

Strengthening Metro's Financial Condition

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Financial Update &
FY23 Recommended
Budget Overview

Financial Reform at a Glance

November
2019

- State Comptroller presents concerns at joint meeting of Metro Council's Budget and Finance and Public Works committees and does not approve FY20 budget

December
2019

- Metro submitted corrective action plan to State Comptroller that included additional recurring revenue, targeted savings and partial impoundment of Barnes Fund
- Based on submitted corrective action plan, Comptroller approved FY20 Budget

March
2020

- Significant unknowns regarding COVID-19, its trajectory, vaccine creation timeline, appropriate public health response, impact to financial markets and federal stimulus response. Deep and immediate impact to some of Metro's largest activities-based taxes

JUNE 2020

- FY21 Budget structurally balanced budget without use of non-recurring revenue, fund balance, or property tax increase

MAY 2021

- Metropolitan Employee Benefit Board and Metro Council approved Medicare Advantage plan, the only choice for health insurance to pensioners with Medicare and whose covered dependents also have Medicare, reducing OPEB liability

JUNE 2021

- FY2022 balanced budget included nearly a \$1.00 reduction in the property tax rate, while still delivering on key initiatives

TODAY

- Increased fund balance reserves
- FY23 proposed balanced budget including over \$300 million in revenue growth
- Inventory, review and modernization of financial policies to ensure long-term fiscal health

Metro's Financial Condition Assessment

Metro's Financial Condition Assessment

Key Financial Considerations

**Clean
Audit**

**Fund
Balance**

Ratings

**Structurally
Balanced
Budget**

Economy

Why does it matter?

Financial condition drives our ability to provide services and fund projects

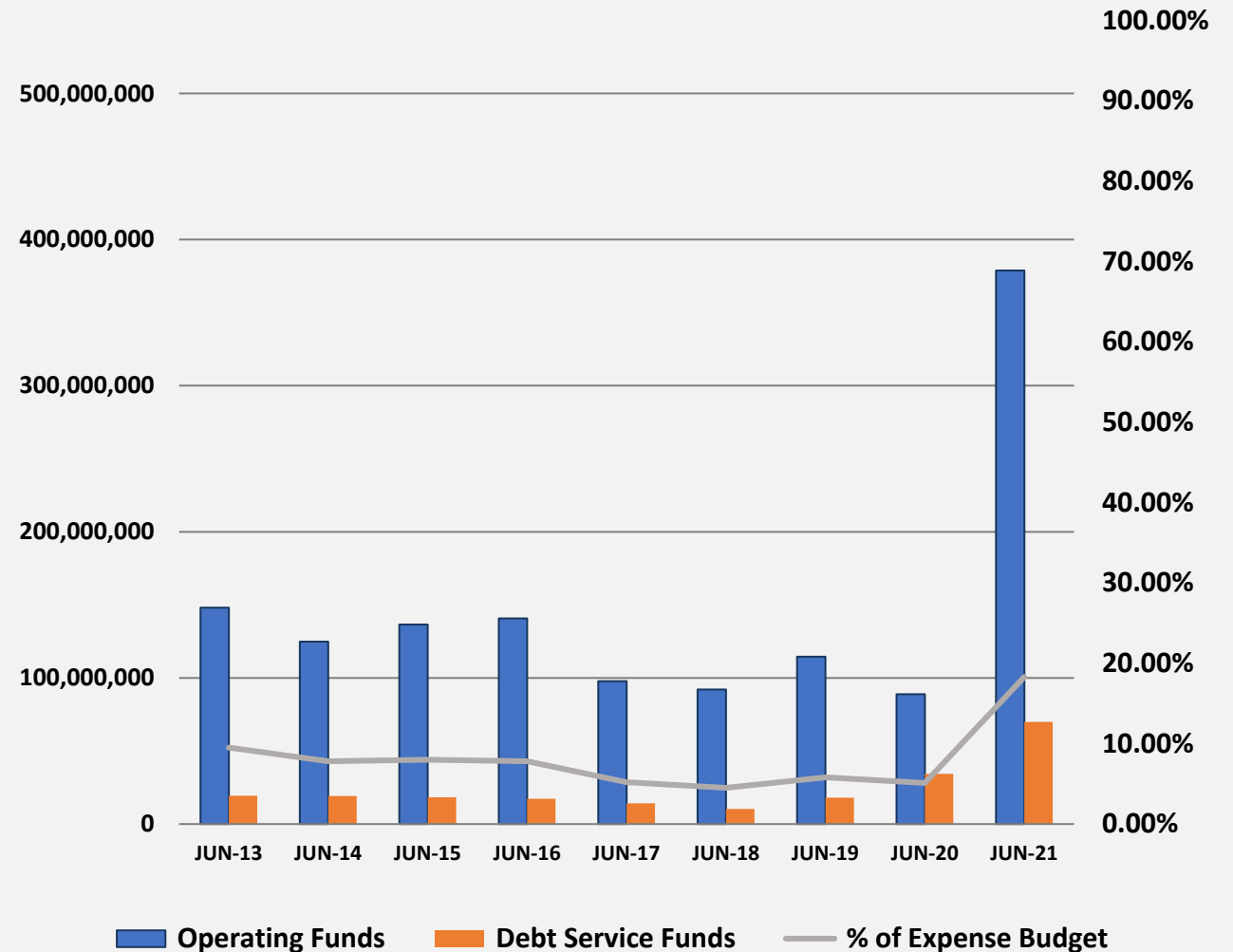
Metro's Financial Condition Assessment Clean Audit

- ▶ Annual Comprehensive Financial Report (ACFR) presents on Metro's financial activities and balances for each fiscal year (July 1 – June 30)
- ▶ Unmodified Opinion (Clean) for both the ACFR and Single Audit Report
- ▶ No audit findings, internal control weaknesses, or significant deficiencies
- ▶ Awarded the GFOA Certificate of Achievement for Excellence in Financial Reporting for 36 consecutive years

Metro's Financial Condition Assessment

Fund Balance

- ▶ Metro's net position
- ▶ Calculated annually in the ACFR
- ▶ Utilized only to mitigate risks and on one-time, non-recurring events or outlays (e.g., emergencies, economic downturn and unanticipated expenditures)



Metro's Financial Condition Assessment Fund Balance

GFOA recommends not less than 2 months operating revenue in fund balance

Operating Funds Fund Balances (Dollars in Millions)				
	FY2020 \$	FY2020 %	FY2021 \$	FY2021 %
GSD	\$52.3	5.1%	\$251.6	24.1%
USD	27.7	3.0%	113.8	12.2%
MNPS	8.8	7.0%	13.4	10.0%
Total	\$88.8		\$378.8	

2023 Operating Funds Budget	\$2.56 billion
2-3 months revenue (17-25%)	\$435.1 - 639.9 million
Operating Fund Reserve (06/30/21)	\$378.80 million
Excess/(Deficit)	\$(56.3 - 261.1) million

Metro Financial Condition

Historical and Current Rating Perspectives

Nashville General Obligation Rating History Since 2012				
	MOODY'S		S&P Global	
	Rating	Outlook	Rating	Outlook
2012	Aa1	Negative	AA	Stable
2013	Aa1	Negative	AA	Stable
2014	Aa2*	Stable	AA	Stable
2015	Aa2	Stable	AA	Stable
2016	Aa2	Stable	AA	Stable
2017	Aa2	Stable	AA	Stable
2018	Aa2	Stable	AA	Stable
2019	Aa2	Stable	AA	Stable
2020	Aa2	Stable	AA	Stable**
2021	Aa2	Stable	AA	Stable
2022	Aa2	Stable	AA	Stable

Peer Cities Ratings		
MOODY'S	City	
Aaa	Charlotte Columbus Denver	Indianapolis Portland, OR Seattle
Aa1	Atlanta Austin Louisville	Minneapolis Tulsa
Aa2	Kansas City, MO Memphis	Nashville Omaha San Diego
Aa3	Fort Worth Houston	
A1	Dallas	

*Downgraded as part of Moody's sector-wide review in connection with the publication of its updated methodology.

**Outlook was revised to Negative in May 2020 relating to COVID-19 revenue pressures; however, it was subsequently revised to Stable in November 2020

Metro's Financial Condition Assessment

Identifying Sensitivities and Opportunities

Credit Strengths

Moody's Latest Perspectives

- ✓ Position as the State capital and regional economic center
- ✓ Prudent fiscal management; ability to implement significant property tax rate increase (34%) to supplement revenue structure
- ✓ Large and diverse economy that continues to grow, stabilized by large institutions

S&P's Latest Perspectives

- ✓ Home to the "second-largest economy in the Mid-South"
- ✓ View of Nashville's financial position improved following the passage of its 2021 budget
- ✓ Very strong liquidity
- ✓ Strong management, with good financial policies and practices

Credit Challenges

- ✗ Above-average debt levels; expected to remain at higher levels given rapid tax base growth and sizeable capital needs
- ✗ Property tax referendum requiring public vote in order to raise property tax rate above the theoretical cap
- ✗ Annual financial support of Metro General Hospital

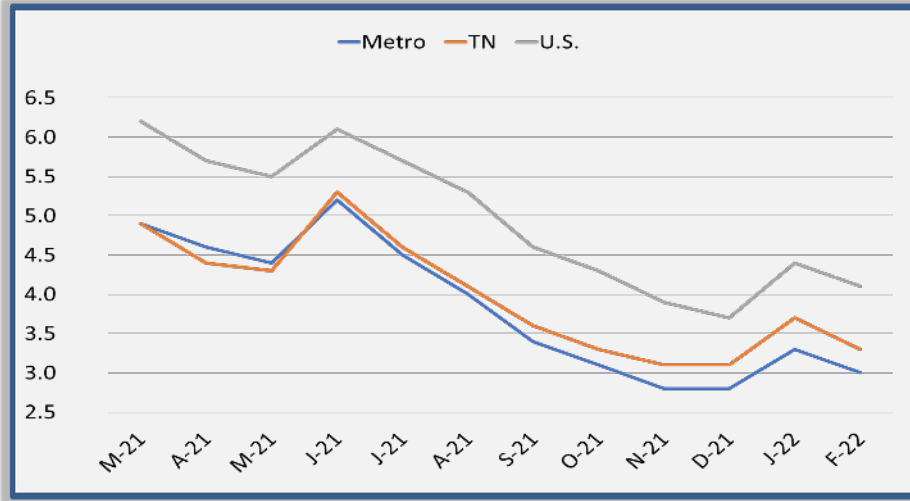
- ✗ Despite Nashville's economic strengths, it has historically maintained a comparatively limited reserve position relative to its budget
- ✗ Weak debt and contingent liability profile
- ✗ Large OPEB liability with benefits funded on a pay-as-you-go basis



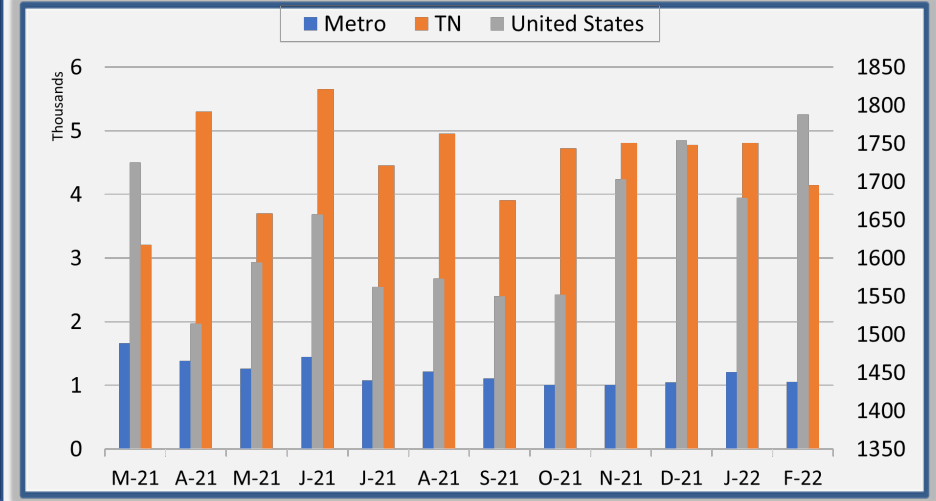
Metro's Financial Condition Assessment

Economic Update

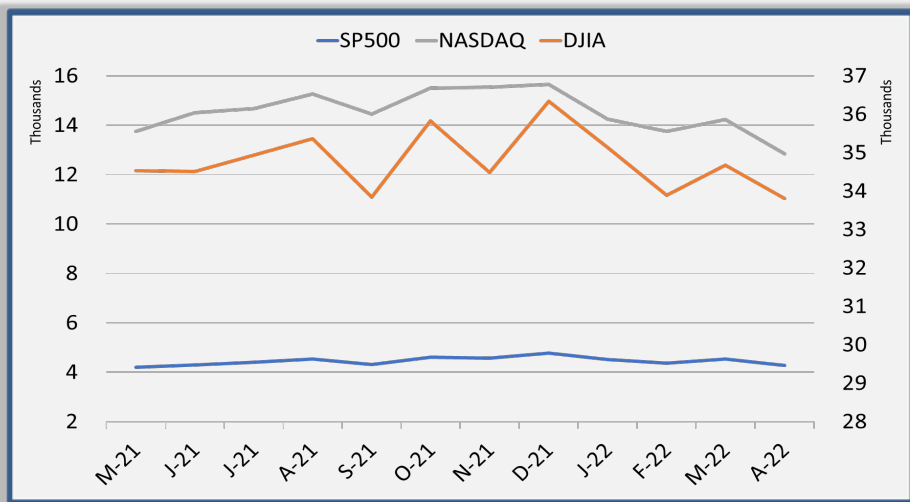
Unemployment Rates



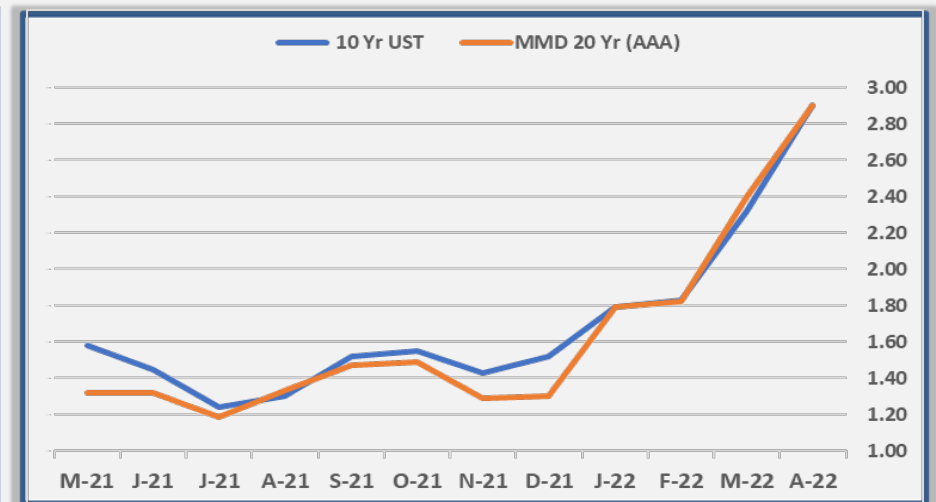
Housing/Permits



Markets



MMD/UST



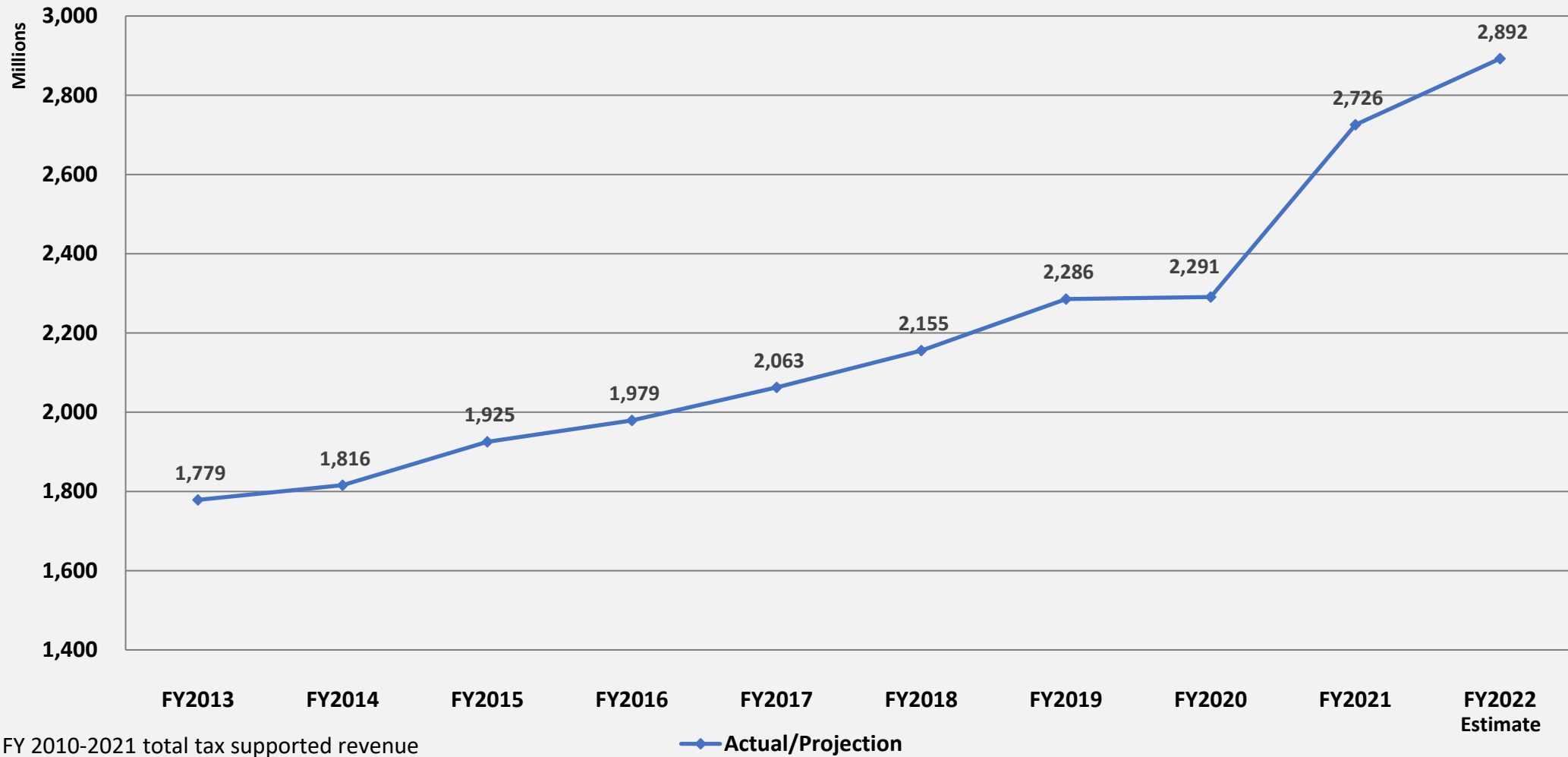
FY 2022 Lookback & Update

FY 2022 Budget & Experience Revenue Forecast Environment

- ▶ Highly uncertain forecast environment at time of budget development
- ▶ Stronger than expected revenue has been driven by:
 - Stability of growing property tax base
 - Swifter than anticipated recovery of activities-based taxes
 - Pent-up demand, vaccination timeline and effectiveness, federal stimulus
 - Higher prices
- ▶ Most major revenue sources are projected to exceed estimates
 - Over half of projected additional collections will come from Local Option Sales Tax
 - Roughly another quarter will come from Property Taxes
 - Alcohol Beverage Gross Receipts, State Sales Taxes, Construction Permits, Hotel Occupancy Taxes

FY 2022 Budget & Experience

Historical Tax Supported Revenue Performance

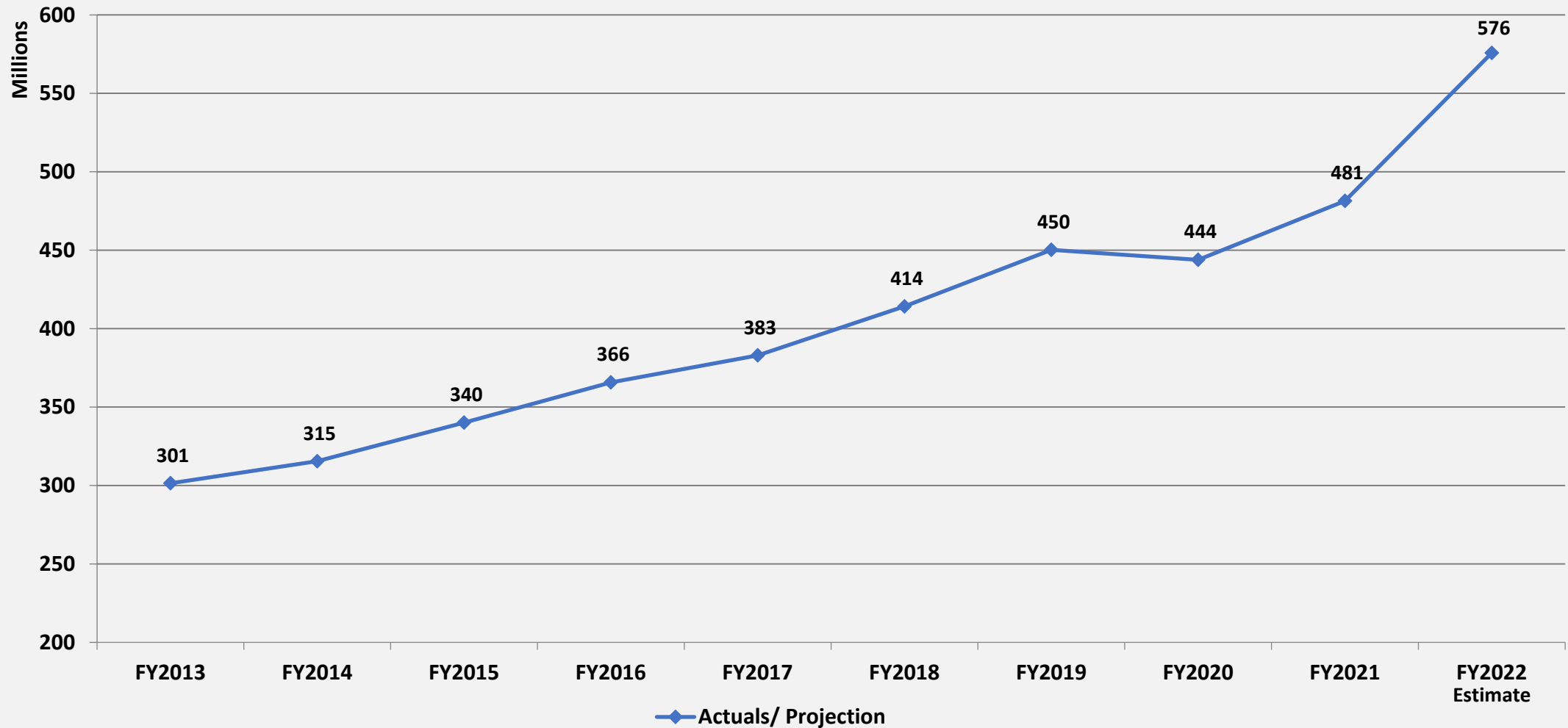


FY 2010-2021 total tax supported revenue

—◆— Actual/Projection

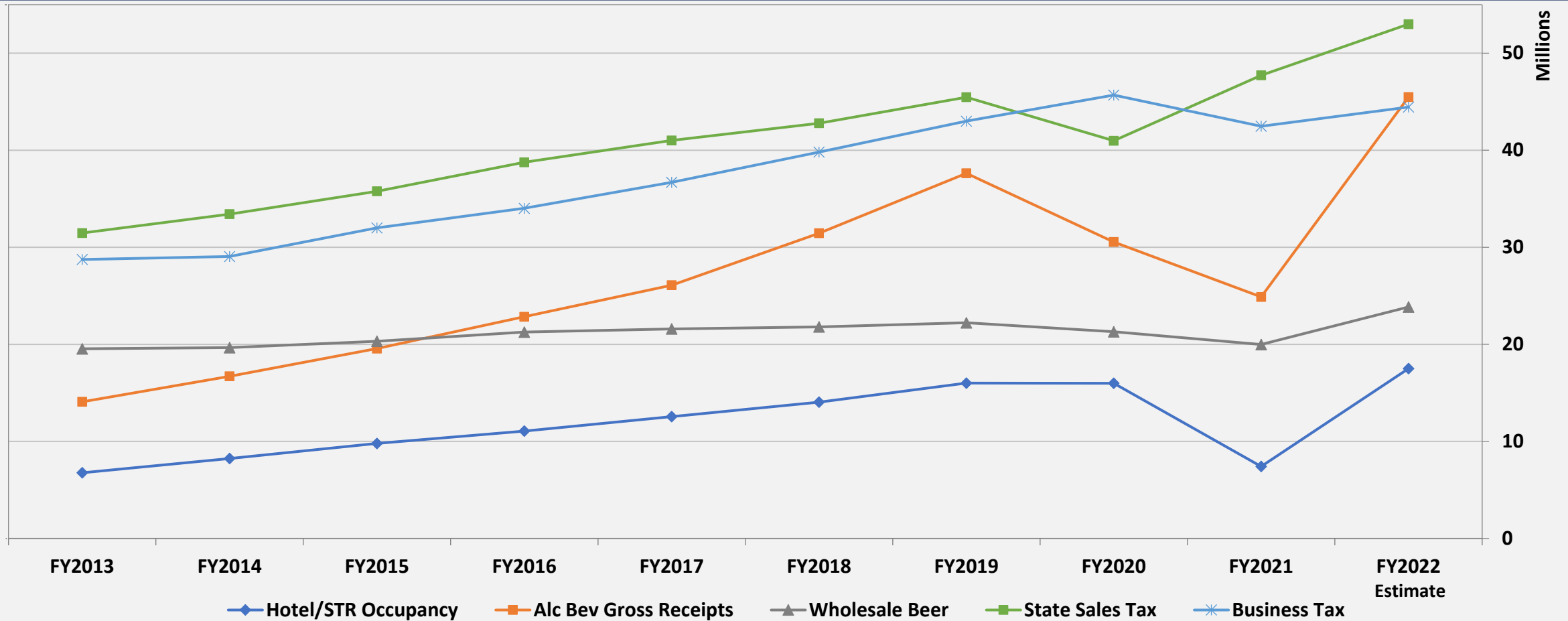
FY 2022 Budget & Experience

Local Option Sales Tax Trends



FY 2022 Budget & Experience

Select Revenue Trends



- *Covid's impact readily apparent in activities-based taxes*
- *For several sources, FY 2022's pace of recovery has nearly matched the downturn of the previous two years*

FY2023 Recommended Budget

FY 2023 Recommended Budget

Budget Considerations

Revenue

- Inflation at 40-year high
- Economists warn of recession
- Rising interest rates
- Tourism's reliance on discretionary income

Expense

- Debt Service
- Contractual Increases
- Partially Funded Initiatives
- Inflationary Increases

FY 2023 Recommended Budget Summary of Proposed Budget – All Funds

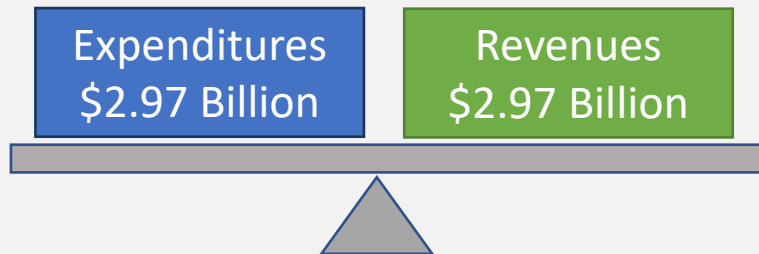
Funds	2022 Approved Budget	2023 Recommended
General Operating	\$1,275,910,000	\$1,450,441,100
MNPS Operating	1,014,661,600	1,109,002,500
Tax Supported Debt Service	360,070,600	410,816,900
Special Revenue	831,448,700	1,051,669,500
Internal Service	64,584,700	72,680,800
Enterprise	61,804,100	80,835,700
Water & Sewer	752,849,800	810,083,900
Total	\$4,361,329,500	\$4,985,530,400

*Does *not* account for transfers between funds or supplementals.

FY 2023 Recommended Budget Tax Supported Funds

Recommended FY 2023 - \$2,966,198,600

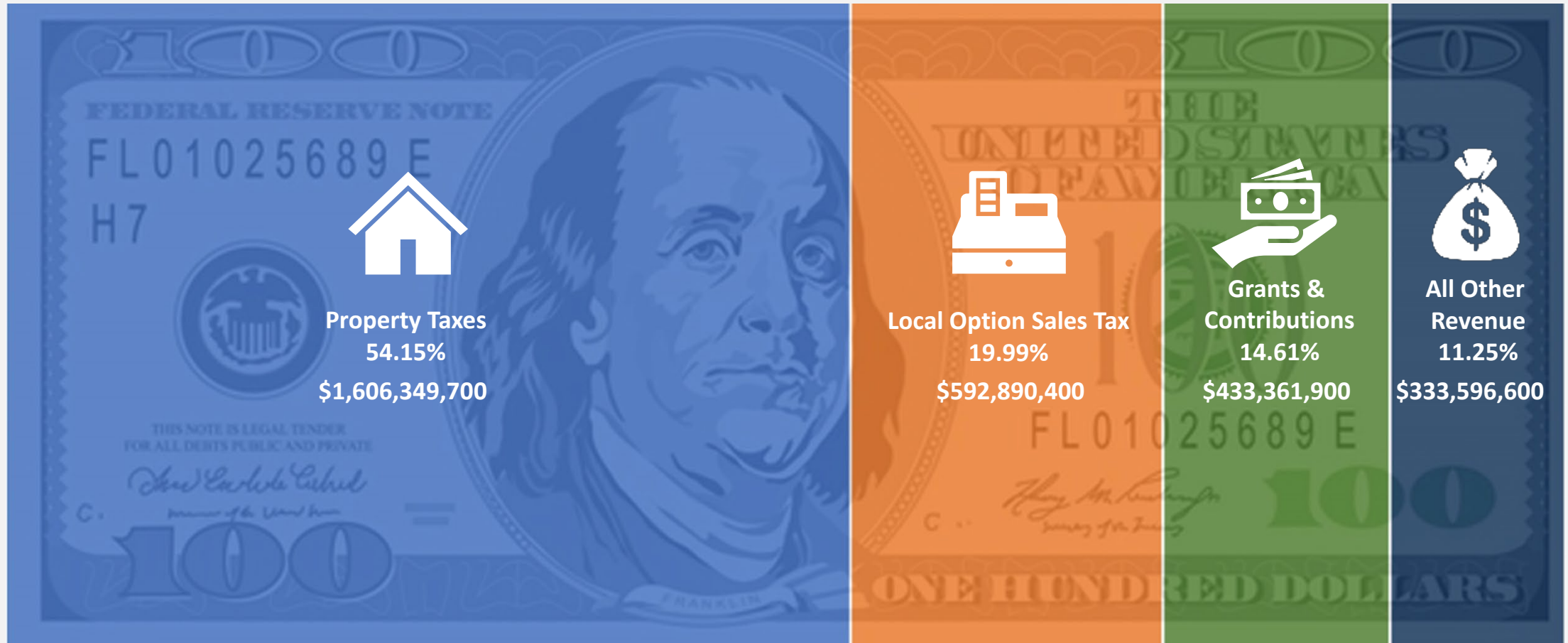
- **12.1% increase over FY 2022**
- **\$319.6 million in new revenue**



- ✓ Structurally Balanced
- ✓ No Property Tax Increase
- ✓ No Use of Stimulus Funds in the General Fund
- ✓ No Use of Fund Balance

FY 2023 Recommended Budget Tax Supported Funds

Where the Money Comes From



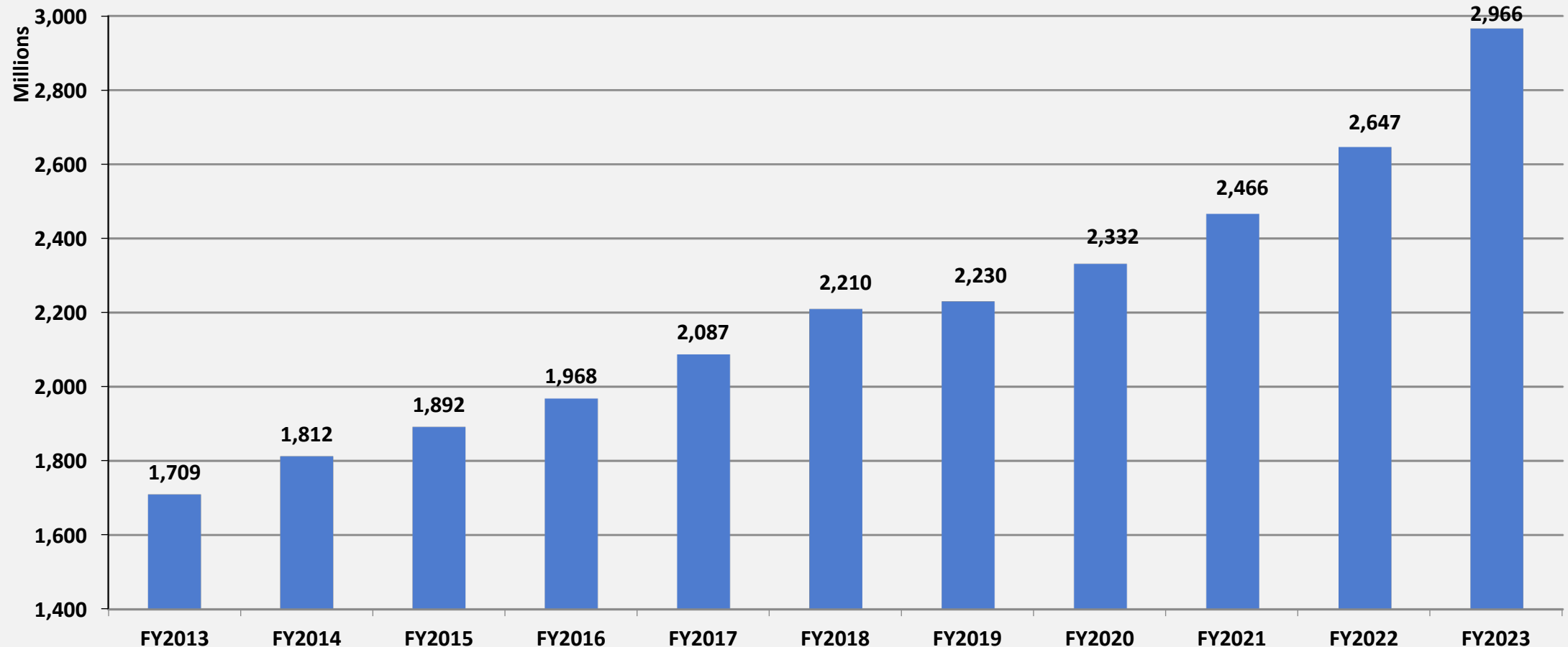
FY 2023 Recommended Budget

Tax Supported Funds Revenues – Outlook

- ▶ Majority of growth to occur in FY 2022, resetting revenue baselines for the upcoming year
 - Estimated 75% of growth will occur this fiscal year
- ▶ Conservative revenue assumptions
 - Economic conditions and key drivers volatility
- ▶ Forecast assumes stability going forward
 - Bolstered by falling COVID cases, pent-up demand and higher prices, FY 2022's fast recovery is expected to give way to sustained, but slower, growth over the next year

FY 2023 Recommended Budget Tax Supported Funds

Historical Budget Growth



Budget amounts taken from Substitute Budget Ordinances as approved by Metro Council

FY 2023 Recommended Budget Tax Supported Funds

Historical Revenue Growth

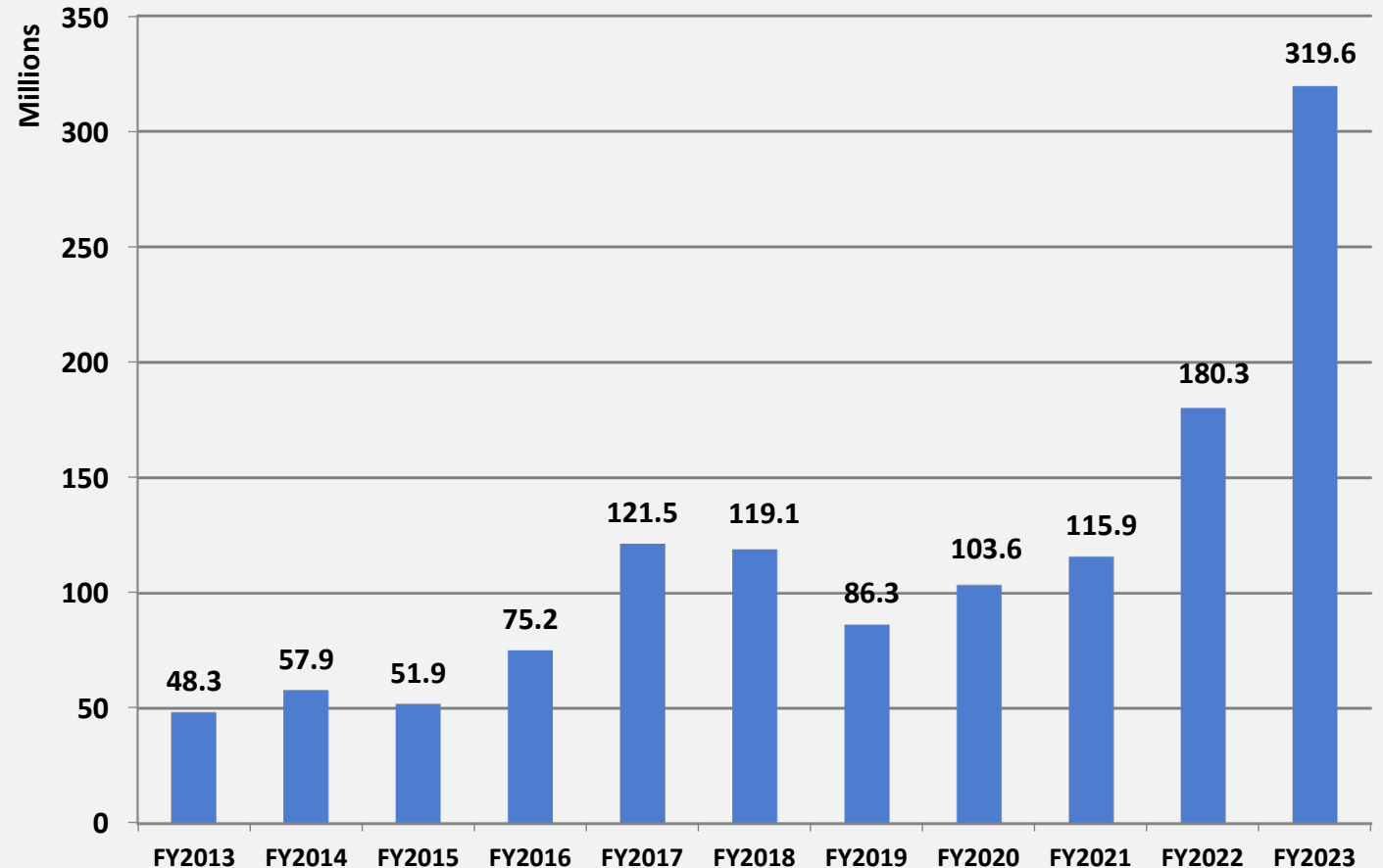
FY 2023 New Revenue - \$319.6M

\$101.6M - Property Taxes

\$138.3M - Local Option Sales Tax

\$79.8M - All Other, including:

- Alcohol Beverage Gross Receipts - \$25.0M
- State Sales Tax - \$9.6M
- Hotel & STR Occupancy Taxes - \$9.1M
- Wholesale Beer Tax - \$5.0M



FY2023 Recommended Budget

Tax Supported Funds Revenues – Property Taxes

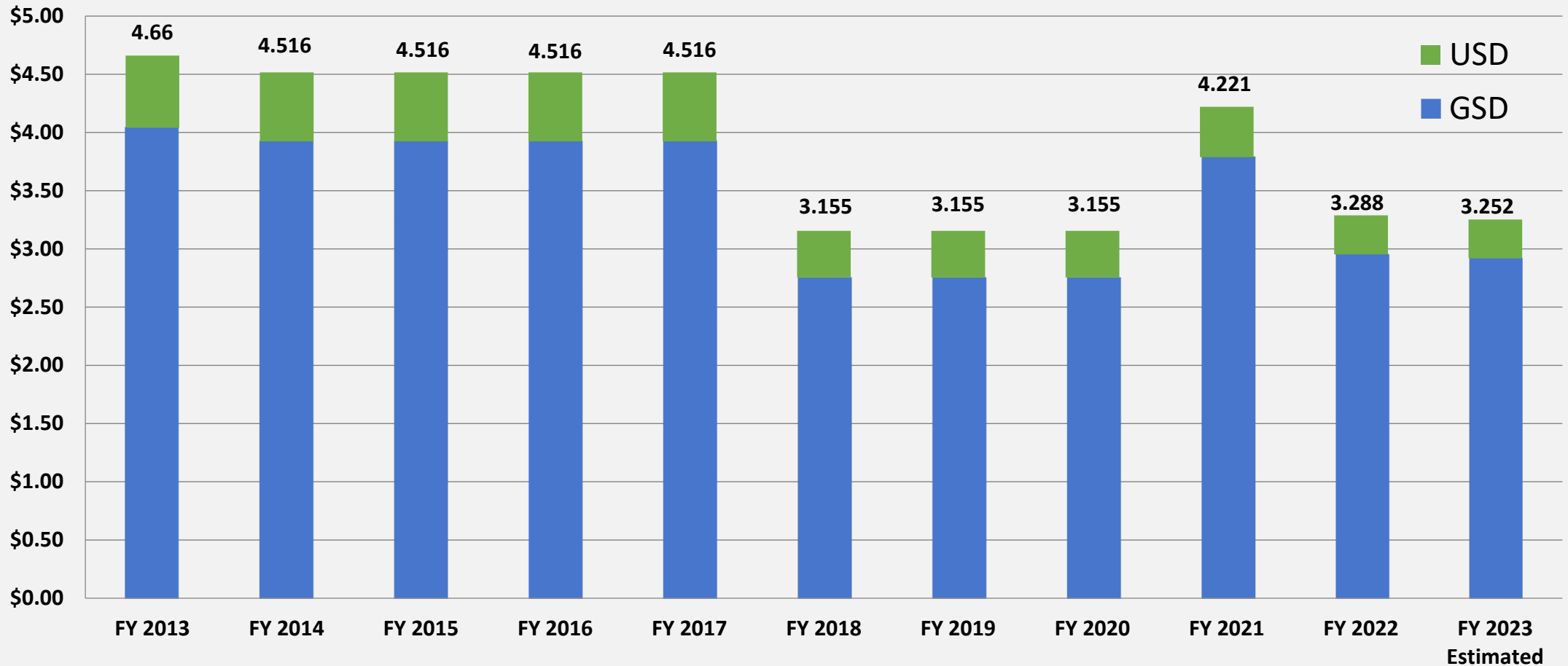
	GSD	USD	COMBINED
Current Tax Rate	\$2.953	\$0.335	\$3.288
Preliminary Certified Recapture Rate	2.920	0.332	3.252
Net Change	(0.033)	(0.003)	(0.036)

- ▶ Preliminary Certified Recapture Rate is the third lowest combined tax rate in the history of the Metro government
- ▶ FY22 rate decreased by nearly \$1.00 due to countywide reappraisal that resulted in median appraised value growth of 34.05%
- ▶ Anticipate appeals to be less than allowance
- ▶ The final rate will be determined once all appeals are heard

FY2023 Recommended Budget

Tax Supported Funds Revenues – Property Taxes

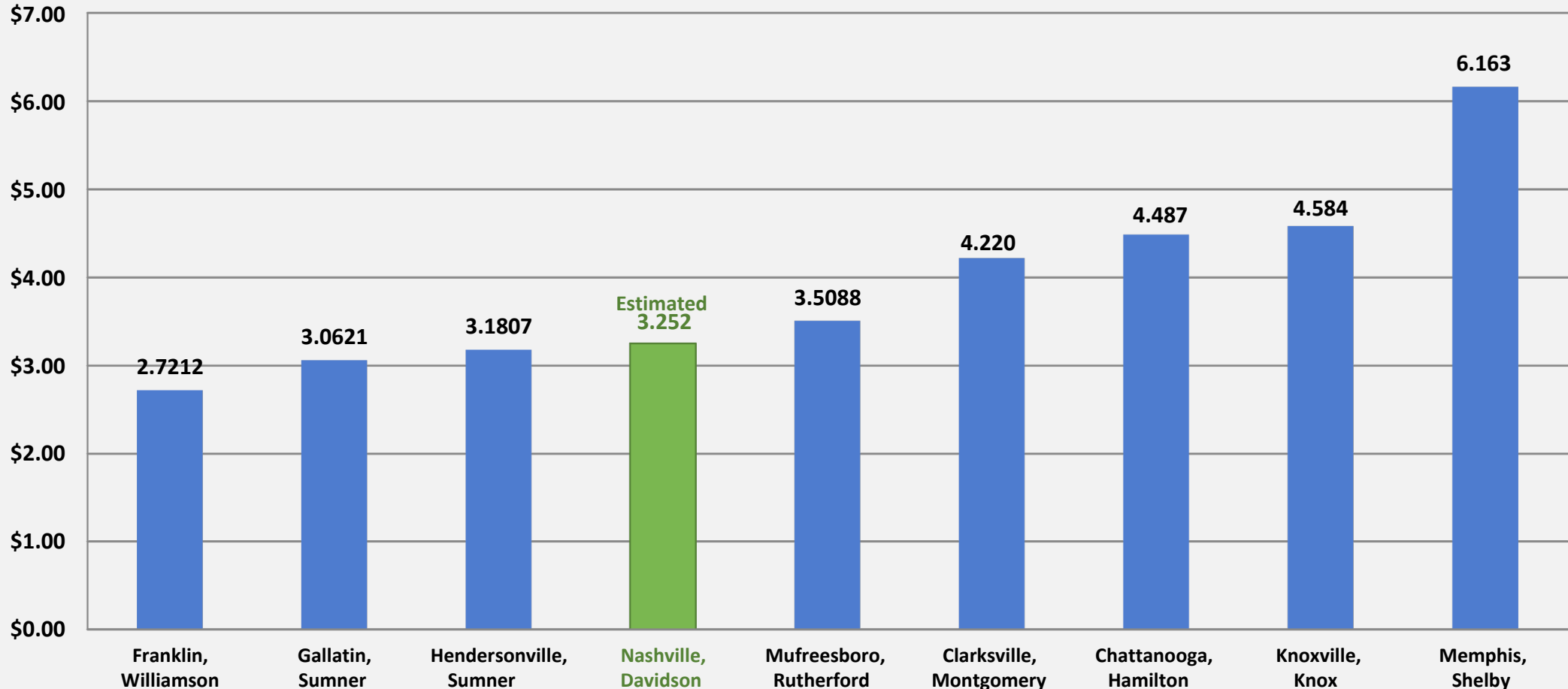
History of Property Tax Rates- Nashville/Davidson County



FY2023 Recommended Budget

Tax Supported Funds Revenues – Property Taxes

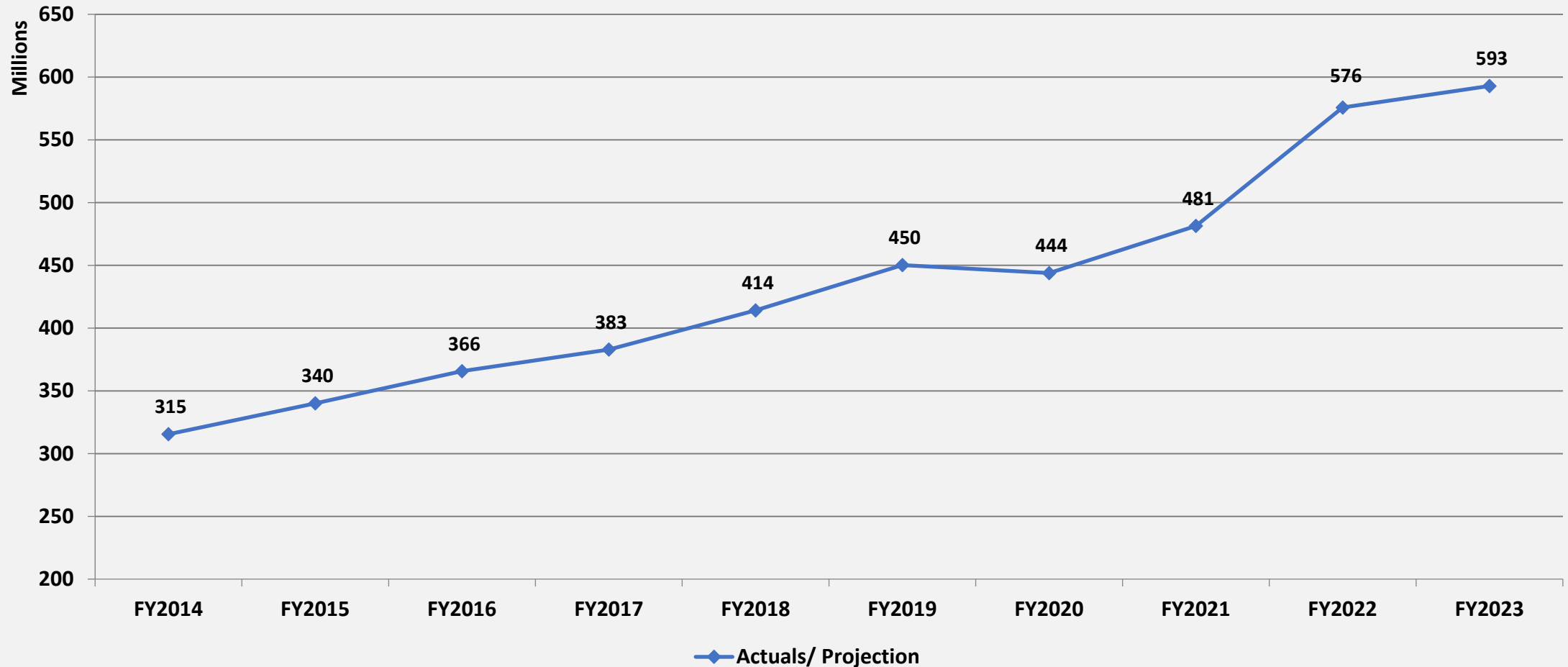
City/County FY 2023 Property Tax Rates*



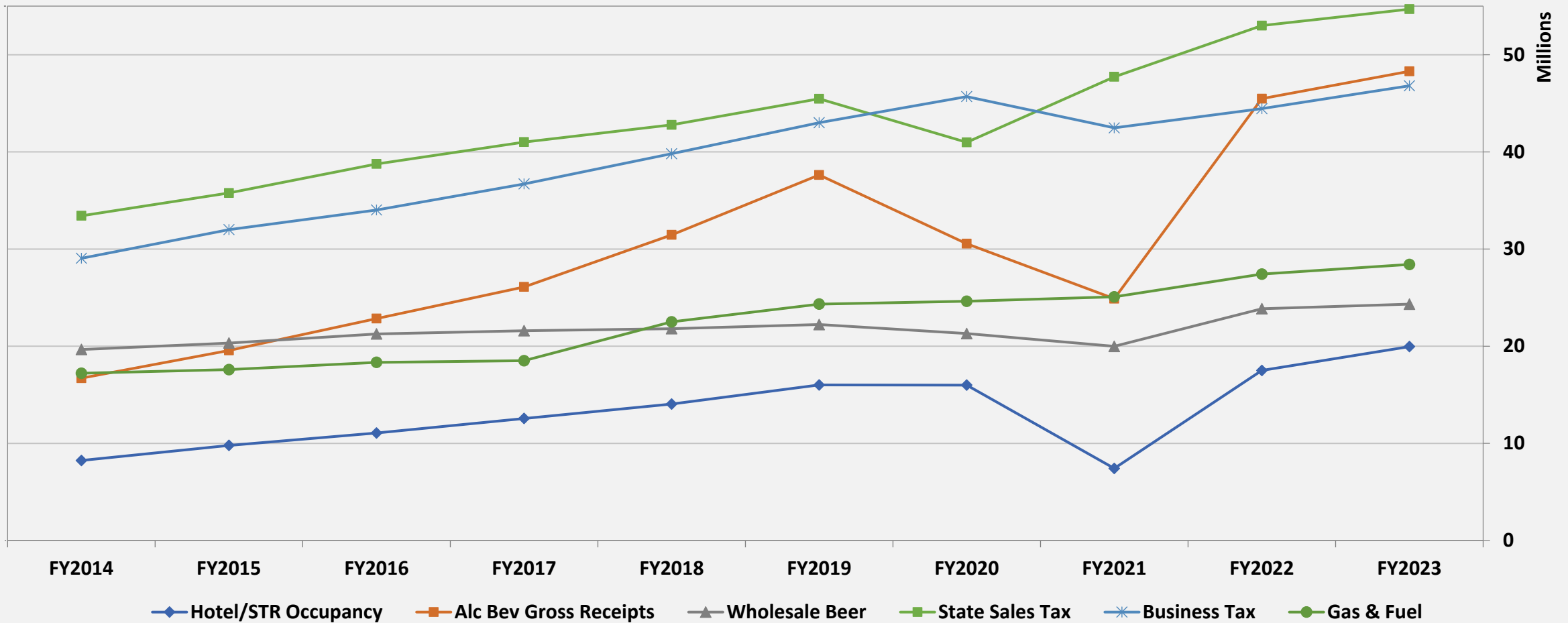
* Chart shows FY 2022 Tax Rates for other cities. FY 2023 Tax Rates still being determined.

FY 2023 Recommended Budget

Tax Supported Funds Revenues - Local Option Sales Tax



FY 2023 Recommended Budget Tax Supported Revenues - Select Sources



- *Covid's impact readily apparent in activities-based taxes*
- *For several sources, FY 2022's pace of recovery has nearly matched the downturn of the previous two years*

FY2023 Recommended Budget Tax Supported Funds Expenditures

Where the Money Goes

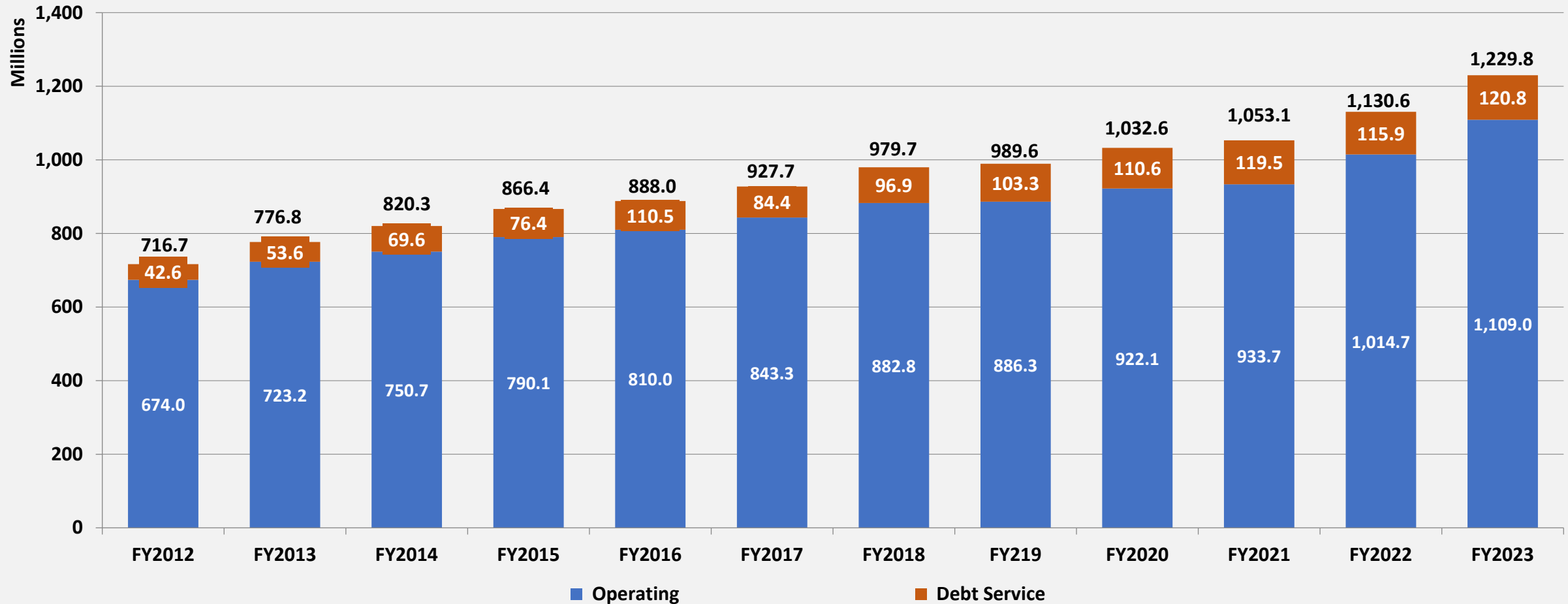


*Includes MNPS and Metro

FY2023 Recommended Budget

Tax Supported Funds Expenditures - Education

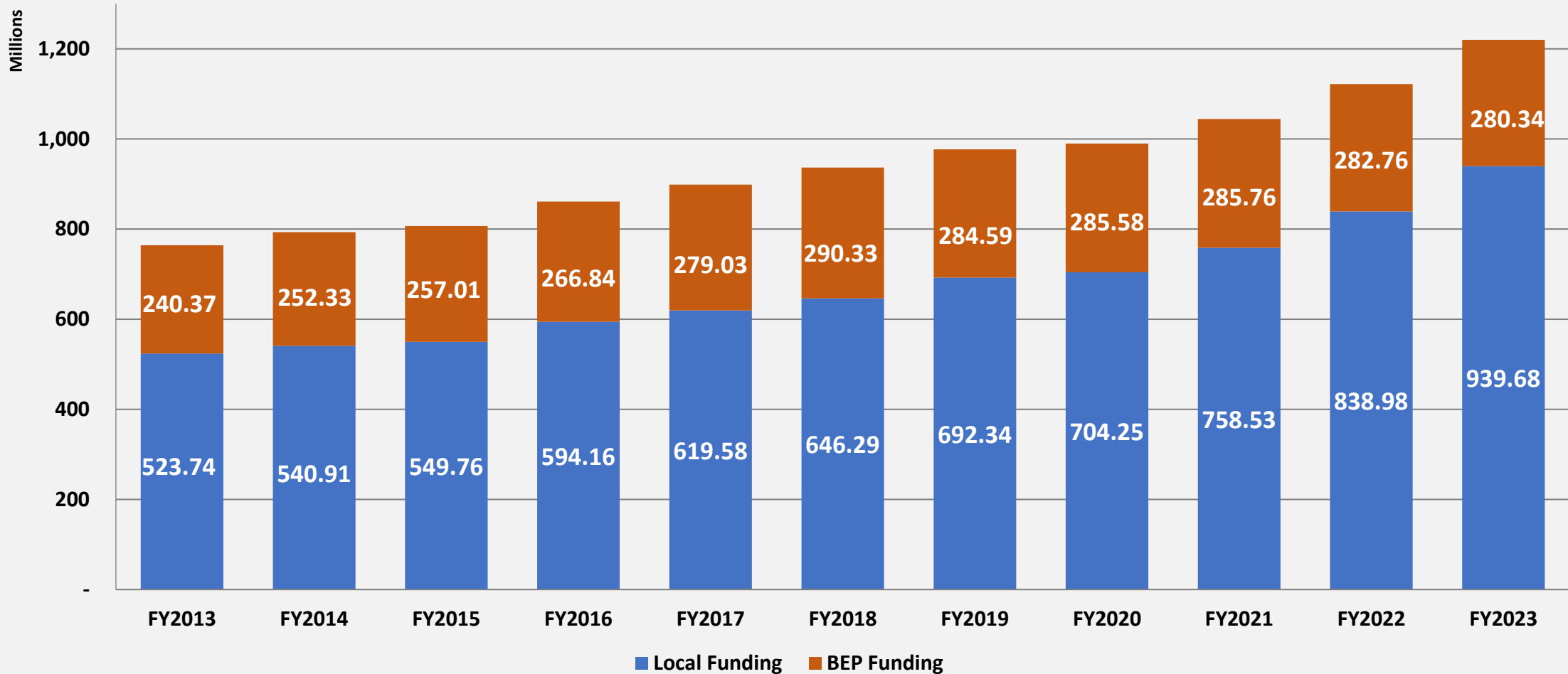
Total Budget: \$1,229,801,600



FY2023 Recommended Budget

Tax Supported Funds Expenditures - Education

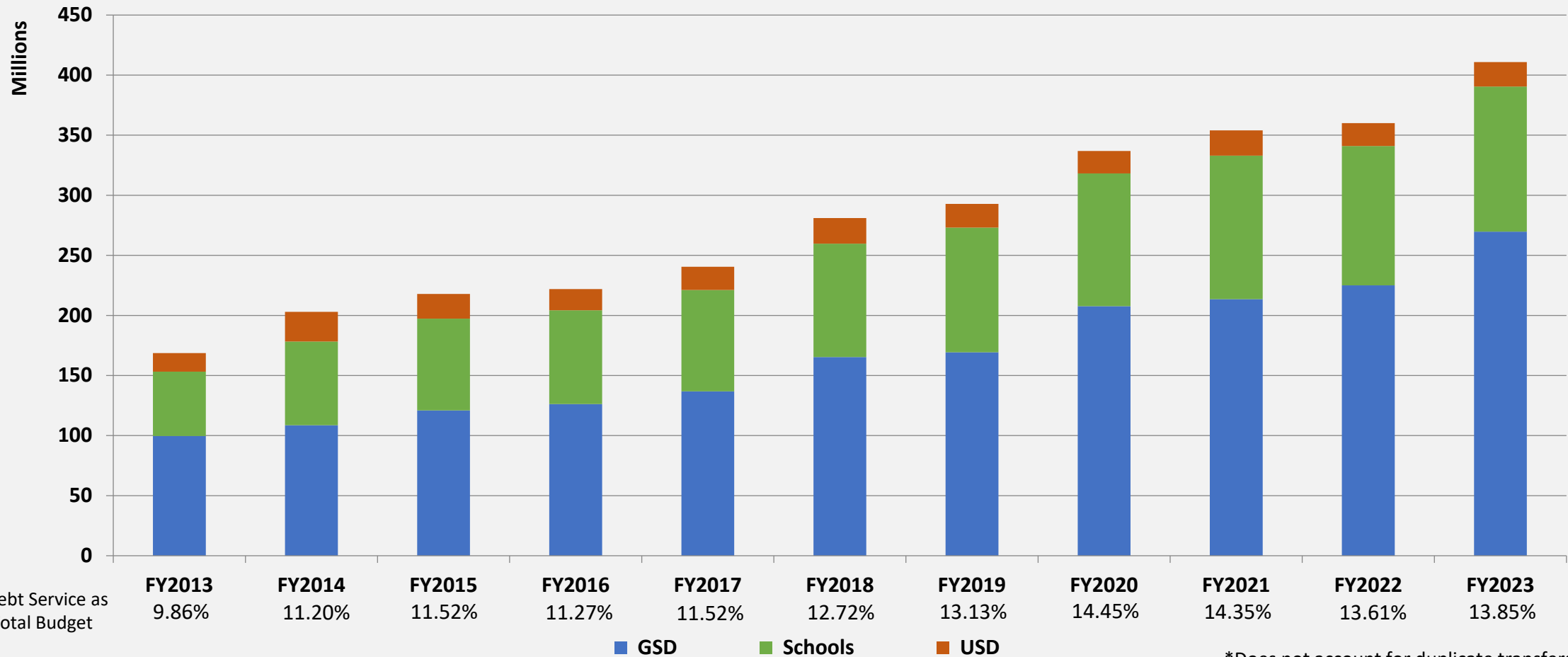
Historical State and Local Combined Contributions



FY2023 Recommended Budget

Tax Supported Funds Expenditures – Debt Service

Annual Debt Service Budget



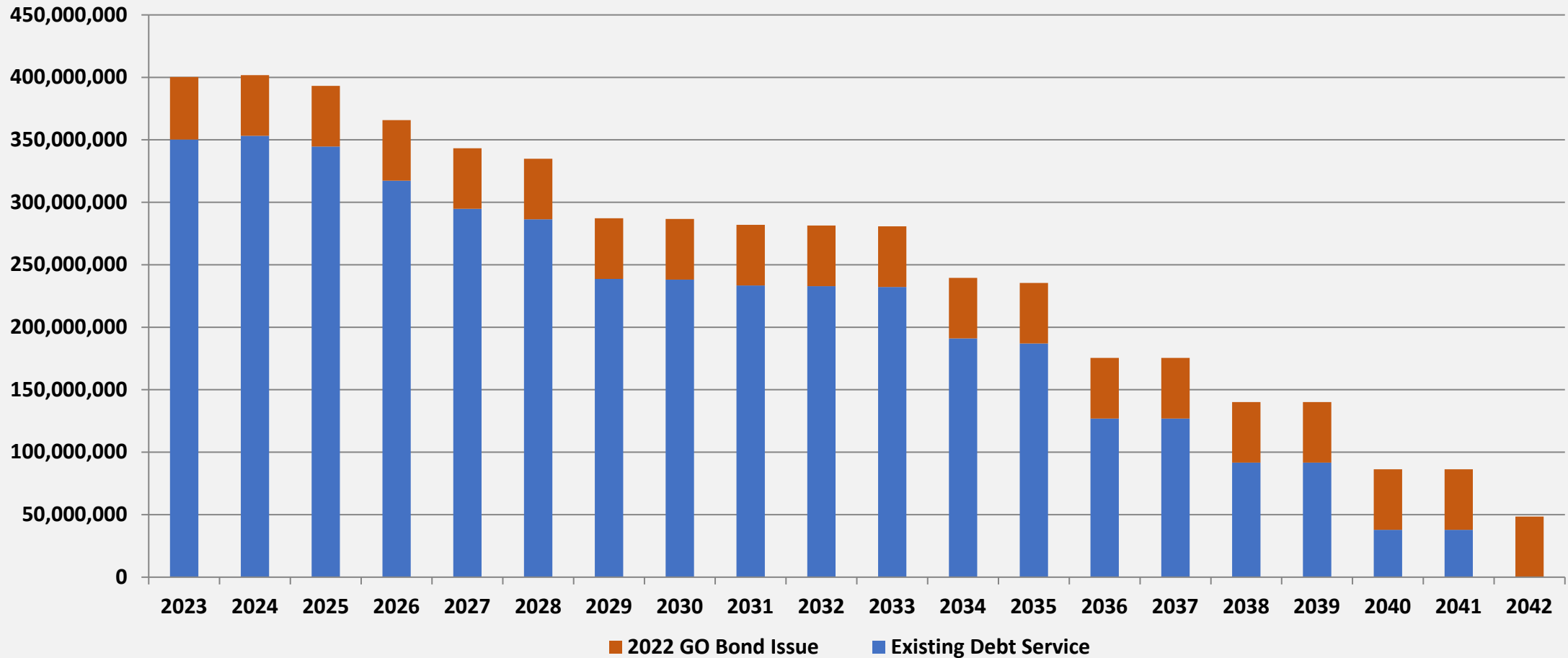
Total Debt Service as % of Total Budget

*Does not account for duplicate transfers.

FY2023 Recommended Budget

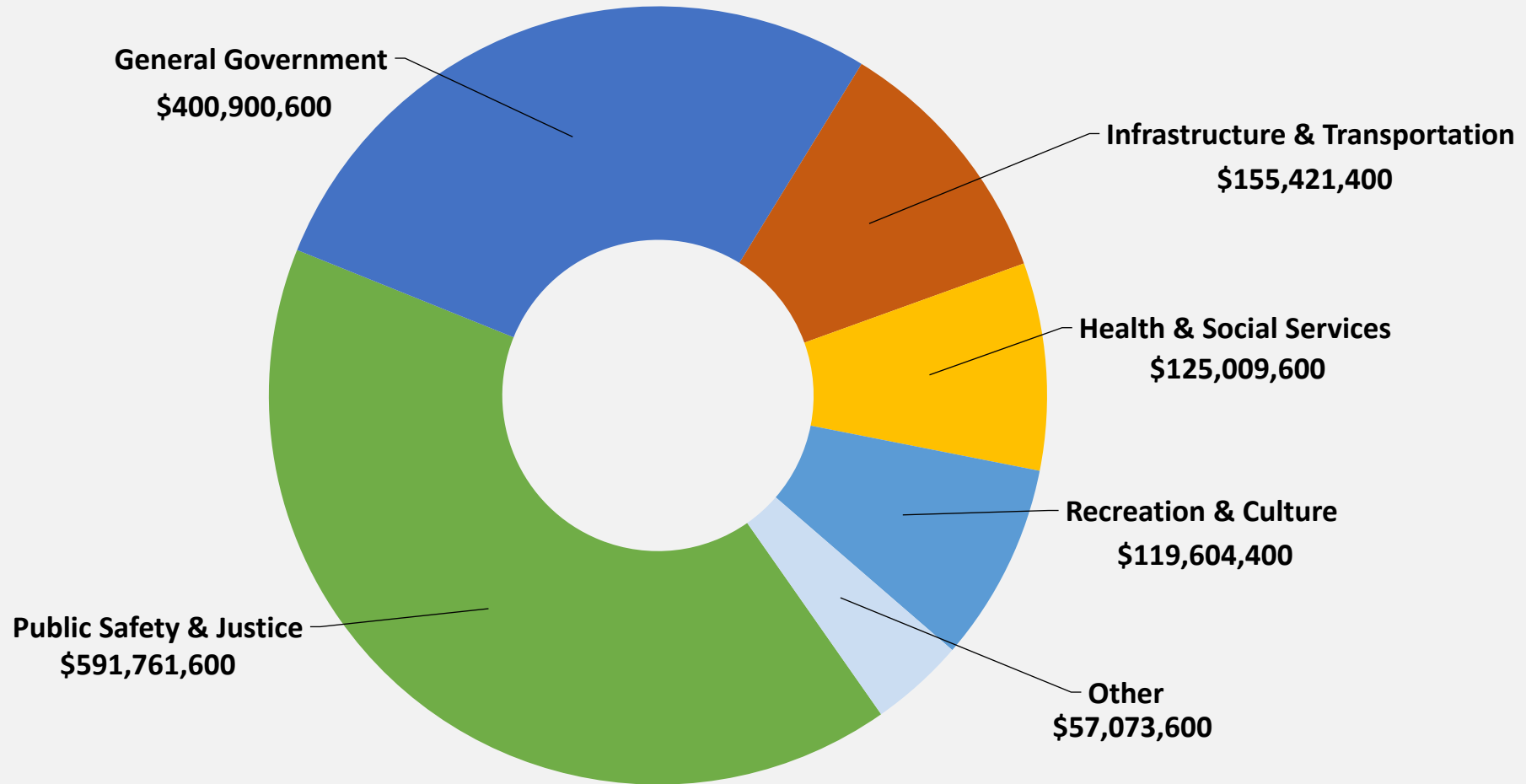
Tax Supported Funds Expenditures – Debt Service

Annual General Obligation Debt Service



FY2023 Recommended Budget Tax Supported Funds Expenditures

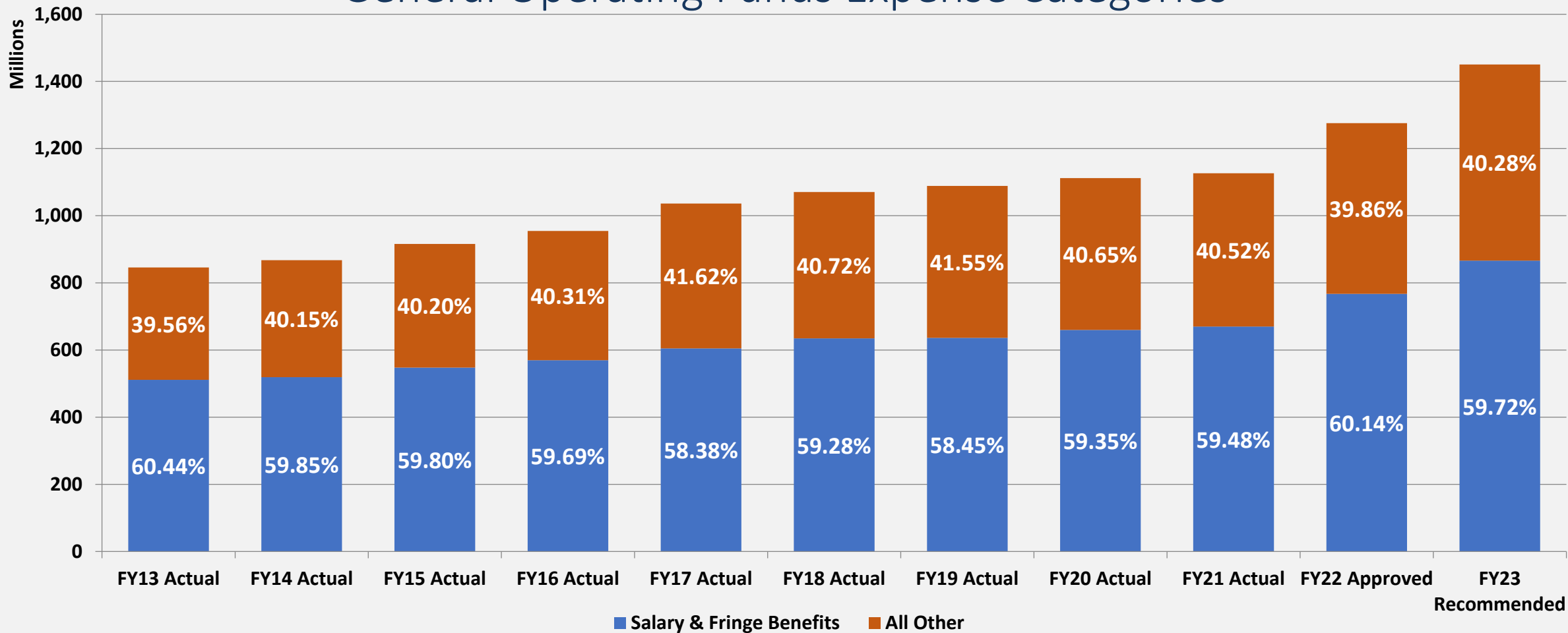
General Operating Funds



FY2023 Recommended Budget

Tax Supported Funds Expenditures – Operating Funds

General Operating Funds Expense Categories



Key Reflections

- ✓ Improving financial position coupled with prudent fiscal management
- ✓ Maintaining conservative expenditure budgeting
- ✓ Mitigating against economic uncertainty
- ✓ Positioning for future needs