Appendix 7: FTMS

Financial Trend Monitoring System Indicators

When managing municipal finances, it is important to understand past financial trends and their effects on the present and future. To accomplish this, Metro has developed a Financial Trend Monitoring System (FTMS). This system is based on the FTMS developed and outlined by the International City/County Management Association (ICMA) in its *Evaluating Financial Condition – A Handbook for Local Governments*, but slightly modified to meet the needs of Metropolitan Nashville and Davidson County.

The trend system consists of measurable factors that reflect and influence Metro's financial condition – its ability to finance current services on a continuing basis. These factors include the national economy, population levels, federal and state mandates, the local business climate, and the internal fiscal policies of the local government.

This evaluation reviews financial data from the general funds of the General Services District (GSD) and the Urban Services District (USD) for the 10 year time period extending from FY2006 to FY2015.

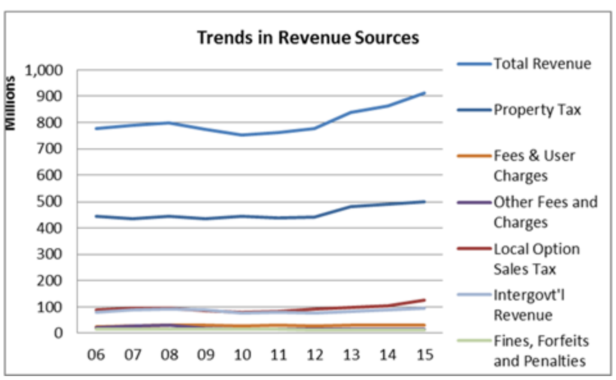
Revenue Indicators

The revenue indicators reflect Metro's ability to produce sufficient revenue to support current service levels, meet existing obligations, and plan for future initiatives.

Trends in Revenue Sources

Description: This graph reveals trends for the largest sources of revenue received by Metro, grouped into six categories: total revenue, property taxes, sales taxes, fees & user charges, revenue from other governments, and other revenue. The composition of these revenues helps determine the Metropolitan Government's potential dependence on any one specific revenue source in order to respond to changing economic situations and service demands.

Graph 1



Commentary: Total Revenue increased by approximately 17.7% between FY2006 and FY2015, which represents a net decrease of 15.9% relative to the previous rolling 10 year period. This decrease is attributed to a significant increase in property tax revenue tied to 2005's calendar year reappraisal, which was realized in FY2006. Over this time period, two basic trends are evident.

Metro experienced vastly different revenue growth patterns during separate five year periods ranging from 2006 to 2015. The devastating effects of the financial and liquidity crises, which occurred from 2007 to 2008 and eventually led to the subprime mortgage crisis, sending the country into a period now referred to as The Great Recession, are evident as total revenue declined 3.2% from 2006 to 2010. This figure rebounded to a much healthier increase of 20.1% between 2011 and 2015, as the economy recovered on a local, national, and even global scale. The predominant source of revenue is property taxes, which increased by approximately 14% between 2011 and 2015. For comparative purposes, it should be noted that while the aforementioned growth over the last 5 years has been strong, the corresponding 10 year figure is slightly less, at 12.5%. As previously mentioned, the last significant increase in property tax revenue occurred between FY2005 and 2006, as citizens benefited from the city's ability to account for new construction in its reappraisal. In addition to this, Metro entered into an agreement to sell its outstanding property tax receivables, and took steps to better manage delinquent collections.

The tax base has grown moderately but consistently over the period. Assessments have increased due to periodic reappraisals, but in keeping with state law, they have been offset by reductions in the certified tax rates, so that total tax revenues are not inflated. The rate increases are detailed in the property tax discussion in Section A of this book.

Intergovernmental revenues (funds received from other governments) decreased by 3.4% from FY2006–2010. In the years that followed, relative to revenues from all other sources, year over year figures continued to decline until about 2013, as absolute annual dollar amounts remained flat. Since then, there has been a slight uptick over the last couple of years, which could be attributed to an improving economy as well as an increase in programs funded by the State and/or Federal government. Due to the recession, Metro has taken steps to ensure that it is not overly dependent on revenues from other governmental entities due to the volatility of available funds. These steps include programs being reduced or curtailed in some situations.

Local option sales tax is the primary source of elastic revenue because it responds to changes in inflation and the economic base. The total sales tax rate in Davidson County is 9.25%. In FY2002, a 1% increase to all items except unprepared foods put the state portion of the sales tax rate at 7%, plus the 2.25% local option rate levied by Davidson County. During the 10-year period being discussed, Davidson County has experienced a 38.9% increase in the local option sales tax. The impact of the recession is readily identifiable from 2006-2010 as Metro witnessed a decrease of 11.3%. By comparison, from 2011-2015 this revenue source grew 53.7%.

Overall, fees and user charge collections have increased approximately 30.7% between FY2006 and FY2015, however, categorically they account for a small portion of total revenue.

Analysis: There are several suggestive trends indicating a significantly decreased reliance on certain revenue streams; although intergovernmental revenue is trending slightly upward in absolute terms, in relative terms it has declined or remained effectively stagnant in proportion to total revenue over the last five years. Fees and user charges and local option sales tax revenue have both shown typical post-recession growth, the result of increased consumer confidence and discretionary income. However, per the status quo, potential threats to the viability of certain revenue sources going forward still remain; the result of inherent ties to the state and national economy in general, in addition to uncertainty with respect to the stability of revenues reliant on the tourism industry in particular. Examining avenues for increased diversification of Metro's revenue streams would help to offset potential sluggish performance in certain revenue categories at some point in the future.

However, since 2010 as economic indicators, including GDP, have reflected stabilization, if not growth, in the national economy, Nashville too has followed suit.

Property Tax

Description: Metro relies heavily on the property tax as its single largest revenue source. In FY2015, the property tax constituted approximately 55% of all revenue collected by Nashville Metropolitan Government.

Graph 2

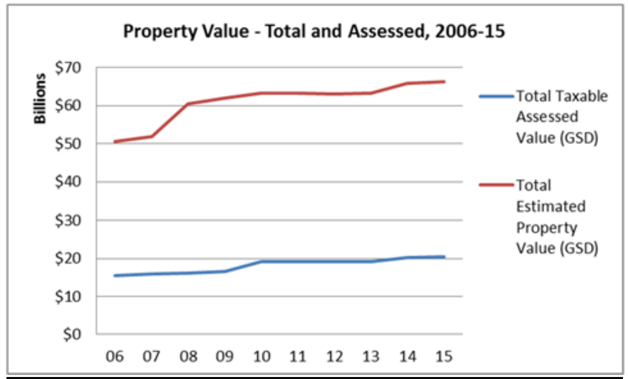
Commentary: The property tax, a comparatively stable funding source, should mirror the effects of inflation to ensure that dollars collected have consistent buying power year to year. For the analysis period, the current buying power of the property tax revenue has varied from a low of $434M in FY2007 to a high of $499M in FY2015. Since FY2011, as the total revenue generated has increased by roughly $61M, constant buying power has failed to keep pace, increasing only $16M.

Analysis: The graph displays property tax revenue in both current and constant dollars to show the effect of inflation on revenue. In FY2006 there was a property reappraisal as required by state law and an increase to the adjusted tax rate of $0.67. Between FY2006 and FY2015, property tax revenue increased from $444M to $499M. Part of this significant increase is due to increases in the tax base (see section below), reappraisals in FY2006 and FY2014, and a tax rate increase in FY2006.

Appraised Property Value

Description: Appraised value of property measures the market value of taxable real, personal, and utility property in Metro. Ideally, market and appraised values are the same – indicated by an appraisal ratio of 1.00. When a gap exists between market and appraised values, some property owners are paying less than a fair share of property taxes while others may be overburdened with taxes on properties of declining values. Appraised values and appraisal ratios (the state-estimated ratio between appraised and market values, updated every two years) are presented in Section A of this book.

Graph 3



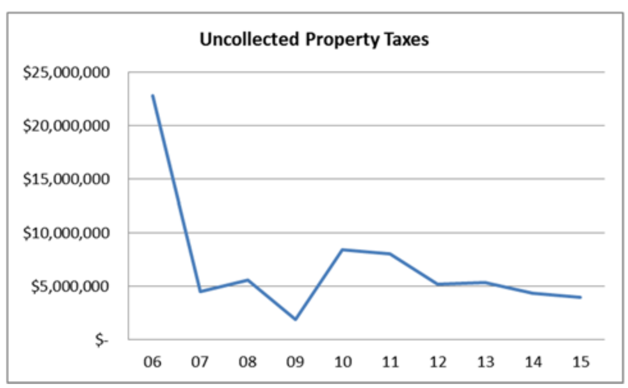
Commentary: Regular reappraisals should help keep appraised values balanced with market values. All taxable real property is appraised every four years by Metro's Assessor of Property.

Analysis: The total assessed value of property has steadily increased from FY2006 to FY2015 by 31.2%. Over the same time period, total estimated property value has nearly mirrored that figure, increasing 31.3%. Metro has elected to undertake a four-year reappraisal cycle in an effort to keep property values in line with current market values as well as maintain equalization throughout the county. Appraised values are generally within 90% of market values.

Uncollected Property Taxes

Description: Each year, a portion of assessed property taxes remain uncollected due to a variety of reasons. An increase in this percentage can indicate an overall decline in local government's economic health. Delinquent and back property tax collections form a significant portion of annual property tax revenue. The largest portion of delinquent taxes consists of the prior year's assessments.

Graph 4

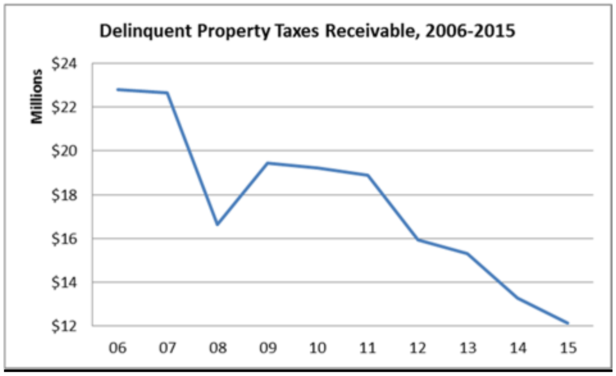


Appendix 7: FTMS

Analysis: In FY2006, uncollected property taxes amounted to approximately $23M. Most recently, in FY2015, uncollected property taxes had declined to $3.9 million. This decrease can be attributed, in large part, to an FY2006 agreement in which Metro sold its outstanding property tax receivables to a private sector collector.

Delinquent Property Tax Receivables

Graph 5



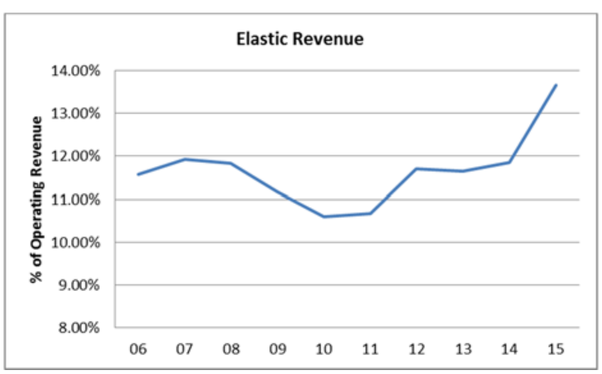
Commentary: Delinquent property tax receivables have fluctuated during the time period of analysis. These fluctuations occur as a result of property tax increases and/or periods of economic stagnation. The overall trend for delinquent property tax receivables has been negative, decreasing by 46.7% from FY2006 to FY2015.

Analysis: The fluctuations in delinquent property tax collections can be explained by inconsistencies in the collection process, with the spikes in the graph representing increased efforts by the legal department in pursuing delinquent funds as noted in the declines from FY2007 to FY2008 and since 2011 overall.

Elastic Revenue

Description: Elastic revenue refers to revenue that responds to changes or fluctuations in inflation and the economy. In this study, the elastic revenue analyzed is the local option sales tax.

Graph 6



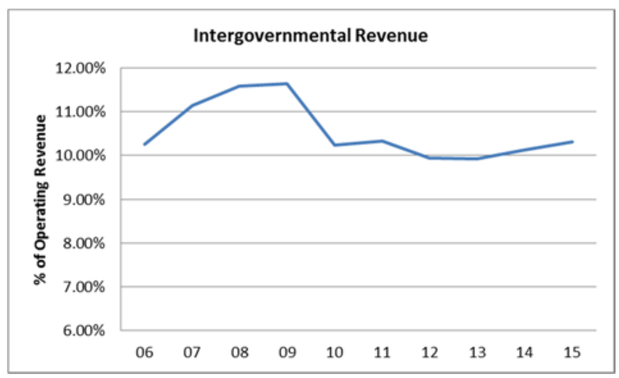
Commentary: In FY2006, elastic operating revenues were almost $90M. For the first 5 years of the trend, the revenues experienced a decline of 11.3%, indicative of the recessionary period of the timeframe. However, over the second half of the 10 year analysis, elastic revenues have increased to a much more robust 53.7%.

Analysis: During periods of increased inflation, a high percentage of sales tax revenue compared to total revenue helps maintain purchasing power. One should note that the FY2006 reappraisal and subsequent property tax revenue increase was a key reason that a lower percentage of total revenues were attributed to sales tax. This property tax increase, coupled with the previously referenced recessionary period, dampened local option sales taxes' percentage of overall revenue. The noticeable growth in elastic revenue, which began as a slight increase in 2011 and has grown considerably since, positively correlates with the recovery and subsequent strengthening of the economy that began that year. In congruence with this, improved efficiency in sales tax collections has also played an important role in the increase.

Intergovernmental Revenue

Description: Intergovernmental revenue consists of funds from federal, state, and other governmental entities, and non-profit groups. Often these funds are designated for specific uses. Too much dependence on intergovernmental revenue is risky; if funds are withdrawn, the local government may need to fill the gap or reduce services provided by the funding.

Graph 7



Commentary: Intergovernmental revenue, following steady growth from FY2006 to FY2009 relative to total revenue, declined considerably in FY2010 and has remained comparatively flat since. In part, this is due to property tax rate increases, which increased the percentage of revenue raised by the property tax relative to other sources. Along with this, during several of the years being examined there were reductions in intergovernmental transfers from state and federal sources due to budget reductions at the state level and shifting of resources out of federal grant programs. These revenues have started to trend slightly upward over the course of the last few years in absolute terms, as fiscal tightening at the federal and state levels has lessened.

Analysis: From FY2006 to FY2009 a noticeable spike in intergovernmental revenue occurred, which could be attributed to an inflow of federal stimulus funds, the cumulative measures of which later became known as the American Recovery and Reinvestment Act in 2009. Since then, the category's contribution to Metro's total revenue figure has leveled off to prerecession levels and remained consistent, ranging between 9.92% and 10.32%. Despite the slight upturn, intergovernmental revenues in FY2015 have merely matched contributions from nearly a decade and a half ago.

Revenue Benchmarks

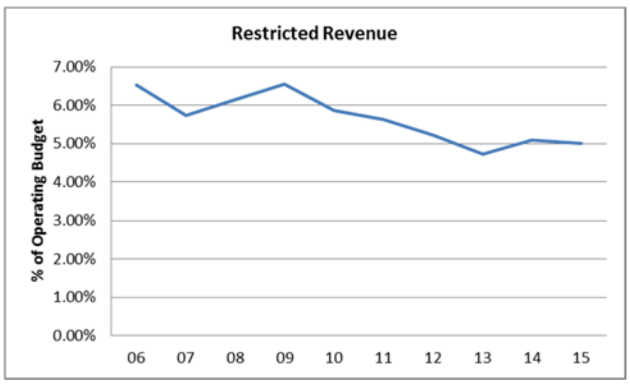
Revenue benchmarks serve as important symbols of the flexibility found in spending restrictions within the Metropolitan Government. These trends may reveal implementation of cost controls or fiscal policies.

Restricted Revenue

Description: Restricted revenue is legally designated for a specific use, often spelled out in state or federal laws, bond covenants, or grant contracts. Specifically, restricted revenue includes revenue from other governments and governmental agencies, excluding the state income tax allocation and the state sales tax funds.

An increased percentage of restricted revenue as a percentage of total operating revenues can hinder the government's ability to modify spending priorities in response to changing service needs and demands.

Graph 8



Commentary: The restricted revenue graph mimics the decreasing trend illustrated in the intergovernmental revenue graph: the state sales tax allocation and the income tax on dividends and interest are not included in the restricted revenue calculation. Restricted revenue as a percentage of total revenue reached its lowest point for the period reviewed at 4.7% in FY2013. Restricted revenue has exhibited a steady decline over the time period being analyzed, declining 23.4% since FY2006 relative to total revenue, and 9.8% in annual total dollar amounts overall. This is retraction is related to the decline in intergovernmental revenue as the fiscal crisis of 2009 has caused a reduction of federal grant revenue.

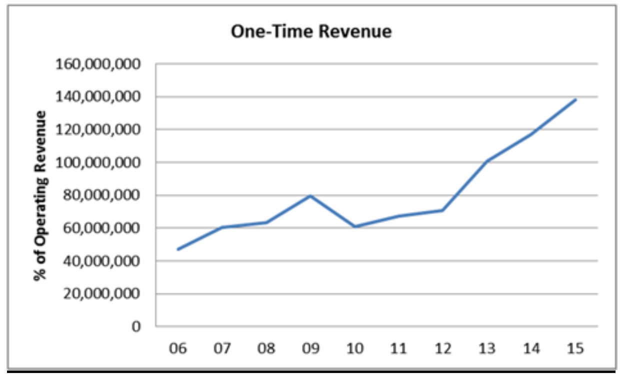
While grants do allow local governments the opportunity to expand certain programs, it is a good idea to keep the percentage relatively low so that a government does not become overly reliant on grant funding from sources that cannot be guaranteed from year to year. As a percentage of total revenues, restricted revenues have not exceeded 7% since FY2005.

One-Time Revenue

Description: A one-time or temporary revenue source is one that is not expected to be a continuous funding source, such as the allocation of a portion of fund balance reserves or a one-time grant.

Continual use of one-time revenue to balance the budget may indicate that the revenue base is not sufficient to support current service levels. For this study, a one-time revenue source refers to funds appropriated from fund balance. The warning trend for this indicator is an increasing use of one-time operating revenue as a percentage of net operating revenues.

Graph 9



Analysis: In FY2006, $46,934,078 (6.05% of net operating revenue) was contributed as One-Time Revenue. By FY2015 this amount had increased to $138,053,598, or 15.11% of net operating revenue. Use of one-time revenue has steadily increased over the period of analysis (a 150% increase from FY2006 to FY2015), with a sharp spike in 2009 which can be attributed to stimulus funds. The graph indicates that departments show an increased reliance on fund balance or grant funds to provide services.

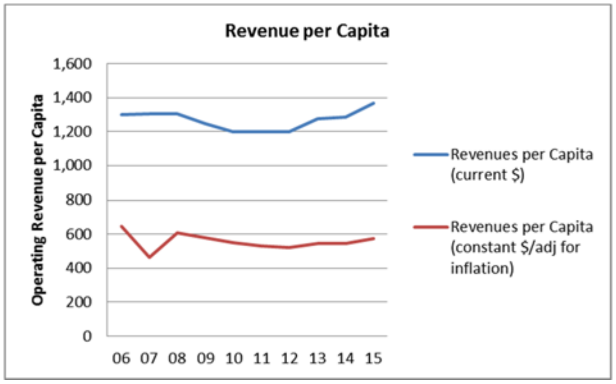
Commentary: The global economic crisis in 2008 significantly impacted local revenue and required substantial commitment of fund balance to cover revenue shortfalls. The steady rise in use of one-time revenue can be attributed to a concerted effort by the Dean administration to increase contributions to Metro's 4% fund beyond required levels in order to shield Metro from another recession. As a result, surplus reserve dollars have been used to fund Metro operating capital needs. This process has been managed effectively; Metro monitors its fund balances carefully, manages its use, and avoids appropriating fund balances to fund on-going operating expenses.

Appendix 7: FTMS

Revenues per Capita

Description: This indicator assumes that services and revenues will increase proportionately with growth in the population and that the level of *per capita* revenue will stay at least constant in real terms. The population of Davidson County has grown by 11.8% since 2006.

Graph 10



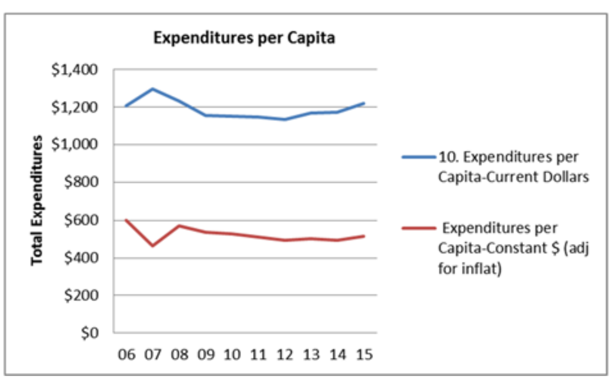
Commentary: In constant dollars, revenue per capita decreased 10.5% over the period of analysis. The effect of the 2008 Great Recession is evident in the 14.6% decrease from FY2006 to FY2010, and the post-recession 8.4% increase from FY2011 to FY2015. Revenue per capita continued to climb in FY2015 despite continuing increases in population, posting a 6.1% growth over FY2014 totals resulting in total revenue per capita of $577.

Analysis: Fluctuations in revenues per capita can be attributed to a steadily increasing population and the economic downturn of 2007-2008 which was the main cause of the 14.6% decline in revenue per capita from FY2006 to FY2010. Revenues per capita hit a low point of $466 in FY2007.

Expenditures per Capita

Description: This indicator assumes that changes in *per capita* expenditures reflect fluctuations in the population and compares changes to the rate of inflation. The graph compares nominal (current dollar) and real (constant dollar) data.

Graph 11



Commentary: The graph illustrates that between FY2006 and FY2015, actual expenditures per capita in constant dollars decreased by 14.1%. In current dollars, expenditures *per capita* have increased slowly since FY2012, totaling $1,220.15 for FY2015.

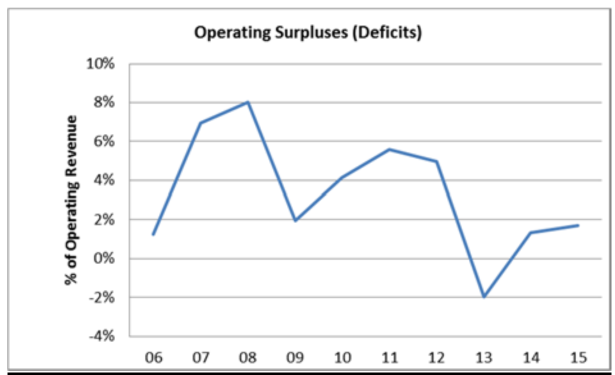
Analysis: The graph illustrates that in current dollars, Metro's expenditures per capita have remained mostly stable since FY2009.

The marked increase in expenditures per capita in current dollars for 2007 is the result of a status quo Davidson County population and the property tax increase implemented in FY2006. The increase in FY2007 is the result of the restoration of selected expenses following expenditure cuts in FY2005 and the increased availability of revenues from the property tax rate increase.

Operating Deficits

Description: An operating deficit occurs when current expenditures exceed current revenues. This does not necessarily mean that the budget will be out of balance, since reserves from prior years may be used to cover the difference. However, credit rating firms regard a current-year operating deficit as a minor warning signal. Two consecutive years of such deficits indicate that current revenues are not supporting current expenditures and require more attention.

Graph 12



Commentary: Two or more consecutive years of operating fund deficits present a "red flag" with respect to the financial health of Metro Government. The operating deficits between 2006 and 2012 are the result of the planned use of fund balances to balance the operating budget. Fiscal years 2010 through 2011 experienced a slow but steady increase in operating surplus. As post-recession national and local economic recovery became evident in 2012, fund balance use declined rapidly in 2013 and 2014 with operating deficits of 1.95% and surpluses of 1.32% respectively.

Metro returned to small operating deficits in 2014 and 2015 driven by shortfalls in enterprise funds with a total deficit of 1.71% of net operating revenues in FY2015. The overall result of economic recovery was a 69.5% decrease in operating deficits in the period from 2010-2015.

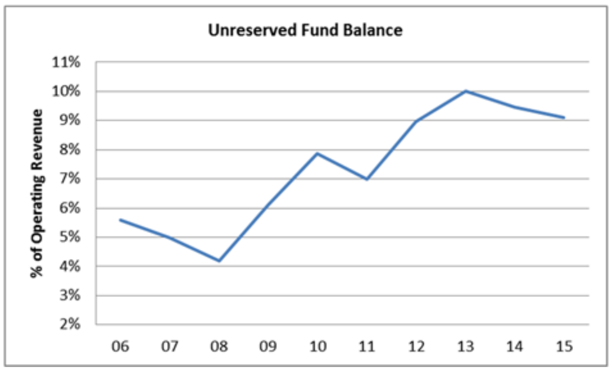
Appendix 7: FTMS

Analysis: The Great Recession of 2007-2009 resulted in marked declines in net operating revenue for Metro and resulted in the decision to use fund balance dollars to maintain levels of service. Revenue partially recovered in FY2010, but operating deficits for FY2010 through FY2012 remained at 4.15% and 4.96% of net operating revenue respectively. Revenue increased between 2013 and 2015, which led to fewer departments requesting the use of fund balance to maintain current service levels.

Fund Balances

Description: Fund balances can be thought of as reserves. Since some fund balances may be designated for specific projects, it is necessary to differentiate between reserved and unreserved fund balance. Unreserved fund balance is the indicator in this case. Unreserved fund balances enable a government to meet future emergencies. A warning sign occurs when unreserved fund balances decline as a percentage of net operating revenues. This may show an inability to fund emergencies.

Graph 13

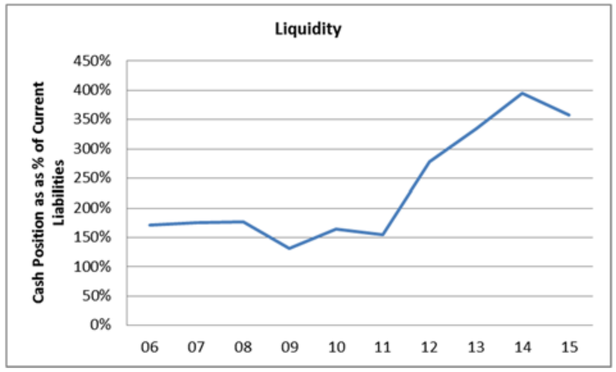


Commentary: Fund balance as a percentage of operating revenue has increased by 62.7% since 2006, totaling almost $84M for FY2015, 9.11% of net operating revenues. At no time in the period of analysis has the unreserved fund balance dropped below the 4% threshold. In FY2006, the property tax reappraisal, coupled with a property tax increase, caused the unreserved fund balance to increase slightly as a percentage of operating revenue, although in the following two fiscal years this ratio declined to 4.19%. In subsequent years, fund balance as a percentage of operating revenue increased significantly due to major declines in operating revenue resulting from the fiscal crisis of 2009 and steady increases in fund balance due to major reductions in local government expenditures, resulting in a high of 9.45% ($81.65M) in FY2014.

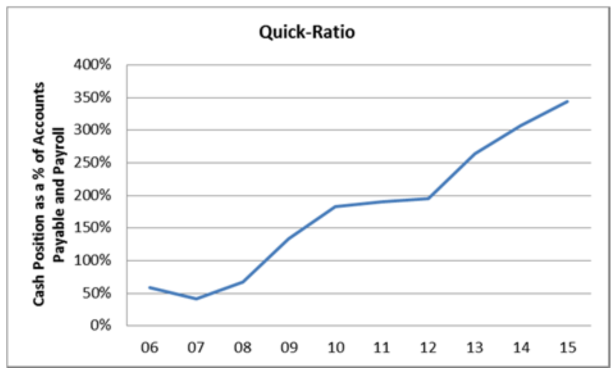
Liquidity

Description: Liquidity measures a government's ability to pay its short-term obligations. Insufficient liquidity will make a government insolvent. In these graphs, liquidity is determined by taking current assets and dividing by current liabilities – a measure known in financial analysis as the current ratio as seen in Graph 14. The **Quick Ratio** (Graph 15), is defined as current assets expected to be converted into cash quickly divided by current liabilities. In this case, it is determined by dividing cash and cash equivalents by accounts payable and accrued payroll.

Graph 14



Graph 15



Commentary: Over the time period of analysis, liquidity has ranged from a low of 131.55% in FY2009 to a high of 395.43% in FY2014.

A positive quick ratio, particularly in more recent years, indicates that Metro has had adequate cash reserves for immediate unexpected needs. Though the trend decreased somewhat in FY2006 through and FY2007, Metro's ability to acquire cash during the following years has continued to increase.

Analysis: Credit rating firms consider liquidity of less than 100% to be a negative factor. Liquidity has not fallen below 100% since 2008. A positive liquidity position indicates that Metro is not overextended in its financial obligations with current liquidity at more than 3 times that recommended level.

Demographic Trends

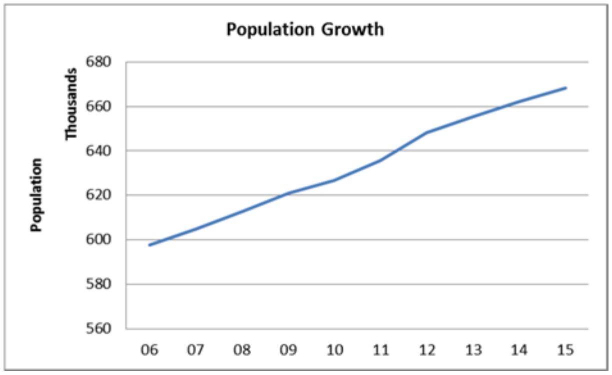
Municipal fiscal health is related to citizen needs and available resources that are often reflected in economic and demographic indicators.

A greater variety of current demographic information is presented in Appendix 4, "About Nashville."

Appendix 7: FTMS

Population: Population growth has a significant impact on Metro's ability to generate and capture revenue as well as the cost to provide services The population of Davidson County has increased steadily over the past decade, from 597,597 in 2006 to 668,347 in 2015, an increase of 11.8%.

Graph 16

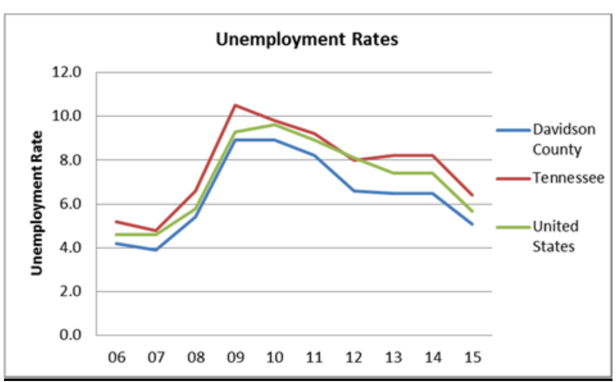


Unemployment: Over the past decade, Davidson County has maintained low unemployment rates that are parallel to, but lower than, national and state-wide figures. The county's unemployment rate during the last decade has ranged from a low of 3.9% in 2007 to a high of 8.9% in 2010, compared with a range of 4.8% to 9.8% for the state and 4.6% to 9.6% nationally during the same periods.

Unemployment rates at the local, state, and national level declined steadily between 2004 and 2007, until the impact of the global fiscal economic crisis took hold between 2009 and 2010. Active fiscal policy on the macroeconomic level by the Federal Reserve and decisive action by the U.S. government resulted in a stabilization of unemployment rates in the last few years of the analysis. The average unemployment rate for Davidson County in 2015 was 5.09%, a 1.39% decrease since 2014.

Davidson County's steady economic base is likely to continue to be healthy due to its economic diversification and higher-than-average concentration of jobs in education, health care, and professional and technical services. These industries are prominent on the national level and are projected to experience high growth rates over the next decade and beyond.

Graph 17



For an ADA accommodation, please contact Kimberly Northern at 615-880-1710 or by email at kimberly.northern@nashville.gov