

Dear Fellow Memphians:

Please accept this email as an explanation of a controversy swirling around city government following a letter from State Comptroller warning the city on debt refinancing.

As the Memphis City Council nears the end of the 2013-2014 budget hearings, I continue to hope that city government will learn from past mistakes.

### **2010 Debt Restructuring**

On May 25, 2010 Mayor Wharton proposed and carried through a financial restructuring of much of the City's debt. Essentially what this means is that the City's administration borrowed money to pay operating expenses.

When you refinance the mortgage on your home, you reduce your interest rate and overall debt.

The Mayor's proposal, however, increased the interest rate and debt. In fact, the City's debt service payment (the equivalent of your mortgage payment) is increasing by \$25 million, and the increase will continue for many years.

In making this proposal to the Council in 2010, Mayor Wharton said this type of restructure was a "widely accepted way" for municipalities to refinance and that it was a "plain vanilla transaction."

Recently, however, the State of Tennessee Comptroller had an entirely different description of the transaction. He called it a "scoop and toss" transaction because "the current principal is scooped or removed from the current year(s) and thrown out to the later years." He concluded that these refinancing moves "should be discontinued." (See the May 20, 2013 Comptroller letter at <http://www.memphistn.gov/Government/CityCouncil/District5.aspx>)

I voted against the Mayor's restructure proposal in 2010. Despite the rosy picture the Mayor painted as he proposed the restructure in 2010, I understood enough to know that it was not a good financial deal for the citizens of Memphis.

### **Impact on Current Budget of 2010 Financing**

Currently, our city property tax rate is \$3.11. The mayor has proposed a budget with an increase to \$3.36. Each cent brings in about \$1 million, so the difference in the current and proposed rates is \$25 million.

If the 2010 refinancing had not occurred, the City of Memphis would not owe an additional \$25 million in debt payments, and we could have maintained our current tax rate of \$3.11.

### **2013 Debt Restructuring Proposal**

Unfortunately, Mayor Wharton's proposed budget includes a similar refinancing transaction. While it is smaller than the 2010 deal, it is a "scoop and toss" transaction according to the Comptroller.

I have asked the Mayor to submit a new budget which incorporates some of the many efficiencies outlined in the many studies done of city operations and that eliminates the unsound borrowing practice of "scoop and toss."

Simply put, we need to spend and borrow less.

Thank you for your continued interest in Memphis.