to ensure that public dollars are spent as intended, problems can occur.

Budget To Actual Monitoring

After the governing body approves the budget, the members will need updates on how the plan is going. Reviewing budget to actual reports frequently throughout the year is the most effective way for the governing body to maintain a well-managed budget. Budget to actual comparisons show how close the budget estimates are, if changes to the budget are needed, or if everything is on course as planned. Accuracy in accounting data is essential to make useful budget to actual reports, and timeliness in reviewing the information is vital.

Revenues

Revenues are meticulously forecast during the budget preparation phase, but as the budget year progresses, revenue collection should be closely monitored for variations from original estimates. Most tax collections are cyclical. Comparing the current year's monthly collections to last year for each tax category will help a local government understand if its assumptions, such as whether its planned growth rate is holding true. Timeliness is important because if revenue collections are lower for the year, then cutting expenditures or increasing the use of fund balance may be needed to ensure the budget remains balanced.

Operating Budget

Operating expenditures tend to be less cyclical than revenues – think salaries and benefits. However, even with less variability, the level of spending should be monitored throughout the year. A local government should closely review items like overtime; fuel and commodity purchases; repair and maintenance; and any item that can quickly increase due to outside forces. If changes to the operating budget are planned for mid-year, then those changes should be forecast throughout the remainder of the fiscal year.

Capital Expenditures

Most capital expenditures tend to be planned well in advance, but cost overruns on large capital items, as well as small replacement items, can add up to an unbalanced budget. Local governments should frequently review any ongoing capital projects and ask department heads for updates on their plans to replace items so adjustments can be made if needed. It is important to know in advance what the funding source is for capital project cost overruns.

Amending The Budget

Every item in this document has led to this: It is very important to amend the budget throughout the year. When amending the budget, local governments should keep these principles in mind: the budget must be amended prior to increased spending; recurring revenues should be used to pay for recurring expenditures; cash liquidity must be considered; debt must be paid; and adequate reserves should be maintained. Amending the budget takes time, so local governments should know the process and how much lead time it takes to finalize an amendment. The budget undergirds the vision and strategy for a local government, and care must be taken to constantly monitor it.

Financial Health Metrics

Financially healthy local governments tend to have a few traits in common—they operate with balanced budgets, do not spend nonrecurring funds on recuring expenses, maintain adequate cash reserves, have a manageable debt burden, and keep liabilities in check. Local governments that do not manage these items tend to experience financial issues that show up in the following metrics that the Comptroller's Office calculates annually:

Financial Health Metrics	Description	No Concern	Slight Concern	Distress Concern
Cash as a Percent of Expenditures	Do we have enough cash reserves to manage cash flow and fund unexpected spending?	Above 15%	15% to 8%	Less than 8%
Current Liabilities as a Percent of Cash	Do we have the ability to pay short-term obligations?	Less than 25%	25% to 75%	Greater than 75%
Debt as a Percent of Assessed Value	How burdensome is our debt load?	Less than 8%	8% to 10%	Greater than 10%
Change in Fund Balance as a Percent of Expenditures	How much did we overspend last year? (A concern exits when cash reserves are low)	Positive value	Decrease of 0% to 2%	Decrease greater than 2%

Fund Balance Policy

Our Office recommends local governments adopt a fund balance policy for all fund types and include in its policy a requirement to maintain an unrestricted fund balance of not less than two months of the regular operating revenue or expenditures for operating funds. Local officials may determine more than two months is appropriate (for example, because of the timing of the receipt of major annual revenue sources and/or the timing of larger expenditures, such as insurance). The nature of each fund will determine the appropriate minimum amount of fund balance that should be maintained. When adopting a policy, please refer to GFOA's best practice on fund balance guidelines: www.gfoa.org.

Cash Management Policy

Our Office recommends local governments adopt a cash management policy that addresses areas specific to cash, including, but not limited to cash flow forecasting, minimum cash balances, short-term borrowing for operations, pooled cash accounts, investment of idle cash, banking, internal controls, collateralization requirements, and internal transfers, loans, and reimbursements, as applicable.

Budget to Actual Reports

As part of the monitoring process, we recommend local governments provide the following information at every regular meeting for each budgeted fund:

- A budget-to-actual report including both revenue and expenditures (expenses);
- An updated cash flow analysis showing actual data from the prior month and any changes to forecasted data; and
- Current cash and fund balance levels.

Best Practices from the Government Finance Officers Association (GFOA)

The following best practices published by GFOA support areas addressed in the Seven Keys to a Fiscally Well-Managed Government, which is included in this Section:

- Achieving a Structurally Balanced Budget
- Financial Forecasting in the Budget Preparation Process
- Long-Term Financial Planning
- Using Cash Forecasts for Treasury and Operations Liquidity

GFOA also has other budgetary best practices including, but not limited to:

- Establishment of Strategic Plans
- Multi-Year Capital Planning
- Capital Budget Presentation
- Working Capital Targets for Enterprise Funds
- Public Engagement in the Budget Process

We recommend local governments review and implement best practices from GFOA as part of your budget policies and procedures, making any necessary changes to address state and local laws and regulations. Online access to GFOA's best practices is available at: www.gfoa.org.

Appendix

1. Budget Preparation Outline
2. Budget Calendar Examples
3. County Continuation Budget Guidance
4. Resolution to Transfer Funds to the School Federal Projects Fund
5. County Budget Amendments
6. Municipality Budget Amendments – Frequently Asked Questions
7. Budget Cycle (Illustration)
8. Adopting the Budget During a Reappraisal Year
9. Budget Resolution for a Municipality Adopting Comptroller Required Changes

Appendix 1

Budget Preparation Outline

Preparation – The Initial Step

Preparation is the process of preparing the financial plan that is the basis of an appropriated budget, for municipalities, counties, and metro governments, and an adopted budget, for utility districts and authorities that do not have appropriated budgets. The end products of the budget preparation process are a financial plan, a legal document, and budgetary controls.

As part of the executive preparation of the annual operating and capital budget, the chief executive officer and budget officer should review the budget policy and procedures in developing the budget documents guidelines that will be provided to department heads to prepare budget information for each department, as applicable.

Budget Policy and Procedures

The following are items and areas that a local government should consider in developing a budget policy. Budget procedures should be developed and based upon the local government's budget policy. Additionally, the policy should incorporate the requirements of State statutes and the Office of the Comptroller.

A. Key Budget Items
   1. Scope – the funds budgeted

   2. Budget Period

   3. Basis of Budgetary Accounting

   4. Cost Allocation – how the direct and indirect costs of a program will be allocated

   5. Basis of Control
      The basis of control is the <u>organizational unit</u> or department level of expenditures/expenses. This classification corresponds with the governmental unit's organizational structure. A particular organizational unit may be charged with carrying out one or several activities or programs. The appropriation level is the same as the basis of control, the organizational unit. An organizational unit may be budgeted across more than one fund. Utility districts and authorities normally have one department but may have more than one, such as a water system and a gas system.

      Organizational Unit Examples:
      a. Examples of an organizational unit are a: Police Department, Fire Department, Office of Building Safety, Street Department, Finance Department, Local Attorney, Council/Commission, and utility departments such as the Water & Sewer Department.

   b. Example of an organizational unit with multiple activities or programs: a Public Works Department that builds and maintains streets, roads, and bridges; collects and disposes solid waste; and maintains and oversees construction of public buildings and grounds.
   c. Example of an organizational unit budgeted across more than one fund: Public Works Department – General Fund, State Street Aid Fund, and Solid Waste Fund.

6. Balanced Budget Definition
   A budget is balanced when expenditures for the year do not exceed expenditures and beginning fund balances. Sufficient cash balances should be maintained throughout the year to meet cash flow needs and contingencies. To meet this requirement, a balanced budget should also have:
   a. Sufficient recurring revenue to meet recurring expenditures (expenses) (structurally balanced).
   b. Nonrecurring expenditures met by planned, one-time uses of cash, such as
      i. Grants or other one-time cash receipts.
      ii. Cash-on-hand (reserves).
      iii. Debt proceeds.
   c. Sufficient cash available to fuel the grant reimbursement cycle.
   d. All annual debt service payments are met.

7. Budget Form and Information
   a. Terminology and classification should be the same as used for reporting and accounting. (GASB Codification 1700.118)
   b. The format is typically in a Statement of Revenues, Expenditures/Expenses and Changes in Fund Balance/Net Position Format.
   c. The budget should be designed to clearly indicate recurring and non-recurring revenues and expenditures or expenses.
   d. Budget supporting schedules may be in a form, required by the Governing Body, to communicate specific information not reported in financial statements formats. At a minimum, three years of financial data must be presented: prior year audit amounts, current year estimated amounts, and budget year amounts.

8. Financial Forecasts
   a. Short-term – coming year's budget
      i. Cash/revenue
         1. Recurring – annual revenues, such as property and sales taxes
         2. Non-recurring – one-time sources of revenue, such as insurance recoveries, debt proceeds, and grant monies
      ii. Spending
         1. Operating
            a. Recurring – annual expenditures or expenses, such as salaries and utilities
            b. Non-recurring – one-time expenditures
         2. Capital – expenditures for plant, property, and equipment
   b. Long-term – future years' budget

            i. Multi-year Budget – Five-year budget forecasting the impact of future changes in revenue and spending, including the impact of new and current programs and payments on long-term liabilities.
            ii. Capital Improvement Plan – Five-year program of planned spending for the construction/purchase of plant, property, and equipment, including sources of financing and impact on the operating budget from new or improved facilities and equipment—not a wish list.

9. Performance Measurement

10. Transparency and Accountability
    a. Budget meetings
    b. Budget publication
        i. Legally-required budget notice publication
        ii. Website and other media
    c. Budget availability
        i. Website
        ii. On-site copies

B. Budget Principles

In Tennessee, budget principles are rooted in the requirement that budgets must be balanced and the local government should have sufficient cash to pay its obligations as they become due, including all annual debt service. This includes the idea of sustainability for activities accounted for in general funds, special revenue funds, and enterprise funds. Recurring spending should not exceed recurring receipts.

Key thought: Spend less than the amount of revenue your local government can generate.

1. Spending
    a. Spending cannot exceed what the local government's economy, or customer base, can realistically support.
    b. Recurring spending should not exceed recurring cash receipts.
    c. Non-recurring spending should be met by debt funding, savings, or one-time cash receipts.
    d. Critically examine past spending patterns.
        i. Could we afford what we did in the past?
        ii. Can we afford it in the future?
        iii. Did past spending accomplish goals?
    e. Prioritize services,
        i. What is important?
        ii. What meets our needs?
        iii. What can we afford?
    f. Maintain existing spending over providing new services.
    g. Critically examine sustainability of current services and any planned new recurring spending, including those related to capital assets.
        i. Does it meet our needs?
        ii. Can we afford it now and in the future?

iii. Can we afford new recurring costs related to current and planned capital assets? For example, an expansion to the fire hall will require new equipment, more utilities, and additional personnel.

h. Liabilities
   i. Pay what you owe:
      1. Debt
      2. Pensions
      3. OPEB
   ii. These liabilities are recurring spending (or cash) items.

2. Revenues
   a. Tax rates and fees – cash receipts
      i. Understand and manage tax rates and their impact.
      ii. Assign costs to users for services to develop fees sufficient to support the provision of services.
   b. Use of one-time cash receipts:
      i. Should not be used for recurring spending.
      ii. Should be matched to appropriate non-recurring cash receipts or use saved monies for one-time spending and capital projects.
   c. Use of unpredictable cash receipts:
      i. Should not be used for recurring spending.
   d. Forecasting cash receipts for the coming year and future
      i. Methods and assumptions used in forecasting should be reasonable and the assumption supportable.
      ii. Forecasts should be realistic and conservative, not leaning toward the high-end to support new or increased spending.
      iii. Forecasts should be made beyond the fiscal year to determine if future cash receipts are trending up or down.
      iv. Forecasts are a tool that is not an absolute but the best guess about future performance.

3. Preferences for Budget Balancing
   a. Productivity – do more with less or the same amount of resources.
   b. Austerity – cut or eliminate services.
   c. Revenue – find new revenues or increase current tax rates and fees.

C. Special Situations
   1. Vacancy savings – the difference between the full-appropriated amount and the actual cost of authorized employee positions during a budget period.

   2. Equipment replacement

   3. Year-end budget savings – money remaining from cost efficiencies in spending being less than the appropriated amounts or otherwise achieving the planned activities for less cost than the amount appropriated. Normally, this becomes available for the next year's spending or is placed into reserves for contingencies.

D. Budget Process
   1. Roles and responsibilities

   2. Budget calendar

   3. Budget document

   4. Budget participation

E. Post-Adoption
   1. Budget controls

   2. Budget amendments

Related Policies

A. Revenue Policies
B. Expenditure (Expense) Polices
C. Cash Management Policies
D. Cash Balance and Rainy Day/Reserve Balance Policies
E. Fund Balance Policies
F. Purchasing Policies
G. Capital Asset Management Policies
H. Debt Management Policies
I. Long-Term Financial Planning Polices

Budget Process

A. Roles and Responsibilities
   1. Preparation
      a. City and County Management including but not limited to the following: Chief Executive Officer (CEO), County or City Mayor, City Manager, Chief Financial Officer (CFO), and Budget Officer/Director
         i. Prepare and distribute budget guidelines and forms for budget preparation.
         ii. Prepare revenue forecasts and revenue estimates.
         iii. Prepare executive budget and property tax levy from departmental budgets and revenue estimates.
      b. Department Heads
         i. Prepare departmental budgets in accordance with budget guidelines.
         ii. Submit departmental budget to the CFO or Budget Officer.

   2. Adoption
      a. Budget (Finance) Committee
         i. CEO, CFO, or Budget Officer presents Executive Budget and proposed tax levy to the Budget (Finance)Committee.

ii. Holds meetings to review budget and proposed tax levy and develop Annual Operating and Capital Budget Ordinance or Resolution with property tax levy.
iii. May require the Department Heads and CFO or Budget Officer to make presentations or provide explanations as part of this process.
iv. Presents original Annual Operating and Capital Budget Ordinance or Resolution with property tax levy and supporting documents to Governing Body.

(It is recommended that all members of the Governing Body attend these meeting to understand the budget.)

b. School Board
   i. Adopts its budget in accordance with State statute requirements and budget guidelines.
   ii. Submits school budget to CEO/CFO or Budget (Finance) Committee.
c. Governing Body
   i. Holds meetings to adopt Annual Operating and Capital Budget Ordinance or Resolution, with property tax levy, as applicable.
   ii. After making any amendments to the original budget, adopts the final Annual Operating and Capital Budget Ordinance or Resolution with property tax levy, as applicable.
d. Execution
   i. The CEO and Department Heads (including the School System) implement the budget adopted by the Governing Body.
   ii. Department Heads ensure that spending stays within appropriated amounts for their organizational units by monthly monitoring of departmental budgets and not executing the purchase of good or services without following proper purchasing procedures, including letting the CFO first determine if monies are available for the expenditure.
   iii. The CFO monitors the overall budget, taking appropriate action to ensure departments' budgets stay within the appropriated spending authority.
e. Evaluation
   i. CFO
      1. Prepares monthly budget-to-actual reports for the Budget (Finance) Committee and Governing Body.
      2. Updates the cash flow forecast with actual data from each completed month for the Governing Body.
      3. Prepares proposed budget amendments based on actual financial performance and needs.
   ii. Governing Body, Budget (Finance) Committee, and School Board
      1. Monitor the local government's financial health and needs based on reports on budgetary performance and cash flows from the CFO.
      2. Appropriately amend budget to keep in balance.
      3. New or increased spending should be supported by new revenues or decreases in other appropriations.

4. Evaluate overall budget performance in achieving the Governing Body's goals throughout year on a perioding basis, such as quarterly, and specifically at year end.

B. Budget Calendar
   1. As part of the preparation process, a budget calendar should be developed to ensure the budget is adopted prior to the beginning of the fiscal year.

   2. The budget calendar and budget guidance should be presented to the Department Heads, Budget (Finance) Committee, and Governing Body. The calendar gives deadlines and expectations for the budget process.

C. Budget Document
   The budget document is prepared by the CEO, CFO or Budget Officer, and Budget Finance Committee and contains the following parts:

   1. Budget Message from the Mayor/CEO/City Manager/CFO

   2. Budget Summary

   3. Annual Operating and Capital Budget Ordinance or Resolution with Ad Valorem (Property) Tax Levy, as applicable

   4. Separate Property Tax Levy Ordinance or Resolution (if property tax is not part of, or is adopted after, the Operating and Capital Budget Ordinance or Resolution)

   5. Detailed Budget (modified accrual and/or accrual basis)
      a. Explanation of any increases in appropriations from the current year

   6. Schedules
      a. Revenue Forecasts (including a description of methodology and assumptions)
         i. Property tax
         ii. Sales tax
         iii. User fees
         iv. Other revenues
      b. Utility Rate Schedules
      c. Utility Revenue Forecast
      d. Schedule of Outstanding Debt
      e. Wage and Salary Schedule
      f. Capital Budget and Capital Improvement Plan
      g. Budgets Schedules
         i. Governmental Funds
         ii. Enterprise Funds
      h. Cash Flow Forecasts by Fund
      i. Schedule of Recurring/Non-Recurring Revenue, Expenditures (Expenses), and Costs [cash-outflows that are balance sheet items or included in per unit cost of

production (i.e., per unit equipment replacement/capital maintenance cost allocated per unit of production)]

j. Other schedules required by the Governing Body or state statutes
    i. Consider schedules that demonstrate compliance with specific statutory or other requirements.
    ii. Consider a schedule of grants and projects that demonstrates the availability of sufficient monies to meet grant matching requirements and to cash flow the grant reimbursement cycle.
    iii. Consider schedules for activities that are part of the General Fund but that the Governing Body would want to see as sperate funds.
    iv. Consider a multi-year operation budget as an additional schedule.

7. Annual Operating and Capital Budget Resolution or Ordinance
   Depending on a local government's charter and policies, the Budget (Finance) Committee may make changes to the Executive Budget presented to them by the CEO, CFO, or Budget Officer prior to it being placed in the Operating and Capital Budget Ordinance or Resolution. The Budget (Finance) Committee may also make changes to the proposed tax levy prior to adoption.

   Because the process is often specific to the laws that apply to your local government, procedures should be developed and followed to comply with budget laws that govern your local government's budget process. If your local government does not have laws that address these, contact MTAS, CTAS, TAUD, or our Office for assistance with developing procedures to ensure your government has controls in place for adoption and subsequent amendment.

   The Comptroller of the Treasury or a designee may require the Governing Body to amend the original budget or the subsequent amendment budget to reduce spending for maintenance of a balanced budget.

   Unexpended and unencumbered appropriations authority authorized by the Annual Operating and Capital Budget lapses at the end of the fiscal year.

8. Property Tax Levy Ordinance or Resolution, as applicable
   Property tax is the only revenue the Governing Body has direct control over. All other revenues are authorized by State statute and cannot be changed solely by the action of the Governing Body. A property tax levy must be adopted for each fiscal year to collect property tax in that fiscal year.

   In a reappraisal year, local governments should not delay the budget process. The budget is based on estimates and the expectation of our Office is for the certified property tax rate and annual budget to be adopted simultaneously and timely during a reappraisal year. If the certified property tax rate is not available at the time of budget adoption, local officials should follow the guidance in Appendix 8. If there are special circumstances, local officials should reach out to our Office and we will work with the local government and the Comptroller's State Board of Equalization to address the situation.

If the certified tax rate is adopted as the property tax rate, then the amount of property tax revenue generated will be approximately the same as the current year for the upcoming budget year. For information about the reappraisal process, visit the Comptroller's State Board of Equalization website at: tncot.cc/certified-tax-rate. The certified tax rate can be adopted by resolution or ordinance, depending upon state and local laws that apply to your specific local government.

In accordance with TCA § 67-5-1702, a Governing Body electing to adopt a property tax rate exceeding the certified tax rate must:

a. Advertise its intent to exceed the certified tax rate in a newspaper of general circulation in the county and the information regarding the public hearing at which it intends to adopt an ordinance or resolution authorizing a property tax levy exceeding the certified tax rate.
b. Within thirty (30) days after the publication, furnish to the State Board of Equalization an affidavit of publication.
c. After the public hearing, the Governing Body may adopt an ordinance or resolution levying a tax rate more than the certified tax rate.

If the property tax levied is not sufficient to meet the balanced budget requirements for TCA § 9-21-403, the Comptroller of the Treasury or a designee may direct the Governing Body to amend its budget to ensure obligations are met for the budget year, including debt service payments.

D. Transparency

Local governments are responsible for the public finances they manage. Part of that responsibility includes transparency to the public served. Local officials are responsible for complying with public transparency requirements. State law and local policy will govern the requirements specific to your government. Requirements will often include:

1. Publication of a notice of the public hearing in the format required by statute.

2. Notification that the budget and all supporting data is available in the Office of the Chief Financial Officer and is open to public inspection.

3. A public hearing is held on the proposed budget before its final adoption by the Governing Body.

These three requirements provide transparency in the process by giving citizens notice of the public hearing on the budget, an opportunity to examine the proposed budget, and an opportunity to participate in the public hearing. A local government may elect to do more than the minimum statutory requirements. Our Office recommends that a local government publish the annual budget and any amendments on its website.

The following are some of the methods of engaging in public participation in the budget process:

1. Websites and dashboards

    a. Online budget
    b. Surveys
    c. Interactive tools
2. Citizen involvement
    a. Citizen advisory committees
    b. Public outreach meeting
    c. Scheduling Budget (Finance) Committee and Governing Body meetings at times the public can easily attend.
3. Budget Education

Appendix 2

Budget Calendar Examples

Counties

Date	Budget Cycle Phase	Responsible Party	Procedure
January	Preparation	Budget Director	Deliver forms for all budget requests to all departments.
By March 1	Preparation	Departments	All departments except the local board of education shall deliver the appropriate estimates and budget request to the Budget Director.
By April 1	Preparation	Budget Committee and Budget Director	The county Budget Committee shall vote upon the proposed budget and the Budget Director shall notify the departments if the committee approves or rejects the proposed budget.
Immediately After Prior	Preparation	Budget Director	If approved, the Budget Director shall immediately forward the proposed budget to the county legislative body for consideration; or
Immediately After Prior	Preparation	Departments	If rejected, the department, commission, institution, board, office, or agency shall submit a revised budget proposal to the Director of Accounts and Budgets within ten (10) business days after receipt of notice that the budget proposal was rejected.
By May 1	Preparation	School Department	The Local Education Agency (LEA) shall submit a proposed budget to the Budget Director, provided that the LEA may amend the proposed budget after May 1.
By June 1	Adoption	Budget Committee and Budget Director	The county Budget Committee shall vote upon the proposed budget and the Budget Director shall notify the LEA if the Budget Committee approves or rejects the LEA budget.
Immediately After Prior	Adoption	Budget Director	If approved, the Budget Director shall immediately forward the proposed budget to the county legislative body for consideration
Immediately After Prior	Adoption	School Department	If rejected, the LEA shall submit a revised budget proposal to the Budget Director within ten (10) business days after receipt of notice that the budget proposal was rejected.
Immediately After Prior	Adoption	County Commission	If the Budget Committee rejects the first or second budget proposals of a department, then the third and subsequent proposals shall be sent directly to the County Commission which shall approve or reject it within ten (10) business days.
On or Before June 30	Adoption	County Commission	Adopt the fiscal year budget.
Within 15 days of Adoption	Oversight	Budget Director	Submit the budget to the Comptroller's Division of Local Government Finance for approval.
After Adoption	Execution	Finance Staff	Implement the budget.
July 1 through June 30	Execution	Finance Staff	The Finance Staff shall monitor the budget and make any recommended amendments to the County Commission prior to overspending an appropriation.
After the Budget Year	Oversight	County Commission	Implement policies and procedures to address audit findings related to the budget process.
After the Budget Year	Oversight	County Commission and/or Utility Board	Implement directives from the Tennessee Board of Utility Regulation.

Municipalities

Date	Budget Cycle Phase	Responsible Party	Procedure
January-February	Preparation	Finance Director	Review prior year audit and current year estimates and prepare estimate forms.
March-April	Preparation	Finance Director	Meet with departments and estimate revenue to compile budget.
By May 15	Preparation	Finance Director	Submit estimated budget to Finance Committee for review/consideration.
Immediately after Prior	Preparation	Mayor	Submit proposed budget to legislative body.
By June 1	Adoption	Legislative Body	Finalizes budget, hold public meeting to adopt the budget on first reading.
Immediately after Prior	Adoption	Finance Director	Publishes budget notice and call a public hearing for at least 10 days after publication.
On or Before June 30	Adoption	Legislative Body	Adopt the fiscal year budget (If a three reading City plan to hold third reading prior to June 30).
Within 15 days of Adoption	Oversight	Finance Director	Submit the budget to the Comptroller's Division of Local Government Finance for approval.
After Adoption	Execution	Finance Staff	Implement the budget and enter into the accounting system.
July 1 through June 30	Execution	Finance Staff	The Finance Staff shall monitor the budget and make any recommended amendments to the County Commission prior to over spending an appropriation.
As Applicable	Oversight	Legislative Body	Implement policies and procedures to address audit findings related to the budget process.
As Applicable	Oversight	Legislative Body	Implement directives from the Tennessee Board of Utility Regulation.

Utility Districts

Amount of Time Before the Start of the Fiscal Year	Budget Cycle Phase	Responsible Party	Procedure
Four Months	Preparation	Finance or General Manager	Review the prior year's audit and current year's estimates and prepare the estimated budget.
Two Months	Preparation	Finance or General Manager	Submit the proposed budget to the legislative body.
One to Two Months	Adoption	Commission	Hold a meeting of the governing body for the Utility District or Authority for consideration of the budget for adoption.
Immediately after Prior Step	Oversight	Finance Staff	Submit the budget to the Comptroller's Division of Local Government Finance for approval.
After Adoption	Execution	Finance Staff	Implement the budget.
Entire Fiscal Year	Execution	Finance Staff	Monitor the budget and make any recommended amendments to the governing body.
As Applicable	Oversight	Commission	Implement policies and procedures to address audit findings related to the budget process.
As Applicable	Oversight	Commission	Implement directives from the Tennessee Board of Utility Regulation.

Appendix 3

County Continuation Budget Guidance

Counties in Tennessee are required to adopt their operating budget before the beginning of the fiscal year. If circumstances arise and the county cannot adopt its budget by June 30, then Tennessee law gives authority for counties operating under the General Law, County Budgeting Law of 1957, Financial Management Act of 1981, and Financial Management Act of 1993 to operate on a continuation budget. All other counties should consult their charters.

Counties budgeting pursuant to the General Law, County Budgeting Law of 1957, and Financial Management Act of 1981 may continue operations with the appropriations of the prior fiscal year if the county legislative body (the "CLB") has not adopted an appropriation resolution for its current fiscal year by June 30.[1] No action is required by the CLB to adopt a continuation budget if the budget is adopted prior to August 31. An agency of a county, or other entity that receives county monies, can spend no more than the amount spent in the same month of the prior fiscal year while operating under a continuation budget. While operating under a continuation budget, a county can amend its prior year's budget, especially to provide for the payment of debt service. A final operating budget for each fiscal year must be adopted no later than August 31. Under extraordinary circumstances, a county may request approval from the Comptroller's Division of Local Government Finance (LGF) to adopt a continuation budget approval resolution that extends its prior fiscal year appropriation authority through September 30.

Continuation Budget Extension

There are extraordinary circumstances that may justify an approval from LGF to extend the county's continuation budget authority until September 30. The following circumstances would **not** meet requirements for approval of a continuation budget extension:

- Inability to reach an agreement on the budget
- School Board has not provided the final budget
- Property reassessment year
- Election year
- Financial statements not audited

If a county wants to request an approval for an extension of the continuation authority, it should submit a request letter from the County Executive/Mayor, on or before August 15, which includes:

- A statement that the county's current year budget is balanced and can remain balanced during the continuation period,
- An explanation of the extraordinary circumstances that necessitated the request for continuance,
- Whether these circumstances have occurred before, and, if so, how often.

Additional information may be requested. LGF will respond within 7 business days of the request.

[1] T.C.A. § 5-9-404 General Law Budgeting, T.C.A. § 5-12-109(A) County Budgeting Law of 1957, and T.C.A. § 5-21-111 Financial Management Act of 1981.

The county should set and properly advertise a meeting at which either a continuation budget extension resolution can be adopted or the appropriation resolution for its current fiscal year can be adopted. If the extension of a continuation budget is approved, the CLB must adopt the county's appropriation resolution and tax levy resolution by September 30. A county will not have authority to spend money after September 30 without an adopted budget. Adopting a budget and tax levy in September may delay the collection of taxes until after the property tax due and payable date of the first Monday in October.

Final Operating Budget Requirements

The county should consider the following when adopting its budget:

- The appropriation and tax levy resolutions the CLB adopts and supporting documentation for the budget must be submitted to LGF for approval. State law requires a complete and proper budget be submitted immediately upon adoption.
- State law requires a county school system to submit a complete and certified copy of its entire budget to the Tennessee Department of Education (TDE) within 30 days after the beginning of the fiscal year.
- The CLB needs to adopt a budget in a timely manner so that its school system may be able to report a complete and certified school budget to TDE by the final reporting deadline of October 1 in order to maintain its eligibility to receive state school funds.
- Property taxes are due and payable on the first Monday in October.
- If the CLB adopts an unbalanced budget or one with insufficient monies appropriated for the payment of debt service, the Comptroller may direct that the appropriation resolution be amended to reduce expenditures or that the tax levy resolution be amended to increase the property tax levy.
- If the CLB does not adopt a budget in a timely manner, a county will not have any spending authority after the continuation budget deadline of August 31 or after the continuation budget extension deadline of September 30.

Please contact our Office at 615.401.7829 if you need further guidance. We ask that you contact your CTAS financial consultant if you need assistance with any of these processes related to the Commission's adoption of an appropriation resolution and tax levy resolution.

Appendix 4

Resolution to Transfer Funds to the School Federal Projects Fund

Resolution No. ______________

RESOLUTION OF THE GOVERNING BODY OF

__________________________ TENNESSEE,

AUTHORIZING THE TRANSFER OF $_________________________

FROM

THE GENERAL PURPOSE SCHOOL FUND

TO

THE SCHOOL FEDERAL PROJECTS FUND

WHEREAS grants in the Federal Projects Fund are on a reimbursement basis and funds are requested from the State of Tennessee by [*Name of School System*] for expenditures on a monthly basis; and,

WHEREAS the School Federal Projects Fund operates with a cash deficit at various times throughout the fiscal year due to a slow turn-around time for reimbursements from the State of Tennessee; and,

WHEREAS a cash deficit in any fund is considered to be a significant deficiency in internal control; and,

WHEREAS [*Name of School System*] does not desire to operate any fund with a cash deficit.

NOW, THEREFORE, BE IT RESOLVED by the Board of Education of [*Name of School System*], a local education agency in Tennessee, meeting in called session on this ___________ day of _______ 202 ___ and by the [*Name of Governing Body of the Name of City or County*], a [*Municipality/County*] in Tennessee, meeting in called session on this _________ day of _______ 202___, that:

Section 1. The General Purpose School Fund shall transfer $_________________ to the School Federal Projects Fund on _____________ 30, 202___.

Section 2. The $ ____________ transfer shall remain in the School Federal Projects Fund as a committed fund balance from the General Purpose School Fund and may be repaid at any time as noted in a resolution passed by the Board of Education and [*Name of Governing Body of the Name of City or County*].

Section 3. This resolution will take effect upon passage. The Secretary of the Board of Education shall include this Resolution in the minutes of the [*Name of School System*]. The [*Name of City or County*] shall include this Resolution in the minutes of the [*Name of City or County*].

Adopted this _________ day of _______ 202___.

APPROVED:

____

Chairman, Board of Education

APPROVED:

____

Mayor/County Executive [Identify Type of Governing Body]

ATTEST:

____

Secretary, Board of Education

ATTEST:

____

[Identify Title of Local Official]

Appendix 5

County Budget Amendments

	General Law T.C.A. § 5-9-407	1981 Financial Management System T.C.A. § 5-21-111 thru 113	1993 Local Option Budgeting Law T.C.A. § 5-12-212-213	1957 Fiscal Act	Private Act or Home Rule	Metropolitan Charter
Statutory-Required Expenditures	May not be amended to reduce any expenditure required by law. T.C.A. § 5-9-407(a)	The county legislative body may alter or revise the proposed budget; however, it may not reduce budgeted amounts for the repayment of debt principal and interest requirements or for other expenditures required by law. T.C.A. § 5-21-111(e)(1)		Follow provisions of General Law.	Refer to enabling legislation to determine requirements specific to your government. If your county's Private Act or Home Rule charter does not provide budget amendment authority, you will need to determine if the county is authorized to make amendments under the General Budgeting Law.	General laws for metro governments do not specifically address budget amendments. You should ensure that you have legal authority to amend the legal budget document.
Highway Departments		T.C.A. § 5-21-110(c)(2) includes Highway Funds in the budget.	Must first be approved by the chief administrative officer of the county highway department.			
Schools	Must be approved by the school board. T.C.A. § 5-9-407(a)	The classification of expenditures and receipts of all county school funds for any purpose, administered by the county board of education and county director of schools, shall conform to the classification of accounts as prescribed by the Commissioner of Education. T.C.A. § 5-21-110(d)(4).	Must first be approved by the school board.	Follow provisions of General Law.		
Definition of Major Budget Category	Defined as major categories or summary accounts in latest COT chart of accounts.	TCA 5-21-110(d)(3) as set by the state uniform accounting system.	Not defined in this local option law, follow provisions of General Law.	Follow provisions of General Law		
Major Budget Category Legal Action	Passage of an amendment by majority of county legislative body.	Submitted to the budget committee for its recommendation to the county legislative body.	Specific requirements apply. The county should develop policies to ensure statute is followed.	Follow provisions of General Law.		

	"General Law T.C.A. § 5-9-407"	1981 Financial Management System T.C.A. § 5-21-111 thru 113	"1993 Local Option Budgeting Law T.C.A. § 5-12-212-213"	1957 Fiscal Act	Private Act or Home Rule	Metropolitan Charter
Major Budget Category: Request by an Official or Department Head	Must be in writing to county and each member of legislative body.	A department head is entitled to a hearing before the legislative body in order to justify any proposed additional requests or budget estimates. T.C.A. § 5-21-111(f)	Must be in writing to county and each member of legislative body.	Follow provisions of General Law.	Refer to enabling legislation to determine requirements specific to your government. If your county's Private Act or Home Rule charter does not provide budget amendment authority, you will need to determine if the county is authorized to make amendments under the General Budgeting Law.	General laws for metro governments do not specifically address budget amendments. You should ensure that you have legal authority to amend the legal budget document.
Major Budget Category: Form/Content of Amendment	T.C.A. § 5-9-407(b)	T.C.A. § 5-21-113(e) - above the line item category must be sent to the commission for approval.	T.C.A. § 5-12-213(a)(3)	Follow provisions of General Law		
Line Item Within a Major Category	Cannot be previously disapproved by legislative body. Specific requirements apply. The county should develop policies to ensure statute is followed.	The budget committee, with the consent of any official, head of any department or division that may be affected, may make transfers and adjustments within the smallest budgetary itemization of any subdivision.	Specific requirements apply. The county should develop policies to ensure statute is followed.	Follow provisions of General Law T.C.A. § 5-12-110		
Amendments as a Result of Local, State, or Federal Revenues Received in Excess of Estimates Used to Adopt the Budget		Submitted to the budget committee for its recommendation to the county legislative body.	Approved by majority vote of legislative body. The requesting department must give written notice to the county mayor at least 7 days prior to consideration by legislative body. T.C.A. §5-12-212			
Impoundment to Prevent a Deficit		T.C.A. § 5-21-112(c)(1)	T.C.A. § 5-12-215			
Court Orders		The county legislative body shall adopt any budget amendment necessary to implement such court order. T.C.A. § 5-21-110(d)(5)	Amendments shall be made to comply with court orders. T.C.A. § 2-12-213(c)			

Appendix 6

Municipality Budget Amendments
Frequently Asked Questions

1. **When and how do municipalities amend their budgets?**

   Municipalities must amend their budgets prior to increasing spending for any appropriation.

   Tennessee Constitution Article 2 § 24, Tenn. Code Ann. § 9-1-116, Municipal Budget Law of 1982 (Tenn. Code Ann. §§ 6-56-203 & 6-56-208), General Law City Manager-Commission Charter (Tenn. Code Ann. § 6-22-124), and General Law Modified City Manager-Council Charter (Tenn. Code Ann. § 6-35-308)

2. **Can a municipality amend its budget after the end of the fiscal year?**

   Monies must be appropriated prior to being spent. Budget amendments must be adopted to authorize increases in spending. No provision is made to permit the authority to spend after the fact.

   Tennessee Opinion of the Attorney General No. 99-075

3. **At what classification level are budget amendments made?**

   Municipal appropriations are made at the department, office, board, and agency level or organizational unit level unless the requirements of your municipal form of government exceed the requirements of the Municipal Budget Law of 1982.

   Municipal Budget Law of 1982 (Tenn. Code Ann. §§ 6-56-202 & 6-56-203(1))

4. **Do amendments need to show the source of funds (revenues, fund balance, reductions in other appropriations, or transfers) supporting any new spending?**

   Yes.

   Tennessee Constitution Article 2 § 24, Tenn. Code Ann. § 9-1-116, Municipal Budget Law of 1982 (Tenn. Code Ann. §§ 6-56-203 & 6-56-208), General Law City Manager-Commission Charter (Tenn. Code Ann. § 6-22-124), and General Law Modified City Manager-Council Charter (Tenn. Code Ann. § 6-35-308)

5. **Can the expenditure amounts in the detailed budget or budgetary control accounts be less than the amount appropriated?**

   Yes, the appropriated amount is the maximum amount that may be spent for that appropriation. The amount appropriated cannot exceed available cash as estimated in the original budget ordinance and spending for appropriations cannot exceed monies available at the time of expenditure. A municipality may use control accounts which are less than the amount appropriated. A municipality cannot plan to spend more than appropriated.

Tennessee Constitution Article 2 § 24, Tenn. Code Ann. § 9-1-116, Municipal Budget Law of 1982 (Tenn. Code Ann. §§ 6-56-203 & 6-56-208), General Law City Manager-Commission Charter (Tenn. Code Ann. § 6-22-124), and General Law Modified City Manager-Council Charter (Tenn. Code Ann. § 6-35-308)

6. How are transfers made between funds?

Transfers between funds are made by appropriating through the original budget ordinance or by a budget amendment from the sending fund to the receiving fund. Transfers are reported as other financing uses for the fund transfers are made from and as other financing sources for the receiving fund. **A transfer is not a loan between funds.** A transfer must be appropriated and included in the original budget ordinance or in a budget amendment before it can be executed.

Tenn. Code Ann. §§ 6-22-122, 6-35-308 and 6-56-203(1)

7. How are budgetary transfers made between appropriations in the same fund?

a. Municipalities Generally

Budgetary transfers between departments, offices, boards, and agencies are made by a budget amendment adopted by the governing body unless the governing body has delegated authority in the original budget ordinance for the budget officer to make transfers. When the authority is delegated by the governing body, it must set a maximum amount the budget officer may transfer. If authority has been delegated to the budget officer, the budget officer must report to the governing body the amount of any transfers between appropriations in the same fund at the next regular meeting. The report on the transfer must be entered in the minutes of that meeting. Any transfer above the amount delegated to the budget officer must be by a budget amendment adopted by the governing body.

Municipal Budget Law of 1982 (Tenn. Code Ann. § 6-56-209)

b. Municipalities with a General Law City Manager – Commission Charter

Budgetary transfers between departments, offices, boards, and agencies within the same fund are by budget amendment.

Tenn. Code Ann. § 6-22-124(c)

c. Municipalities with a General Law Modified City Manager – Council Charter

The city manager can make budgetary transfers between departments, agencies, or activities within each fund.

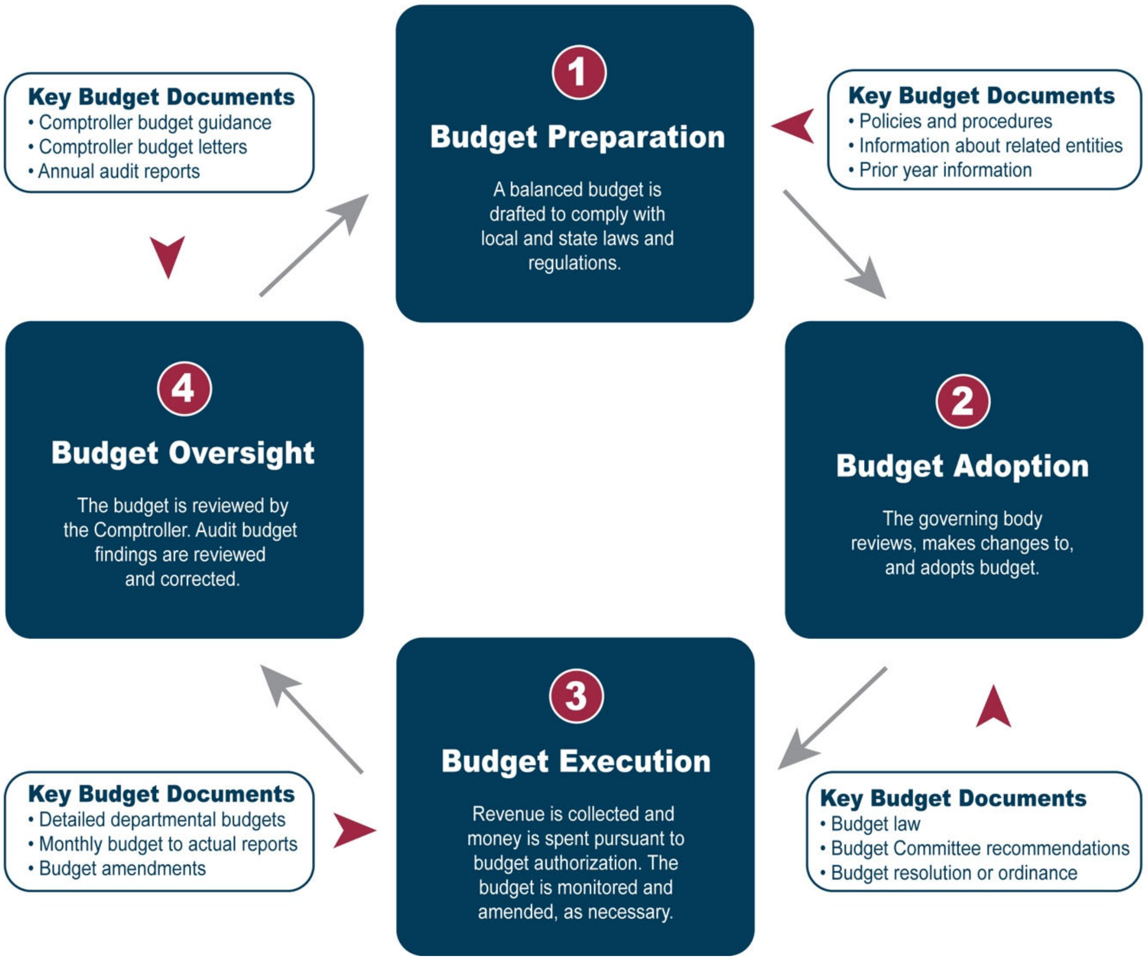
Tenn. Code Ann. § 6-35-310

8. Do budget amendments have to be balanced?

Budgets must remain balanced. Therefore, increases in appropriations must be accompanied by an increase in revenues, a transfer of money from another fund, a decrease in cash, a use of fund balance (or net position), or a decrease in the appropriations of another organizational unit(s) of the same fund.

Appendix 7

The Budget Cycle



Appendix 8

Adopting the Budget During a Reappraisal Year

At specified intervals, counties in Tennessee must revalue land and buildings for property tax purposes. This is referred to as a reappraisal year. In a reappraisal year, the Tennessee State Board of Equalization (SBOE) gives each taxing jurisdiction a Certified Tax Rate (CTR) as prescribed by Tenn. Code Ann. Title 67, Chapter 5, Part 17. The CTR is designed to ensure to the taxpayers that there is no tax increase hidden in the reappraisal, accordingly, the CTR will generate property tax revenue consistent with the prior year. Newly taxable real and personal property are backed out of CTR calculation but will generate additional property tax revenue. This document examines the impact of the CTR on the annual budget adoption process.

Budgets for counties and municipalities should be adopted on or before June 30 of each year. When the CTR will not be available at the time of budget adoption, local officials should proceed to adopt the budget in a timely manner and then follow the steps provided by the State Board of Equalization for adoption of the tax rate when the CTR is available.

Defined Terms

County Assessor—an elected official whose role is to accurately identify, list, appraise, and classify all taxable properties in preparation of the annual assessment roll. The county assessor plays an important role in calculating the certified tax rate.

Certified Tax Rate (CTR)—the rate, as calculated by the county assessor and chief executive of the tax jurisdiction and reviewed by the Tennessee State Board of Equalization, that represents the tax rate needed to collect property tax revenues consistent with the prior year after a reappraisal of property values. The certified tax rate can only be exceeded after the notification of and the holding of a public hearing.

Certified Tax Rate (CTR) Law—requires local governments to conduct public hearings before adopting a property tax rate that generates more taxes overall in a reappraisal year than were billed the year before at the previous year's lower values. The CTR law is codified in Tenn. Code Ann. § 67-5-1701 and sometimes referred to as the truth-in-taxation law. The law requires counties and cities to determine a tax neutral rate using the new reappraisal values after adjusting for either new properties or properties removed from the tax base since the prior year. Truth-in-taxation is intended to make sure higher reappraisal values do not automatically result in a tax increase.

Once a certified rate is calculated by the assessor and chief executive of the tax jurisdiction, and reviewed by the State Board of Equalization, it is submitted to the jurisdiction's governing body for formal determination, usually for consideration with the budget. If the budget requires an increase above the certified rate, the governing body must publish notice of a public hearing on whether to exceed the certified rate and then may proceed to adopt an actual tax rate after the hearing. If the certified tax rate is exceeded, the jurisdiction must send the State Board of Equalization an affidavit of publication for the hearing notice, and a certified copy of the final tax rate ordinance or resolution. State Board of Equalization's website: https://comptroller.tn.gov/boards/state-board-of-equalization.html.

How to adopt a timely budget when the CTR is not yet available

Adopting the Certified Tax Rate (CTR)

Local officials adopt the CTR when they need a property tax rate that will generate revenue consistent with the prior year. Once a CTR is calculated and reviewed by the assessor and chief executive of the tax jurisdiction, and reviewed by the State Board of Equalization, it is submitted to the jurisdiction's governing body for formal determination, usually for consideration with the budget. Newly taxable real and personal property are backed out of CTR calculation but generate additional property tax revenue.

Budget Impact:

- The property tax revenue estimate will be the sum of: (1) last year's property tax revenue estimate *and* (2) estimated property tax revenue generated from new growth in the area (the county assessor will have the growth value). Contact MTAS or CTAS for assistance.
- Include the dollar amount of the estimated property tax revenue in the budget and proceed with the remainder of the budget preparation process.
- It is important not to include an estimated rate in the legal budget document or to separately adopt an estimated property tax rate. Instead, local officials should adopt the property tax rate after obtaining the CTR from the State Board of Equalization (SBOE).
- We recommend that the legal budget document include language stating that the governing body plans to adopt the CTR when it is available and a brief description of how the property tax revenue estimate was determined.
- Once the CTR is available, officials should follow the steps outlined by the SBOE and submit the tax levy adoption resolution or ordinance to the Division of Local Government Finance. ~~LGF@cot.tn.gov.~~

Exceeding the Certified Tax Rate (CTR)

Local officials adopt a rate that is higher than the CTR when they need a property tax rate that will generate more revenue than the prior year. Once a CTR is calculated and reviewed by the assessor and chief executive of the tax jurisdiction, and reviewed by the State Board of Equalization, it is submitted to the jurisdiction's governing body for formal determination, usually for consideration with the budget. Newly taxable real and personal property are backed out of CTR calculation but generate additional property tax revenue. State law requires a public hearing with specific public notice of intent to exceed the CTR before a rate higher than the CTR is adopted by the governing body.

Budget Impact:

- The property tax revenue estimate will be the sum of: (1) last year's revenue *and* (2) the planned increase (penny rate times the number of pennies increased) *and* (3) estimated property tax revenue generated from new growth in the area (the county assessor will have the growth value). Contact MTAS or CTAS for assistance.
- Include the dollar amount of the estimated property tax revenue in the budget and proceed with the remainder of the budget preparation process.

- It is important **not** to include an estimated **rate** in the legal budget document or to separately adopt an estimated property tax rate. Instead, local officials should adopt the property tax rate **after** obtaining the CTR from the State Board of Equalization (SBOE).
- We recommend language in the legal budget document stating that the governing body plans to adopt a rate that exceeds the CTR when it is available and a brief description of how the property tax revenue estimate was determined.
- Once the CTR is available, a public hearing must be held to notify the public of the governing body's intention to exceed the CTR.
- After the public hearing, follow the steps outlined by the SBOE and submit the tax levy adoption resolution or ordinance to both the SBOE *and* the Division of Local Government Finance.~~LGF@cot.tn.gov.~~

What if the governing body fails to adopt a rate that exceeds the CTR?

After the public hearing, the governing body may ultimately decide to vote against a property tax rate that exceeds the CTR.

Budget Impact:

- The initial property tax revenue estimate will need to be decreased by budget amendment to the sum of: (1) last year's property tax revenue estimate *and* (2) estimated property tax revenue generated from new growth in the area (the county assessor will have the growth value). Contact MTAS or CTAS for assistance.
- If the tax increase that failed would have funded new spending, then expenditures must also be reduced by budget amendment, or fund balance used to balance the budget. Use of fund balance is appropriate when there are adequate reserves, and the proposed use complies with the local government's fund balance policy. See the Comptroller's publication "Seven Keys to a Fiscally Well-Managed Budget" (7-Keys).
- Once the CTR is available, follow the steps outlined State Board of Equalization (SBOE) and submit the tax levy resolution or ordinance to both the SBOE *and* the Division of Local Government Finance~~LGF@cot.tn.gov~~.

Municipalities Located in More Than One County

A municipality located in more than one county may have counties with different reappraisal cycles. When this happens, local officials will need to apply the steps above for the impacted tax rate.

Conclusion

Timely budget adoption is key to good financial management and this publication is meant to facilitate timely budget adoption in reappraisal years when the CTR is delayed beyond June 30. The budget should be adopted before the start of the fiscal year and submitted to the Comptroller's Division of Local Government Finance within 15 days of adoption. In a reappraisal year, the property tax **rate** should be adopted as soon as possible **after** receiving the CTR from the State Board of Equalization. This may result in local governments submitting the tax rate adoption separately from and later than the initial budget submission. Please note that this will not adversely impact local governments that pursue the Comptroller's Annual Budget Certificate.

Appendix 9

Resolution No. ___________

A Resolution of

____________________________________, Tennessee

(Name of Municipality)

Amending the Fiscal Year 20__ Budget

WHEREAS the governing body adopted the fiscal year 20___ budget by ordinance number ______________ on __________, ____, 20___ and submitted the budget to the Tennessee Comptroller of the Treasury, Division of Local Government Finance, for review.

WHEREAS the Tennessee Comptroller's Division of Local Government Finance has required an amendment to the budget pursuant to Tenn. Code Ann. § 9-21-403.

WHEREAS pursuant to Tenn. Code Ann. § 9-21-108, at the direction of the Tennessee Comptroller of the Treasury, or the Comptroller's designee, any budget amendment required pursuant to Tenn. Code Ann. § 9-21-403 may be made by resolution of the governing body.

WHEREAS pursuant to the Tennessee Budget Manual for Local Governments, to be eligible for approval, the budget must be amended by resolution and returned to the Tennessee Comptroller's Division of Local Government Finance within 45 days of the date of the letter requiring the amendment. Should the budget not be approved, the municipality will not be able to issue debt beyond an emergency financing preapproved by the Comptroller's Division of Local Government Finance.

WHEREAS adoption of a budget amendment by resolution is permitted by state law to meet a condition for approval of the annual budget by the Tennessee Comptroller of the Treasury, or the Comptroller's designee, and all other budget amendments shall be made consistent with the public and/or private act(s) that govern the budget adoption and amendment process of the municipality.

NOW, THEREFORE, be it resolved by the governing body that it hereby adopts the following changes to the fiscal year ___________ budget:

(insert amendatory language)

Duly passed and adopted by the governing body this ________ day of ____________________________, 20____.

Signed ___________________________

Printed Name _____________________________

Mayor

Attested

Signed _______________________________

Printed Name ____________________________

City Recorder

Tennessee Comptroller of the Treasury

Jason E. Mumpower
Comptroller

MEMO

To: State Funding Board
From: Steve Osborne, Assistant Director, Division of Local Government Finance
CC: Sheila Reed, Director, Division of Local Government Finance
Date: December 16, 2024
Subject: Report on Emergency Financial Aid to Local Governments

On October 2, 2024, the Federal Emergency Management Agency (FEMA) issued a Major Disaster Declaration for eastern Tennessee due to flooding associated with tropical storm Helene (FEMA – 4832-DR-TN).

Pursuant to Tenn. Code Ann. § 9-13-201 et. seq (the "Act"), local governments must request approval from the Comptroller's Office prior to issuing notes in the case of economic distress due to a natural disaster certified by the Federal Emergency Management Agency (FEMA). The Act requires the Comptroller of the Treasury to report to the State Funding Board any approval of note issuance pursuant to Tenn. Code Ann. § 9-13-206.

We previously reported to the State Funding Board our approval of notes issued in connection with the FEMA declaration described above and as authorized by the Act. Since then, we approved a note issuance for Johnson County, Tennessee, and below is a listing of all FEMA notes approved in connection with FEMA – 4832-DR-TN to date.

Entity	Description	Date Approved	Amount Approved	Date Issued	Amount Issued	Maturity	Date Reported to SFB
Cocke County	Tax Anticipation Note (Interfund Loan for General Fund)	10/25/2024	$1,000,000	10/25/2024	$1,000,000	6/30/2026	11/4/2024
Cocke County	Tax Anticipation Note (Interfund Loan for Highway Fund)	10/25/2024	$1,000,000	10/26/2024	$1,000,000	6/30/2026	11/4/2024
Cocke County	Tax Anticipation Notes (Interfund Loan for Solid Waste Fund)	10/25/2024	$1,000,000	10/25/2024	$1,000,000	6/30/2026	11/4/2024
Johnson County	Tax Anticipation Note (Interfund Loan for Highway Fund)	11/1/2024	$1,531,672	10/29/2024	$1,531,672	6/30/2026	12/16/2024

We anticipate additional approvals and will report those at future meetings.

Enclosure: Johnson County Approval Letter

Tennessee Comptroller of the Treasury

Jason E. Mumpower
Comptroller

October 31, 2024

Honorable Mr. Larry Potter, Mayor
and Honorable Board of Commissioners
Johnson County
222 West Main Street
Mountain City, TN 37683

Subject: Highway Fund FEMA Notes

Dear Mayor Potter and Members of the Board:

Thank you for your recent correspondence. We acknowledge receipt on October 30, 2024, of a request from the Finance Director of Johnson County ("County") for approval to issue interfund Federal Emergency Management Agency tax and revenue anticipation notes for fiscal year 2025 in the total amount of $1,531,672 to be known as "FEMA Certified Disaster Tax and Revenue Anticipation Notes, Series 2024" ("FEMA TRANs"). The proceeds will be used by the Highway Department for cash flow management related to the uncertainty of projected revenues and increased costs of operations resulting from tropical storm Helene. The County has indicated it will issue the FEMA TRANs as an interfund loan from its Debt Service Fund.

The request included Resolution No. FEMA-1 adopted on October 29, 2024, by the Board of Commissioners authorizing the issuance of the FEMA TRANs. The County provided a cash flow forecast for the Debt Service Fund that demonstrates the County has sufficient cash to make the loan. The proposed note form was included with the request. The executed note form should be submitted when the County files the Report on Debt Obligation.

Statutory Authority

Pursuant to T.C.A. §§ 9-13-206 and 9-13-212, local governments are authorized to issue tax and revenue anticipation notes that mature beyond the current fiscal year for the purpose of funding operational expenditures if approved by the Comptroller and in the case of economic distress due to a natural disaster certified by the Federal Emergency Management Agency (FEMA). In October of 2024, FEMA certified a major disaster for multiple counties in Eastern Tennessee, including Johnson County, associated with tropical storm Helene (FEMA - DR-4832-TN). In its resolution, the County identified the stated purpose for issuing the notes is to meet appropriations made for fiscal year 2025 and committed to repay the FEMA TRANs no later than June 30, 2026.

Cordell Hull Building | 425 Rep. John Lewis Way N. | Nashville, Tennessee 37243

Tax and Revenue Anticipation Notes (TRANs) Approval

This letter constitutes approval pursuant to T.C.A. §§ 9-13-201, 9-21-801, and 9-21-408 for the County to issue the FEMA TRANs in the total amount of $1,531,672 as detailed above and maturing June 30, 2026. The FEMA TRANs shall be repaid from Highway Fund revenues. The County is responsible for ensuring compliance with Title 9, Chapter 21, Parts 1, 2, 4, and 8 of Tennessee Code Annotated, Title 9, Chapter 13 of Tennessee Code Annotated, its debt management policy, and payment of outstanding note principal and interest in accordance with the note provisions. This letter and the approval to issue debt do not address compliance with federal tax regulations and should not be relied upon for that purpose. The County should discuss these issues with a tax attorney or bond counsel.

Requirements After the Notes Have Been Issued

Our website contains specific compliance requirements your local government will be responsible for once the Notes have been executed: http://tncot.cc/debt.

Tennessee State Funding Board

Pursuant to Tenn. Code Ann. § 9-13-210, our office will report the approval of the FEMA TRANs to the Tennessee State Funding Board at its next meeting.

If you should have questions or need assistance, please refer to our online resources or feel free to contact your financial analyst, Lori Barnard, at 615.747.5347 or Lori.Barnard@cot.tn.gov.

Sincerely,

Steve Osborne, Assistant Director
Division of Local Government Finance

cc: Ms. Sandi Thompson, Assistant Secretary, Tennessee State Funding Board

SR:lb

Jason E. Mumpower
Comptroller

To: State Funding Board Members
From: Steve Osborne, Assistant Director
Division of Local Government Finance
Date: December 16, 2024
Subject: Third Notice of Default on Metro Nashville IDB Series 2015 Bonds

Insufficiency of Funds – Bellevue Mall Project

The Industrial Development Board of the Metropolitan Government of Nashville and Davidson County (the "IDB") filed a notice of default on December 2, 2024, in connection with insufficiency of funds for its $21,935,000 Tax Increment Revenue Bonds (the Bellevue Mall Project), Series 2015. For the third consecutive year, the debt service reserve fund has been exhausted for the bonds.

According to the default notice: *sufficient funds were not available to fund the scheduled December 1 debt service payment, requiring funds to be transferred from the debt service reserve fund, leaving an unpaid balance of $789,688.71 for the payment on December 1, 2024. The transfer of funds from the debt service reserve fund fully depleted the debt service reserve fund. Based on projected tax increment revenues there may be insufficient revenues to fully fund future debt service payments or to replenish the debt service reserve fund.*

Pursuant to State Funding Board Guidelines, IDBs are required to provide the Board notice of default, including insufficiency of funds not defined as a default under a bond indenture, within 15 days of the event. The notice was filed timely.

Series 2015 Bonds

History — The Series 2015 Bonds were issued on December 31, 2015, and the first three years of debt service (2016, 2017, and 2018) were met by using capitalized interest payments. Debt service reserve funds were needed beginning with the 2019 payment, which was the first year the payments from capitalized interest ended. Debt service reserve funds continued to be used in 2020 and 2021. However, draws upon the debt service reserve funds in 2022, 2023, and 2024 were insufficient to make the required debt service payments, by $45,690.99, and $395,404.85, $789,688.71, respectively.

Security, Type of Sale, and Investors — The Series 2015 Bonds are secured by Tax Incremental Financing (TIF) Revenues on the Bellevue Project. Failure to make payments on the Series 2015 bonds when TIF revenue is insufficient is not a default under the bond indenture, accordingly, the IDB is not in default with its bondholders.

The bonds were sold by private placement and the IDB reported that the Series 2015 Bonds were purchased by Preston Hollow Community Capital and that the investor was aware that the failure to make the payment due to inadequate TIF revenues was not a default under the indenture. Preston Hollow is a Dallas-based investment firm "*providing specialized impact financing solutions for projects of significant social and economic importance to local communities in the United States*."

For further information about the security for the Series 2015 Bonds, and the definition of default under the indenture, refer to the following excerpts from the private placement memorandum:

SECURITY AND SOURCES OF PAYMENT

Limited Obligations

The Bonds are special and limited obligations of the Issuer payable from Tax Increment Revenues on property located within the boundaries of the Bellevue Economic Impact Plan. ***Generation of sufficient Tax Increment Revenues to pay Debt Service on the Bonds requires the closing of the construction loans for the various Project components and the construction of most of the Project, none of which has occurred as of the issuance of the Bonds.***

THE BONDS AND THE OBLIGATIONS EVIDENCED THEREBY DO NOT CONSTITUTE A LIEN UPON ANY PROPERTY OF THE ISSUER OR ANY PROPERTY OF THE DEVELOPER, INCLUDING, WITHOUT LIMITATION, THE PROJECT, THE PLAN AREA OR ANY PORTION THEREOF, BUT CONSTITUTE A LIEN ONLY ON THE TRUST ESTATE AS SET FORTH IN THE INDENTURE. NOTHING IN THE BONDS OR IN THE INDENTURE SHALL BE CONSTRUED AS OBLIGATING THE ISSUER TO PAY THE BONDS OR THE REDEMPTION PRICE THEREOF OR THE INTEREST THEREON EXCEPT FROM THE TRUST ESTATE, OR AS PLEDGING THE FAITH AND CREDIT OF THE ISSUER, THE METROPOLITAN GOVERNMENT, THE COUNTY OR THE STATE OR ANY POLITICAL SUBDIVISION THEREOF, OR AS OBLIGATING THE ISSUER, THE METROPOLITAN GOVERNMENT, THE COUNTY OR THE STATE OR ANY OF ITS POLITICAL SUBDIVISIONS, DIRECTLY OR INDIRECTLY OR CONTINGENTLY, TO LEVY OR TO PLEDGE ANY FORM OF TAXATION WHATEVER THEREFOR. FOR THE AVOIDANCE OF DOUBT, DEVELOPER SHALL HAVE NO OBLIGATION TO PAY THE BONDS OR THE REDEMPTION PRICE THEREOF OR THE INTEREST THEREON.

Pledged Revenues and Funds; Trust Estate

Pursuant to the Indenture, the Issuer will pledge, transfer and assign to the Trustee for the benefit of the Bondholders (the "Trust Estate"):

- All of the Issuer's right, title and interest in all of that portion of the ad valorem real property taxes levied upon those parcels of real property and those items of personal property located within the boundaries of the Bellevue Economic Impact Plan, as described in more detail below (the "Designated Properties") (see **TAX INCREMENT FINANCING - Designated**

Properties for Tax Increment Revenues), required to be allocated to, and when collected, paid to the Issuer pursuant to the Industrial Development Board Act (the "Tax Increment Revenues");

- The Issuer's rights under the Development Agreement (see **DEVELOPMENT AGREEMENT**); and
- All moneys and securities in any one of the funds or accounts established under the Indenture (other than the Administrative Expense Fund).

Such security will be for the equal and proportionate benefit and security of the registered owners from time to time of the Bonds issued under the Indenture, without preference of any Bond over any other Bond. No additional bonds may be issued by the Issuer secured by the Tax Increment Revenues.

ARTICLE VIII.
EVENTS OF DEFAULT AND REMEDIES

Section 8.1 Events of Default and Remedies. Events of default and remedies with respect to the Bonds shall be as set forth in this Indenture.

Section 8.2 Events of Default Defined. Each of the following shall be an "Event of Default" under the Indenture, with respect to the Bonds:

(a) if default shall be made in the due and punctual observance or performance of any covenant, contract or other provision in the Bonds or in this Indenture to be observed or performed, as applicable, by the Issuer, and such default shall continue for a period of thirty (30) days after written notice specifying such default and requiring the same to be remedied shall have been given to the Issuer by the Trustee; provided however, in no event shall the failure to pay any installment of principal of or interest on the Bonds constitute an Event of Default, unless the Revenues and other amounts on deposit in the Pledged Funds are sufficient to timely pay such installment, in which case the default shall be immediate upon the failure to timely pay such installment; and, provided further, that failure to apply any Revenues and other amounts on deposit in the Pledged Funds to the payment of principal, interest and any premium on the Bonds as required hereunder shall constitute an immediate Event of Default; or

(b) if the Issuer or the Metropolitan Government shall institute proceedings to be adjudicated as bankrupt or insolvent, or shall consent to the institution of bankruptcy or insolvency proceedings against it, or shall file a petition or answer or consent seeking reorganization or relief under the federal bankruptcy code or any other similar applicable federal or state law, or shall consent to the filing of any such petition or to the appointment of a receiver, liquidator, assignee, trustee or sequestrator (or other similar official) of the Issuer or of any substantial part of its property, or shall make an assignment for the benefit of creditors, or shall admit in writing its inability to pay its debts generally as they become due.

Section 8.3 Acceleration; Rescission and Annulment. If an Event of Default described in Section 8.2(b) occurs and is continuing, the Trustee may, and upon the written request of the Bondholder Representative or, in the case of no Bondholder Representative, of Owners of not less than 25% in principal amount of the Bonds Outstanding shall, by written notice to the Issuer, declare the principal of all Bonds Outstanding and the interest accrued thereon to be due and payable, and upon any such declaration such principal and interest shall become immediately due and payable.

As noted above, this is the third notice of default for the Series 2015 Bonds. Following is a history of defaults (i.e., insufficient funds) reported to the State Funding Board:

Date of Default	Date Posted on EMMA	Date Filed with LGF	Default Description		Series 2015 Monetary Defaults	Date Reported to State Funding Board
12/1/2022	12/9/2022	12/16/2022	Semi-annual interest payment	$	45,691	2/15/2022
12/1/2023	12/27/2023	12/27/2023	Semi-annual interest payment		395,405	3/25/2024
12/1/2024	12/2/2024	12/2/2024	Semi-annual interest payment		789,689	12/16/2024
			Total Monetary Defaults	**$**	**1,230,785**	

Enclosures:

From the IDB's Notice of Default Submitted on December 2, 2024
1. Email Notification
2. Notice of Default Form
3. Notice of Default of Conduit Financing Debt Obligation (Pursuant to TCA § 7-53-304)
4. EMMA Event Notice Filing (Pursuant to the Continuing Disclosure Undertakings)
5. Private Placement Memorandum

From: Corbin I. Carpenter <corbinc@386beale.com>
Sent: Monday, December 2, 2024 2:44 PM
To: LGF; Charlie Lester; Sandi Thompson; Ron Queen
Cc: Sepik, Sharon (Finance); Hoeffner, Heidi (Finance - Treasury); McGee, Tammara (Finance - Treasury); Thomas, Joshua (Legal); Oldham, Jeff; Charles E. Carpenter; Brown, Jamari (Mayor's Office); Crumbo, Kevin (Finance); Brown, Kevin (Finance); Katrina Shepherd; standstrat@gmail.com
Subject: The Industrial Development Board of The Metropolitan Government of Nashville and Davidson County (T.C.A. 7-53-304(b))
Attachments: METRO NASHVILLE IDB DEBT SERVICE SHORTFALL FILING (POSTING VERSION) 12.02.2024.pdf; METRO NASHVILLE IDB NOTICE OF DEFAULT ON DEBT OBLIGATION (FINAL) 12.02.2024.pdf; Metro Nashville Industrial Development Board (Notice of Default Form) 12.02.2024.xlsx; Metro IDB TIF Revenue Bonds (Bellevue Mall Project), Series 2015 (Private Placement Memorandum).pdf

Importance: High

Good afternoon:

In accordance with the requirements of Tennessee Code Annotated Section 7-53-304(b), we are making this filing to the appropriate officials of the Offices of the Tennessee State Funding Board and the Comptroller of the Treasury. We have included for your review the required Notice of Default form with the corresponding attachments, to wit:

1. The EMMA filing of the Notice of Default made on December 2, 2024;
2. The Notice of Default to your offices dated today (December 2, 2024);
3. The Notice of Default Form dated today (December 2, 2024); and
4. The Private Placement Memorandum from the Series 2015 bond financing.

Please confirm receipt and advise if you need anything further from me. Thanks, CIC.

Corbin I. Carpenter, Esquire
Managing Member
Three Eight Six Beale Street
Memphis, Tennessee 38103
Phone: 901.523.7788
Fax: 901.523.2849
Cell: 901.603.8170
www.CarpenterLaw1978.com

CARPENTER LAW
PLLC | EST. 1978

CIRCULAR 230 DISCLOSURE

In accordance with U.S. Treasury regulations, if this message from Carpenter Law, PLLC (or any attachment) contains advice concerning one or more Federal tax issues, it is not a form legal opinion and may not be relied upon or used by any person for the avoidance of Federal tax penalties.

Notice of Default Form
Industrial Development Board

A. Name of IDB The Industrial Development Board of The Metropolitan Government of Nashville and Davidson County

B. Contact Information:

	Name	Title	Company Name	Phone Number	Email Address
IDB President	Nigel Hodge	Chairman			standstrat@gmail.com
IDB Counsel	Corbin I. Carpenter	Issuer's Counsel	Carpenter Law, PLLC	901523-7788	corbinc@386beale.com
Financial Advisor	N/A				
Obligor					
Authorized Representative	Nigel Hodge	Chairman			standstrat@gmail.com

C. Name of Defaulted Debt Issue Tax Increment Revenue Bonds (Bellevue Mall Project), Series 2015

D. Description of Debt revenue bonds issued as conduit to finance a portion of the redevelopment costs of the former Bellevue Center Mall.

E. Type of Default Monetary

F. Date of Default December 1, 2024

G. Date Default Reported on EMMA December 2, 2024

H. Reason for Default and Plans to Cure Lack of sufficient cash flow of pledge revenues to make scheduled debt service payments for the bonds

I. Additional Comments Please see attached hereto: (i) the December 2nd EMMA filing; (ii) the December 2nd filing with the Comptroller of the Treasury; and the (iii) Private Placement Memorandum for additional information.

*Please provide a copy of the Official Statement, Offering Memorandum, or Loan Documents, whichever is applicable.

J. Signatures

Signature	/s/ Nigel Hodge	/s/ Corbin I. Carpenter
Name	Nigel Hodge	Corbin I. Carpenter
Title	Chairman	Issuer's Counsel
Phone		901-523-7788
Email	standstrat@gmail.com	corbinc@386beale.com
Date	December 2, 2024	December 2, 2024

K. Date Notice of Default Filed with Comptroller of the Treasury #############

NOTICE OF DEFAULT OF CONDUIT FINANCING DEBT OBLIGATION
(Pursuant to Tennessee Code Annotated Section 7-53-304 *et seq*., as amended)

Conduit Issuer:	**The Industrial Development Board of the Metropolitan Government of Nashville and Davidson County, Tennessee (the "Industrial Development Board")**
Relevant CUSIP Number:	**592111BG2**
Type of Information:	**Notice of Default of Debt Obligations regarding the Industrial Development's Board $21,935,000 Tax Increment Revenue Bonds (Bellevue Mall Project) Series 2015 (the "Bonds")**
Type of Disclosure:	**Notice of Default of Debt Obligations as set forth in Tennessee Code Annotated Section 7-53-304(b)**
Description:	**Principal and interest payment delinquency; and unscheduled draw on debt service reserve fund reflecting financial difficulties.**

THE INDUSTRIAL DEVELOPMENT BOARD IS MAKING THIS FILING OF DEFAULT OF DEBT OBLIGATIONS PURSUANT TO TENNESSEE CODE ANNOTATED 7-53-304(b).

Capitalized terms used herein shall have the meanings ascribed to them as set forth in the Indenture (as hereinafter defined) and the Undertaking (as hereinafter defined).

The Bonds were issued pursuant to a Trust Indenture dated as of December 1, 2015 (the "**Indenture**"), by and between the Industrial Development Board and Regions Bank, as Trustee (the "**Trustee**"). Under the Indenture, the Industrial Development Board pledged as security for payment of the Bonds (i) its rights to the tax increment revenues generated by the Bellevue Mall Project (the "**Project**"), (ii) its rights under the Development Agreement executed by and between the Industrial Development Board and Bellevue Redevelopment Associates, LP (the "**Developer**") for the Project, and (iii) certain funds established and maintained under the Indenture, including a debt service reserve fund.

On December 31, 2015, the Industrial Development Board served as conduit issuer (the "**Conduit Issuer**") in connection with its $21,935,000 Tax Increment Revenue Bonds (Bellevue Mall Project) Series 2015 (the "**Bonds**"). The Bonds are special and limited obligations of the Industrial Development Board, and neither the Industrial Development Board, the State of Tennessee, nor any political subdivision thereof, including The Metropolitan Government of Nashville and Davidson County (the "**Metropolitan Government**"), nor the Developer or owner of the Project or the Plan Area or any portion thereof, shall be obligated to pay the Bonds except from funds pledged under the Indenture. The Industrial Development Board has no taxing power.

Debt service on the Bonds is payable on June 1 and December 1 of each year. The debt service on the Bonds is payable solely from funds pledged under the Indenture and are additionally supported by a debt service reserve fund that can be used to pay debt service on the Bonds if tax increment revenues are insufficient.

The Industrial Development Board hereby provides notice that sufficient funds were not available to fund the scheduled December 1 debt service payment, requiring funds to be transferred from the debt service reserve fund, leaving an unpaid balance of $789,688.71 for the payment on December 1, 2024. The transfer of funds from the debt service reserve fund fully depleted the debt service reserve fund. Based on projected tax increment revenues there may be insufficient revenues to fully fund future debt service payments or to replenish the debt service reserve fund.

The Industrial Development Board further provides notice that pursuant to the terms of the Indenture and other applicable Bond documentation a debt service delinquency is not a default, but the Industrial Development Board as the conduit issuer for the Bonds determined that as a matter of compliance with Tennessee law that this public filing of this Notice of Default of Debt Obligations is required pursuant to Tennessee Code Annotated Section 7-53-304(b).

THIS NOTICE OF DEFAULT OF DEBT OBLIGATIONS FILING IS PROVIDED SOLELY FOR TENNESSEE CODE ANNOTATED, SECTION 7-53-304 (b). THIS FILING DOES NOT CONSTITUTE A REPRESENTATION REGARDING ANY FINANCIAL OR OPERATING DATA OR OTHER INFORMATION CONCERNING THE INDUSTRIAL DEVELOPMENT BOARD OR THE METROPOLITAN GOVERNMENT; NOR DOES IT CONSTITUTE A REPRESENTATION THAT NO OTHER CIRCUMSTANCES OR EVENTS HAVE OCCURRED OR THAT NO OTHER INFORMATION EXISTS REGARDING THE INDUSTRIAL DEVELOPMENT BOARD THAT MAY HAVE A BEARING ON THE FINANCIAL CONDITION OF THE INDUSTRIAL DEVELOPMENT BOARD OR THE SECURITY FOR THE INDUSTRIAL DEVELOPMENT BOARD'S OUTSTANDING BONDS, NOTES AND OTHER OBLIGATIONS. THIS NOTICE OF DEFAULT OF DEBT OBLIGATIONS FILING DOES NOT CONSTITUTE A RECOMMENDATION TO BUY, SELL, OR HOLD ANY BONDS, NOTES OR OTHER OBLIGATIONS FOR WHICH THE INDUSTRIAL DEVELOPMENT BOARD IS THE OBLIGOR OR IS AN "OBLIGATED PERSON" UNDER RULE 15c2-12 OF THE SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED.

THE INFORMATION SET FORTH IN THIS NOTICE OF DEFAULT OF DEBT OBLIGATIONS FILING IS ONLY ACCURATE AS OF THE DATE HEREOF AND THERE MAY BE EVENTS THAT OCCUR SUBSEQUENT TO SUCH DATE THAT WOULD HAVE A MATERIAL ADVERSE EFFECT ON THE INFORMATION PRESENTED HEREIN. THE INFORMATION SET FORTH HEREIN IS NOT WARRANTED AS TO COMPLETENESS OR ACCURACY AND MAY BE SUBJECT TO CHANGE WITHOUT NOTICE UPON MODIFICATIONS MUTUALLY APPROVED BY THE INDUSTRIAL DEVELOPMENT BOARD AND THE METROPOLITAN GOVERNMENT.

Date: December 2, 2024.

THE INDUSTRIAL DEVELOPMENT BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

By: */s/ Nigel Hodge*
Nigel Hodge
Board Chairman

THE METROPOLITAN GOVERNMENT OF
NASHVILLE AND DAVIDSON COUNTY (TENNESSEE)

Obligated Person:	**The Industrial Development Board of the Metropolitan Government of Nashville and Davidson County, Tennessee (the "Industrial Development Board")**
Relevant CUSIP Number:	**592111BG2**
Type of Information:	**Disclosure of information regarding the Industrial Development's Board $21,935,000 Tax Increment Revenue Bonds (Bellevue Mall Project) Series 2015 (the "Bonds")**
Type of Disclosure:	**Reporting Specified Events as set forth in <u>Section 5</u> of the Undertaking**
Description:	**Principal and interest payment delinquency; and Unscheduled draw on debt service reserve fund reflecting financial difficulties.**

THE INDUSTRIAL DEVELOPMENT BOARD IS POSTING THIS EVENT NOTICE FILING AS AN EVENT DISCLOSURE PURSUANT TO ITS EXISTING CONTINUING DISCLOSURE UNDERTAKINGS. THE INDUSTRIAL DEVELOPMENT BOARD HAS NO INTENTION OR OBLIGATION TO PROVIDE ANY UPDATE TO THIS EVENT NOTICE FILING OR THE SUBJECT MATTER CONTAINED HEREIN SUBSEQUENT TO ITS POSTING. ANY OBLIGATION TO DO SO IS EXPRESSLY DISCLAIMED BY THE INDUSTRIAL DEVELOPMENT BOARD.

Capitalized terms used herein shall have the meanings ascribed to them as set forth in the Indenture (as hereinafter defined) and the Undertaking (as hereinafter defined).

The Bonds were issued pursuant to a Trust Indenture dated as of December 1, 2015 (the "**Indenture**"), by and between the Industrial Development Board and Regions Bank, as Trustee (the "**Trustee**"). Under the Indenture, the Industrial Development Board pledged as security for payment of the Bonds (i) its rights to the tax increment revenues generated by the Project, (ii) its rights under the Development Agreement executed by and between the Industrial Development Board and Bellevue Redevelopment Associates, LP (the "**Developer**") for the Retail Project, and (iii) certain funds established and maintained under the Indenture, including a debt service reserve fund.

On December 31, 2015, the Industrial Development Board entered into a continuing disclosure undertaking in connection with its $21,935,000 Tax Increment Revenue Bonds (Bellevue Mall Project) Series 2015 (the "**Undertaking**"), as an "obligated person" under Rule 15c2-12 of the Securities and Exchange Act of 1934, as amended (the "**Rule**"). The Undertaking incorporated certain requirements, wherein if one or more of the enumerated specified events occurs then, the Industrial Development Board shall disclose to the Municipal Securities Rulemaking Board ("**MSRB**"), in an electronic format, such information regarding the occurrence of the applicable specified event(s) not later than ten (10) business days after the occurrence of such event(s).

The Bonds are special and limited obligations of the Industrial Development Board, and none of the industrial development boards, the State of Tennessee, nor any political subdivision thereof, including the Industrial Development Board, The Metropolitan Government of Nashville and Davidson County (the "**Metropolitan Government**"), nor the Developer or owner of the Project or the Plan Area or any portion thereof, shall be obligated to pay the Bonds except from funds pledged under the Indenture. The Industrial Development Board has no taxing power.

Debt service on the Bonds is payable on June 1 and December 1 of each year. The debt service on the Bonds is payable from funds pledged under the Indenture and are additionally supported by a debt service reserve fund that can be used to pay debt service on the Bonds if tax increment revenues are insufficient.

The Industrial Development Board hereby provides notice that sufficient funds were not available to fund the scheduled December 1 debt service payment, requiring funds to be transferred from the debt service reserve fund, leaving an unpaid balance of $789,688.71 for the payment on December 1, 2024.

The transfer of funds from the debt service reserve fund fully depleted the debt service reserve fund. Based on projected tax increment revenues there may be insufficient revenues to fully fund future debt service payments or to replenish the debt service reserve fund. The Industrial Development Board further provides notice that a debt service delinquency is not a default under the Indenture and the other applicable Bond documents, but it does require the public filing of an Event Notice.

The Industrial Development Board further provides notice that, pursuant to and in accordance with the terms of the Indenture and Undertaking governing the Bonds, revenues available to pay scheduled debt service on the Bonds on December 1, 2024, including the transfer from the debt service reserve fund left an unpaid balance of $789,688.71.

THIS EVENT NOTICE FILING IS PROVIDED SOLELY FOR CONTINUING DISCLOSURE AND INFORMATIONAL PURPOSES. THIS EVENT NOTICE FILING DOES NOT CONSTITUTE A REPRESENTATION REGARDING ANY FINANCIAL OR OPERATING DATA OR OTHER INFORMATION CONCERNING THE INDUSTRIAL DEVELOPMENT BOARD OR THE METROPOLITAN GOVERNMENT; NOR DOES IT CONSTITUTE A REPRESENTATION THAT NO OTHER CIRCUMSTANCES OR EVENTS HAVE OCCURRED OR THAT NO OTHER INFORMATION EXISTS REGARDING THE INDUSTRIAL DEVELOPMENT BOARD THAT MAY HAVE A BEARING ON THE FINANCIAL CONDITION OF THE INDUSTRIAL DEVELOPMENT BOARD OR THE SECURITY FOR THE INDUSTRIAL DEVELOPMENT BOARD'S OUTSTANDING BONDS, NOTES AND OTHER OBLIGATIONS. THIS EVENT FILING NOTICE DOES NOT CONSTITUTE A RECOMMENDATION TO BUY, SELL, OR HOLD ANY BONDS, NOTES OR OTHER OBLIGATIONS FOR WHICH THE INDUSTRIAL DEVELOPMENT BOARD IS THE OBLIGOR OR IS AN "OBLIGATED PERSON" UNDER RULE 15c2-12 OF THE SECURITIES AND EXCHANGE ACT OF 1934, AS AMENDED.

THE INFORMATION SET FORTH IN THIS EVENT NOTICE FILING, INCLUDING THE APPENDICES ATTACHED HERETO, IF ANY, IS ONLY ACCURATE AS OF THE DATE HEREOF AND THERE MAY BE EVENTS THAT OCCUR SUBSEQUENT TO SUCH DATE THAT WOULD HAVE A MATERIAL ADVERSE EFFECT ON THE INFORMATION PRESENTED HEREIN. THE INFORMATION SET FORTH HEREIN IS NOT WARRANTED AS TO COMPLETENESS OR ACCURACY AND MAY BE SUBJECT TO CHANGE WITHOUT NOTICE UPON MODIFICATIONS MUTUALLY APPROVED BY THE INDUSTRIAL DEVELOPMENT BOARD AND THE METROPOLITAN GOVERNMENT.

Date: December 2, 2024.

THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

By: *[/s/ Sharon Sepik]*
Sharon Sepik
Interim Metropolitan Treasurer

Acknowledged:

THE INDUSTRIAL DEVELOPMENT BOARD OF THE METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

By: *[/s/ Nigel Hodge]*
Nigel Hodge
Board Chairman