Outline

• Brief Overview of New Division
• Industrial Development Boards
• Financial Health
William, Adam, Lori, Whitney, Ron, Betsy, Steve, Meghan, Sheila
Division of
Local Government Finance

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Areas of Oversight and Support to Tennessee’s Local Governments

- Local Government Finance
- Budgets
- Debt
- Financial Condition
- Corrective Action Plans
- Investments Feasibility Plans
- Utility Management Review Boards

Counties
Municipalities
Metropolitan Governments
Utility Districts
Water & Wastewater Authorities
Industrial Development Boards
Other
Industrial Development Boards

• Recent reporting requirement
  • Signed into Law on March 7, 2018
  • First became effective for fiscal years ending in 2018
  • Why the new law?
    • Information about debt issued by IDBs was not always available. Many IDBs do not have an annual audit.
    • Transparency
    • Each year we compile all the reports we receive and present a comprehensive listing to the Tennessee State Funding Board.
    • The State Funding Board is interested in debt that is issued at both the state and local level.

TENNESSEE COMPTROLLER OF THE TREASURY
Industrial Development Boards

Pursuant to Tenn. Code Ann. 5 7-53-304, each Industrial Development Board (IDB) must maintain an aggregate listing of its current debt, including conduit debt obligations, in accordance with guidelines approved by the State Funding Board. Each IDB must file the listing annually and must file notice of default of any of its debt obligations. The State Funding Board has approved guidelines that must be followed by IDBs when preparing and submitting the required information. Please see the documents below for further instruction and assistance.

FY 2019 Annual Debt Reporting Memo
Tennessee State Funding Board Guidelines - Debt Reporting by IDBs
Public Chapter 529, Acts of 2018
List of Active Tennessee IDBs

Annual Reporting Form
Annual Report on Outstanding Debt - Blank Form
Annual Report on Outstanding Debt - Example

Notice of Default Form
Notice of Default - Blank Form
Notice of Default - Example
List of Industrial Development Boards

- From TACIR (TN Advisory Commission on Intergovernmental Relations)
  - TN Secretary of State Business Entity Search
  - Tennessee Comptroller of the Treasury IDB Parcel Data
Industrial Development Boards

• **Question:**
  • What if my IDB doesn’t have any debt?

• **Answer:**
  • If your IDB has **no debt**, including **no conduit debt** (issued for an industry/business by the IDB for the IDB’s tax exempt status that the industry/business repays), the annual reporting is still required.
  • You will need to access the form from our website: [tnicot.cc/idc](http://tnicot.cc/idc).
  • **First tab:** Complete the general information sheet (board members, address, fiscal year end, etc.)
  • **Second tab:** Enter “No debt as of June 30, 2020”

**Tennessee Comptroller of the Treasury**
Industrial Development Boards

• **Question:**
  - What if I didn’t file reports for fiscal year 2019 or 2018?

• **Answer:**
  - We have already reported to the Tennessee State Funding Board for fiscal year 2018; however, we are still accepting and expecting filings for fiscal years 2019 and 2020.
Financial Health

• How does your government:
  • Know if it is financially healthy?
  • Define financial health?
  • Achieve financial health?
  • What are some indicators of financial distress?
  • Where should you start?
Planning for Fiscal Health

• Purposeful Budgeting (timely adoption, a structurally balanced budget, planning for reserves, etc.)
• Reliable Financial Information – Timely audits
• Cash Management and Fund Balance Policies
  • Minimum balances and reserves
• Internal Controls
• Capital Improvement Plans
• Sound Utility Operations

Tennessee Comptroller of the Treasury
Analyzing Financial Health – GFOA Blue Book

GFOA’s “Governmental Accounting, Auditing, and Financial Reporting” publication.

Chapter 46
12 pages – Including Exercises

TENNESSEE COMPTROLLER OF THE TREASURY
Analyzing Financial Health – GFOA Blue Book

Financial Statement Analysis that considers a local government’s finances from three different yet complimentary perspectives.

• **Near-term financial position** – is the government’s recurring revenues sufficient to cover recurring expenditures?

• **Net position** – the difference between assets and liabilities. Is net position improving or deteriorating?

• **Economic condition** – a government’s finances are affected by economic and demographic trends (e.g. population growth or decline).

**Tennessee Comptroller of the Treasury**
Analyzing Financial Health – GFOA Blue Book

Where do I find this information?

• **Near-term financial position** – fund financial statements

• **Net position** – government-wide financial statements

• **Economic condition** – statistical section (financial trends over the past 10 years, revenue capacity, debt capacity, economic and demographic factors)

TENNESSEE COMPTROLLER OF THE TREASURY
Financial Health Indicators – Model 1

Four Metrics Used
- Cash as a percentage of expenditures
- Cash as a percentage of current liabilities
- Cash as a percentage of total debt (Penny rate/debt)
- TNECD Economic Health category (5 classes from attainment to Health)

Ranking of Metrics
- 1-5 value assigned to each metric where 5 is worst and 1 is best
- Sum of four metrics
- Any government with a pre-defined score results in further analysis for potential financial distress

TENNESSEE COMPTROLLER OF THE TREASURY
Financial Health Indicators – Model 2

• Still a work in process
• Multi-variable Regression Analysis:
  • Run with over 20 inputs to date (2018 data to predict 2019)
  • Variables with low significance were removed
  • Output: An Equation that when completed with 2019 (or future) data will assign a numerical value of “Health” that can be ranked
  • Lowest values mean nothing without context
Financial Health Indicators - LGA

- COT Division Local Government Audit
- Tiered approach
- Fund level and Government-wide level
- Starting with County governments
  - Uniform chart of accounts
  - General Fund, General Debt Service Fund, Highway Fund, and General Purpose School Fund
Financial Health Indicators from LGA

- Planned Indicators
  - Current Ratio – ability to meet short-term obligations
  - How dependent a fund is dependent upon other governments
  - Can the General Fund pay its long-term obligations?
  - Are we adding to or using fund balance (revenue over expenditures)
  - Did the General Fund exceed its budget appropriations
Financial Health Indicators - LGA

- Trend Analyses – These will not be used as official indicators, but rather will be provided for analytical purposes to help local governments.
  - Does the local government have too much debt? Debt for all counties compared to assessed value of property.
  - Cash balance trend and fund balance trend.
  - Per capita information for debt, revenue, expenditures.
Financial Distress Indicators Defined by State Law

- Tennessee laws define the meaning of financial distress for utility systems.

- Financial indicators that result in your local government being under the oversight of the Water and Wastewater Financing Board (WWFB) or the Utility Management Review Board (UMRB):
  - Statutory decrease in net position for two consecutive years.
  - Deficit net position
  - Default on debt
County: Lauderdale
Economic Status: Distressed
Index Value Rank (of 3,113 counties in U.S., 1 is the best): 2,926
Per Capita Market Income: $18,777
Poverty Rate: 22.30%
Three Year Average Unemployment Rate: 6.4%
Cash Balance Test for FY19 General Fund

(Cash + Investments)/Expenditures FY2019

Top three rural counties in Upper West Tennessee (Region 5)
1. Dyer County, 164.61%
2. Humphreys County, 119.70%
3. Lauderdale County, 105.15%
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Thank You!