

## MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Metropolitan Government of Nashville and Davidson County (the Government), we offer readers of the Government's financial statements this narrative overview and analysis of the financial activities of the Government for the fiscal year ended June 30, 2004.

### FINANCIAL HIGHLIGHTS

- The assets of the Government exceeded its liabilities at the close of the most recent fiscal year by \$2.4 billion (*net assets*). Of this amount, \$116 million (*unrestricted net assets*) may be used to meet the Government's ongoing obligations to citizens and creditors.
- The Government's total net assets decreased by \$45 million (\$51 million decrease from governmental activities and \$6 million increase from business-type activities).
- As of the close of the current fiscal year, the Government's governmental funds reported combined ending fund balances of \$273 million, a decrease of \$87 million in comparison with the prior year. Approximately 21.08% of this total amount, \$58 million, is available for spending at the Government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$34 million, or 5.29% of total general fund expenditures.
- The enterprise funds reported net assets at year-end of \$1.1 billion, an increase of \$8 million during the year.
- The Government's total general obligation and revenue bonds outstanding increased by \$29 million (1.74%) during the current fiscal year. New debt issues totaled \$122 million which were offset by principal payments and changes in deferred amounts of \$93 million.
- The Government instituted a commercial paper program during the fiscal year ended June 30, 2004 to provide interim or short-term financing of authorized capital projects. Total commercial paper outstanding at the close of the fiscal year was \$98 million.

### OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Government's basic financial statements. The Government's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements themselves.

#### Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Government's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the Government's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Government is improving or deteriorating.

The Statement of Activities presents information showing how the Government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes, compensated absences, etc.).

Both of the government-wide financial statements distinguish functions of the Government that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Government include general government, fiscal administration, administration of justice, law enforcement and care of prisoners, fire prevention and control, education, regulation and inspection, conservation of natural resources, public welfare, public health and hospitals, public library system, public works, highways and streets, and recreational and cultural. The business-type activities of the Government include the Department of Water and Sewerage Services, District Energy System, Nashville Convention Center, Board of Fair Commissioners, Farmers Market, Police Secondary Employment and Surplus Property Auction.

The government-wide financial statements include not only the Government itself (known as the *primary government*), but also the Nashville District Management Corporation, Sports Authority, Hospital Authority, Metropolitan Development and Housing Agency, Electric Power Board, Metropolitan Transit Authority, Nashville Thermal Transfer Corporation, Metropolitan Nashville Airport Authority, Emergency Communications District, and Industrial Development Board. These *component units* are legally separate organizations for which the Government is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government itself.

The government-wide financial statements can be found on pages B-2 to B-5 of this report.

## **Fund Financial Statements**

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Government, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Government can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, the focus is on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources at the end of the fiscal year. Such information may be useful in evaluating the Government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Government's near-term financing decisions. Both the Balance Sheet – Governmental Funds and the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Government reports 28 individual governmental funds. Information is presented separately in the Balance Sheet – Governmental Funds and in the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds for the General Fund, General Purpose School Fund, GSD General Purposes Debt Service Fund, GSD School Purposes Debt Service Fund, and USD General Purposes Debt Service Fund, all of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation.

The Government adopts an annual appropriated budget for each major governmental fund. Budgetary comparison statements have been provided in the Basic Financial Statements section for the General Fund and General Purpose School Fund to demonstrate compliance with the budget.

The basic governmental fund financial statements can be found on pages B-6 to B-17 of this report.

**Proprietary funds** – The Government maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as business-type activities in the government-wide financial statements. The Government uses enterprise funds to account for the Department of Water and Sewerage Services, District Energy System, Nashville Convention Center, Board of Fair Commissioners, Farmers Market, Police Secondary Employment and Surplus Property Auction. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the Government's various functions. The Government uses internal service funds to account for its printing, fleet of vehicles, information systems, radio equipment, insurance, office supply, postal, facilities planning, and treasury management services. Because these services predominantly benefit governmental rather than business-type functions, they have been primarily included within governmental activities in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Department of Water and Sewerage Services and District Energy System which are considered to be major funds of the Government. Data from the other enterprise funds are combined into a single, aggregated presentation. Also, the internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

The basic proprietary fund financial statements can be found on pages B-18 to B-23 of this report.

**Fiduciary funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the Government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Government's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on pages B-24 to B-25 of this report.

### Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages B-39 to B-103 of this report.

### Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning certain infrastructure condition and maintenance data, found on pages B-104 to B-105, and concerning the Government's progress in funding its obligation to provide pension benefits to employees, found on pages B-106 to B-111.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Government, assets exceeded liabilities by \$2.4 billion at the close of the most recent fiscal year.

#### The Government's Net Assets in thousands of dollars (as of June 30,)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003, as restated	2004	2003, as restated	2004	2003, as restated
Current and other assets	\$ 1,151,814	\$ 1,220,573	\$ 347,016	\$ 416,987	\$ 1,498,830	\$ 1,637,560
Capital assets	2,286,591	2,138,850	1,391,042	1,332,563	3,677,633	3,471,413
<b>Total assets</b>	<b>3,438,405</b>	<b>3,359,423</b>	<b>1,738,058</b>	<b>1,749,550</b>	<b>5,176,463</b>	<b>5,108,973</b>
Long-term liabilities	1,351,816	1,241,013	569,539	593,898	1,921,355	1,834,911
Other liabilities	773,648	753,675	77,227	70,794	850,875	824,469
<b>Total liabilities</b>	<b>2,125,464</b>	<b>1,994,688</b>	<b>646,766</b>	<b>664,692</b>	<b>2,772,230</b>	<b>2,659,380</b>
Net assets:						
Invested in capital assets, net of related debt	1,120,156	1,009,271	815,902	748,195	1,936,058	1,757,466
Restricted	114,155	131,272	238,071	269,111	352,226	400,383
Unrestricted	78,630	224,192	37,319	67,552	115,949	291,744
<b>Total net assets</b>	<b>\$ 1,312,941</b>	<b>\$ 1,364,735</b>	<b>\$ 1,091,292</b>	<b>\$ 1,084,858</b>	<b>\$ 2,404,233</b>	<b>\$ 2,449,593</b>

**Governmental activities** – Current and other assets for governmental activities decreased by 5.63% due primarily to increased spending for capital projects, payroll and benefits which resulted in a decrease in the balances of cash, cash equivalents and investments of \$112 million. Capital assets increased by 6.91% due to additional donated infrastructure, construction of new schools and renovation of existing government buildings. Long-term liabilities increased by 8.93% due to the issuance of new debt in excess of principal payments, changes in deferred amounts and long-term liabilities for commercial paper borrowings. Other liabilities increased by 2.65% primarily due to additional accrued payroll at year-end related to retirement incentives offered to and taken by employees and short-term liabilities for commercial paper borrowings.

The largest portion of the Government's net assets for governmental activities (85.32%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Government's investment in its

capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Government's net assets for governmental activities (8.69%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of net assets for governmental activities representing unrestricted net assets, \$79 million (5.99%), may be used to meet the Government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Government is able to report positive balances in all three categories of net assets for its total governmental activities.

**Business-type activities** – The Government began construction of the District Energy System during the year ended June 30, 2003. The System, which provides heating and cooling services to the Government and downtown businesses, began operation during the year ending June 30, 2004 replacing the Nashville Thermal Transfer Corporation. The System is managed by a third party and is expected to be self-supporting by utilizing a rate structure designed to fund debt service requirements, pay for operating expenses and generate adequate working capital.

Current and other assets for business-type activities decreased by 16.78% due primarily to the spending of the prior year bond proceeds on the continued construction of the District Energy System which resulted in a decrease in the balances of cash, cash equivalents and investments of \$61 million. Capital assets increased by 4.39% due to the construction of new steam and chilled water generating facilities for District Energy System. Long-term liabilities decreased by 4.10% due to principal payments on the revenue bonds of the Department of Water and Sewerage Services. Other liabilities increased by 9.09% primarily due to additional liabilities of the District Energy System.

The largest portion of the Government's net assets for business-type activities (74.76%) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment and infrastructure), less any related debt used to acquire those assets that is still outstanding. The Government uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Government's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the Government's net assets for business-type activities (21.82%) represents resources that are subject to external restrictions on how they may be used. The majority of the restrictions relate to debt retirement and construction. The remaining balance of net assets for business-type activities representing unrestricted net assets, \$37 million (3.42%) may be used to meet the Government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Government is able to report positive balances in all three categories of net assets for its total business-type activities.

**The Government's Changes in Net Assets**  
in thousands of dollars  
*(for the year ended June 30,)*

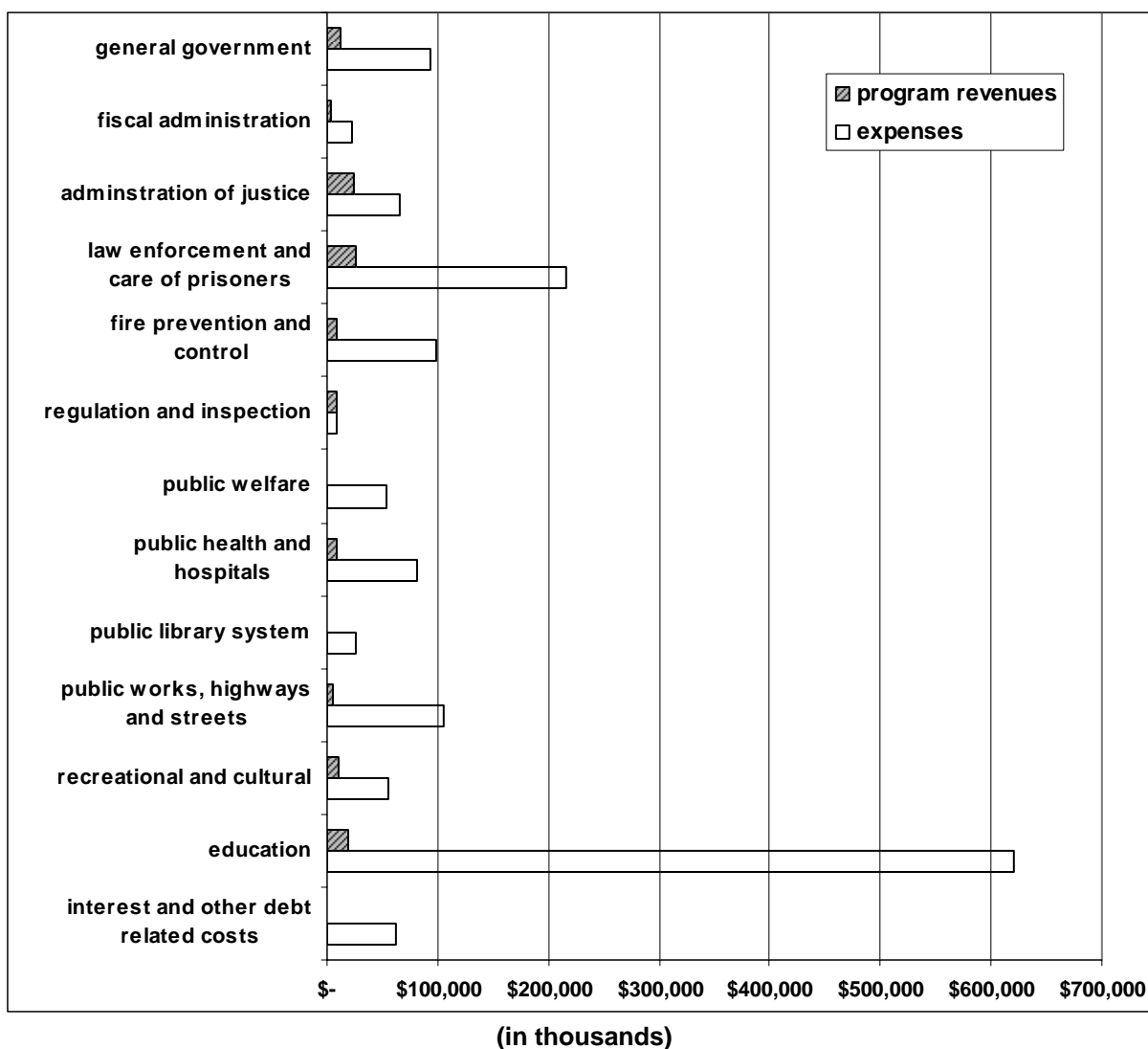
	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003, as restated	2004	2003, as restated	2004	2003, as restated
<b>Revenues:</b>						
Program revenues:						
Charges for services	\$ 128,226	\$ 119,314	\$ 173,029	\$ 157,103	\$ 301,255	\$ 276,417
Operating grants and contributions	272,414	267,904	-	-	272,414	267,904
Capital grants and contributions	58,451	24,487	16,473	17,687	74,924	42,174
General revenues:						
Property taxes	592,385	606,681	-	-	592,385	606,681
Local option sales tax	239,779	230,686	-	-	239,779	230,686
Other taxes	90,583	86,078	-	-	90,583	86,078
Revenues from the use of money or property	4,326	9,152	2,049	8,911	6,375	18,063
Revenues from other governmental agencies	50,870	53,749	-	-	50,870	53,749
Compensation for loss, sale or damage to property	5,589	7,581	-	-	5,589	7,581
<b>Total revenues</b>	<b>1,442,623</b>	<b>1,405,632</b>	<b>191,551</b>	<b>183,701</b>	<b>1,634,174</b>	<b>1,589,333</b>
<b>Expenses:</b>						
General government	94,175	70,884	-	-	94,175	70,884
Fiscal administration	22,063	34,840	-	-	22,063	34,840
Administration of justice	65,069	57,535	-	-	65,069	57,535
Law enforcement and care of prisoners	215,912	203,351	-	-	215,912	203,351
Fire prevention and control	97,965	99,895	-	-	97,965	99,895
Regulation and inspection	8,465	7,772	-	-	8,465	7,772
Conservation of natural resources	426	335	-	-	426	335
Public welfare	53,435	54,875	-	-	53,435	54,875
Public health and hospitals	80,730	75,401	-	-	80,730	75,401
Public library system	25,448	23,926	-	-	25,448	23,926
Public works, highways and streets	105,618	94,482	-	-	105,618	94,482
Recreational and cultural	54,459	49,770	-	-	54,459	49,770
Education	620,518	575,834	-	-	620,518	575,834
Interest and other debt related costs	62,492	57,289	-	-	62,492	57,289
Department of Water and Sewerage Services	-	-	148,814	143,526	148,814	143,526
District Energy System	-	-	8,078	40	8,078	40
Nashville Convention Center	-	-	6,384	6,319	6,384	6,319
Board of Fair Commissioners	-	-	4,055	4,175	4,055	4,175
Farmers Market	-	-	1,159	1,112	1,159	1,112
Police Secondary Employment	-	-	1,017	1,679	1,017	1,679
Surplus Property Auction	-	-	3,252	9	3,252	9
<b>Total expenses</b>	<b>1,506,775</b>	<b>1,406,189</b>	<b>172,759</b>	<b>156,860</b>	<b>1,679,534</b>	<b>1,563,049</b>
Increase in net assets before transfers and special items	(64,152)	(557)	18,792	26,841	(45,360)	26,284
Transfers	12,358	10,711	(12,358)	(10,711)	-	-
<b>Special items:</b>						
Contribution of capital assets from component unit to general government	-	737	-	-	-	737
Increase (decrease) in net assets	(51,794)	10,891	6,434	16,130	(45,360)	27,021
Net assets, beginning of year, as restated	1,364,735	1,353,844	1,084,858	1,050,841	2,449,593	2,404,685
Acquisition of Cumberland Utility District	-	-	-	17,887	-	17,887
<b>Net assets, end of year</b>	<b>\$ 1,312,941</b>	<b>\$ 1,364,735</b>	<b>\$ 1,091,292</b>	<b>\$ 1,084,858</b>	<b>\$ 2,404,233</b>	<b>\$ 2,449,593</b>

**Governmental activities** – Governmental activities decreased the Government’s net assets by \$51 million. Key elements of this decrease are:

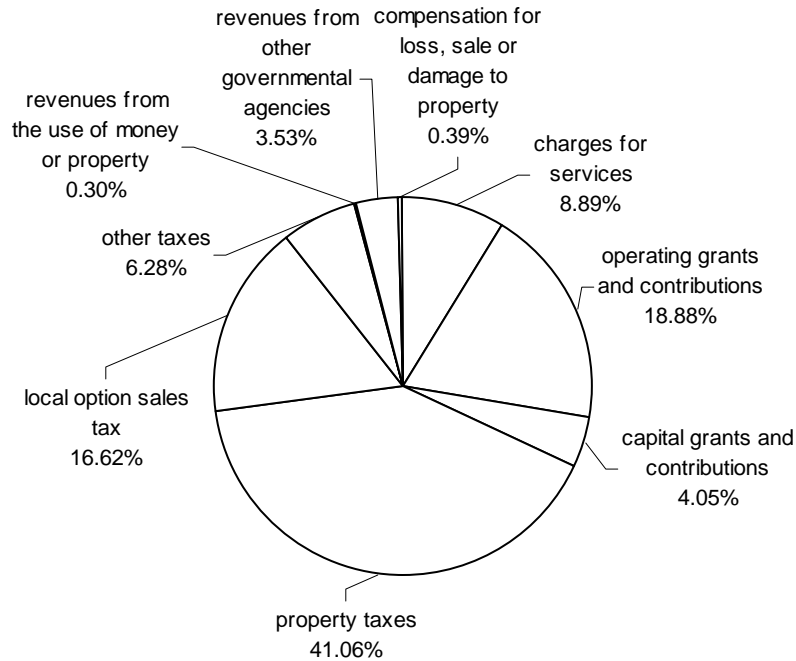
- Expenses exceeded revenues by \$64 million compared to \$1 million in the prior year. As planned, the Government operated without any significant changes to its revenue structure. However, expenses increased for most functions primarily due to pay plan and benefit increases. Also, the Government offered retirement incentives in order to achieve cost savings in future years. The additional expense related to the retirement incentives taken by employees further contributed to the increase in expenses.
- Transfers contributed an increase of \$12 million compared to \$11 million in the prior year. The Department of Water and Sewerage Services, a business-type activity, has management responsibility for stormwater operations, a governmental activity. The balance primarily represents funds transferred from the Department to fund stormwater expenditures.

Additionally, the Government restated certain assets, net assets and changes in net assets for the year ended June 30, 2003 to include net pension assets which had previously been excluded from the financial statements. This restatement increased beginning net assets by \$56 million.

**Expenses and Program Revenues - Governmental Activities – For the Year Ended June 30, 2004**



**Revenues by Source - Governmental Activities – For the Year Ended June 30, 2004**



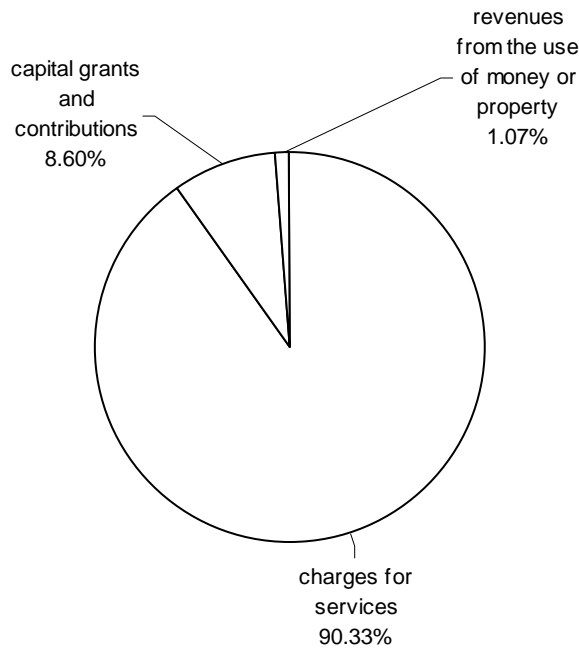
**Business-type activities** –Business-type activities increased the Government's net assets by \$6 million. Most business-type activities continue to generate operating income which contributed the majority of the increase. Capital grants and contributions primarily represent the value of deeds for land and utility plant conveyed to the Department of Water and Sewerage Services by developers.

The increase in net assets from business-type activities of \$6 million compares to \$16 million in the prior year primarily due to the reduced increase in net assets of the Department of Water and Sewerage Services. Although operating income was consistent, investment income decreased by \$7 million due to lower rates of return.

Additionally, the Department of Water and Sewerage Services absorbed the operations of the Cumberland Utility District effective July 1, 2003 which increased cash and cash equivalents, capital assets and net assets. This transaction increased beginning net assets by \$18 million.

The operations of the District Energy System which began operation during the year ending June 30, 2004 increased net assets by \$2 million in the current year.

## Revenues by Source – Business-type Activities – For the Year Ended June 30, 2004



### FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As noted earlier, the Government uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds** – The focus of the Government's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Government's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Government's governmental funds reported combined ending fund balances of \$273 million, a decrease of \$87 million in comparison with the prior year. Approximately 21.08% of this total amount (\$58 million) constitutes unreserved fund balance, which is available for spending at the Government's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has already been committed for 1) subsequent year budget appropriations (\$52 million), 2) the purchase of equipment (\$22 million), 3) future debt payments (\$91 million), 4) reservation for long-term receivable (\$43 million), and 5) other purposes (\$7 million).

The fund balances in the governmental funds decreased primarily due to pay plan and benefit increases, expenditures for retirement incentives and capital spending.

The general fund is the chief operating fund of the Government. At the end of the current fiscal year, unreserved fund balance of the general fund was \$34 million, while total fund balance was \$36 million. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5.29% of total general fund expenditures, while total fund balance represents 5.66% of that same amount.

The fund balance of the Government's general fund decreased by \$43 million during the current fiscal year primarily due to pay plan and benefit increases and expenditures for retirement incentives.

**Proprietary funds** – The Government's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of proprietary funds at the end of the year amounted to \$95 million. The total increase in net assets for these funds was \$30 million. Other factors concerning the finances of these funds have already been addressed in the discussion of the Government's business-type activities.

## **GENERAL FUND BUDGETARY HIGHLIGHTS**

### ***Original and Final Budgeted Amounts***

Differences in expenditures and transfers out between the original budget and final amended budget were a \$6 million increase primarily due to:

- \$2 million increase to fund infrastructure improvement requests initiated by members of the Metropolitan Council.
- \$1.5 million increase due to prior year reservations of fund balance which were appropriated in the current year.
- \$1.5 million increase in new grants and changes to existing grants for various departments.

### ***Final Budgeted and Actual Amounts***

Actual revenues and other financing sources exceed final budgeted amounts by \$13 million primarily due to:

- \$7 million related to commissions and fees of certain elected officials which are excluded from the budget but included in actual revenues to appropriately recognize these operations in the financial statements.
- \$5 million of revenue from other government agencies for amounts received from component units as reimbursement for services performed by the primary government. This was the first year that this reimbursement was made, and the amount was excluded from budgeted amounts.
- \$2 million in collections of franchise fees due to rate increases in excess of budgeted amounts.

These amounts and other revenues in excess of budgeted amounts were partially offset by lower than anticipated collections of property taxes and an anticipated loss recovery which was not realized.

Actual expenditures and other financing uses were higher than final budgeted amounts by \$6 million. The most significant variances are:

- \$7 million related to expenditures of certain elected officials which are excluded from the budget but included in actual expenditures to appropriately recognize these operations in the financial statements.
- \$4 million for retirement incentives offered and taken by employees in order to achieve future cost savings.

These amounts and other expenditures in excess of budgeted amounts were partially offset by savings from personnel vacancies and other measures implemented to reduce actual expenditures.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets** – The Government's investment in capital assets for its governmental and business type activities as of June 30, 2004 amounts to \$3.68 billion (net of accumulated depreciation). Depreciation charges for the fiscal year totaled \$94 million.

**The Government's Capital Assets**  
in thousands of dollars  
(as of June 30,)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003, As restated	2004	2003, As restated
Utility plant in service	\$ -	\$ -	\$ 1,698,975	\$ 1,578,343	\$ 1,698,975	\$ 1,578,343
Land	111,826	103,616	14,870	14,821	126,696	118,437
Land easements	-	-	-	11,247	-	11,247
Buildings and improvements	891,336	877,684	106,973	83,226	998,309	960,910
Improvements other than buildings	-	-	40,730	38,777	40,730	38,777
Furniture, machinery and equipment	256,826	236,678	39,053	36,126	295,879	272,804
Property under capital lease	-	-	3,645	3,645	3,645	3,645
Infrastructure	1,435,966	1,385,159	-	-	1,435,966	1,385,159
Construction in progress	108,779	17,601	32,027	65,153	140,806	82,754
Less: Accumulated depreciation	<u>(518,142)</u>	<u>(481,888)</u>	<u>(545,231)</u>	<u>(498,775)</u>	<u>(1,063,373)</u>	<u>(980,663)</u>
<b>Total capital assets</b>	<u><u>\$ 2,286,591</u></u>	<u><u>\$ 2,138,850</u></u>	<u><u>\$ 1,391,042</u></u>	<u><u>\$ 1,332,563</u></u>	<u><u>\$ 3,677,633</u></u>	<u><u>\$ 3,471,413</u></u>

The total increase in the Government's investment in capital assets for the current fiscal year was 5.94% (a 6.91% increase for governmental activities and a 4.39% increase for business-type activities).

The most significant changes in capital assets during the year were approximately \$20 million in costs related to the construction of new steam and chilled water generating facilities and improvements to an existing energy distribution system. Additionally, \$57 million of additional constructed and donated infrastructure was capitalized including the completed Gateway Bridge. Also, construction of new schools and renovation of existing government buildings has continued.

As allowed by GASB Statement No. 34, the Government has adopted the alternative to recording depreciation expense on selected infrastructure assets. Under this method, referred to as the modified approach, the Government expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under this approach include approximately 5,600 lane miles of streets and roads and 356 bridges and underpasses that the Government is responsible for maintaining.

The Government's policy is to have at least 70% of roads in good or better condition. The most recent assessment indicated that 85.0% of roads are in good or better condition compared to 85.5% in the prior year.

The Government estimated a need of approximately \$9 million for the year ended June 30, 2004 for preservation and maintenance of roads and streets. This level of spending on an annual basis is considered adequate to maintain 70% of roads and streets in good or better condition. Actual costs for the year ended June 30, 2004 amounted to \$9.5 million. The condition level remained consistent with the prior year.

The Government's bridges have assessed conditions which are better than established benchmarks. The Government's policy is to have at least 75% of bridges in fair or better condition. The conditions of bridges are assessed every two years. The most recent assessment indicated that 94.2% of bridges are in fair or better condition compared to 89.0% in the prior assessment. The conversion of the Shelby Street Bridge from a vehicle to pedestrian use bridge was a major contributor to the improved condition rating. The next bridge assessment will be in fiscal 2005.

The Government estimated a need of \$800 thousand for the year ended June 30, 2004 for preservation and maintenance of bridges and underpasses. Actual costs for the year ended June 30, 2004 amounted to \$231

thousand. Although actual costs were less than the anticipated needs, the condition level has remained consistent. The Government has appropriated an additional \$4.8 million for bridge maintenance in fiscal 2005.

Additional information on the Government's capital assets can be found in Note 5 beginning on page B-57 of this report.

**Long-term debt** – At the end of the current fiscal year, the Government had total bonded debt outstanding of \$1.7 billion. Of this amount, \$1.2 billion comprises debt backed by the full faith and credit of the Government. The remainder, \$559 million, of the Government's debt represents bonds secured solely by specified revenue sources (i.e., revenue bonds).

**The Government's Outstanding Debt**  
General Obligation and Revenue Bonds  
in thousands of dollars  
(as of June 30,)

	Governmental Activities		Business-type Activities		Total Primary Government	
	2004	2003	2004	2003	2004	2003
General obligation bonds	\$ 1,158,710	\$ 1,114,990	\$ -	\$ -	\$ 1,158,710	\$ 1,114,990
Deferred amounts, net	258	(6,178)	-	-	258	(6,178)
Total general obligation bonds outstanding	<u>1,158,968</u>	<u>1,108,812</u>	<u>-</u>	<u>-</u>	<u>1,158,968</u>	<u>1,108,812</u>
Revenue bonds	13,530	14,925	550,880	571,070	564,410	585,995
Deferred amounts, net	(180)	(205)	(5,247)	(5,995)	(5,427)	(6,200)
Total revenue bonds outstanding	<u>13,350</u>	<u>14,720</u>	<u>545,633</u>	<u>565,075</u>	<u>558,983</u>	<u>579,795</u>
Total general obligation and revenue bonds bonds outstanding	<u>\$ 1,172,318</u>	<u>\$ 1,123,532</u>	<u>\$ 545,633</u>	<u>\$ 565,075</u>	<u>\$ 1,717,951</u>	<u>\$ 1,688,607</u>

The Government's total general obligation and revenue bonds outstanding increased by \$29 million (1.74%) during the current fiscal year. New debt of \$122 million was issued to provide funding to pay principal and interest of certain of the Government's maturing commercial paper notes. The increase from the new debt was offset by principal payments and changes in deferred amounts of \$93 million.

The Government maintains an 'AA' rating from Standard & Poor's, 'AA+' from Fitch, and 'Aa2' from Moody's for general obligation debt.

The ratio of general long-term debt (defined as gross debt less debt service monies available and less debt to be repaid from sources other than property taxes) to assessed valuation is 7.49%, and amount of net debt per capita is \$1,730.99 (in whole dollars).

Additional information on the Government's long-term debt can be found in Note 6 beginning on page B-60 of this report.

**Commercial paper** – In August 2003, the Government instituted a general obligation commercial paper program to provide interim or short-term financing of various authorized capital projects. Commercial paper obligations of \$68 million outstanding at June 30, 2004 were subsequently redeemed through the issuance of general obligation bonds and are reported as long-term liabilities, due within one year. Other commercial paper obligations of \$30 million outstanding at June 30, 2004 have not been refinanced with long-term borrowings and are considered short-term liabilities of the appropriate capital project funds.

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The unemployment rate for Nashville is currently 3.9%. The state's and nation's unemployment rates are 5.1% and 5.5%, respectively. To address the effects of the slow growth in the state and national economy and the budgetary effect of the state's decision to redirect revenue to the state's budget that has historically been allocated to Nashville and other local governments, the Metropolitan Government made budget reductions of approximately \$100 million for FY 2005. For a more comprehensive understanding of these reductions the reader is encouraged to review the Metropolitan Government's FY 2005 approved budget available at [www.nashville.gov](http://www.nashville.gov). Tax rates for FY 2005 are maintained at the FY 2004 levels.

## **REQUESTS FOR INFORMATION**

This financial report is designed to provide a general overview of the Government's finances for citizens, taxpayers, customers, investors, creditors and all others with an interest in the Government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be forwarded to the Department of Finance, Division of Accounts, at [cafr@nashville.gov](mailto:cafr@nashville.gov).