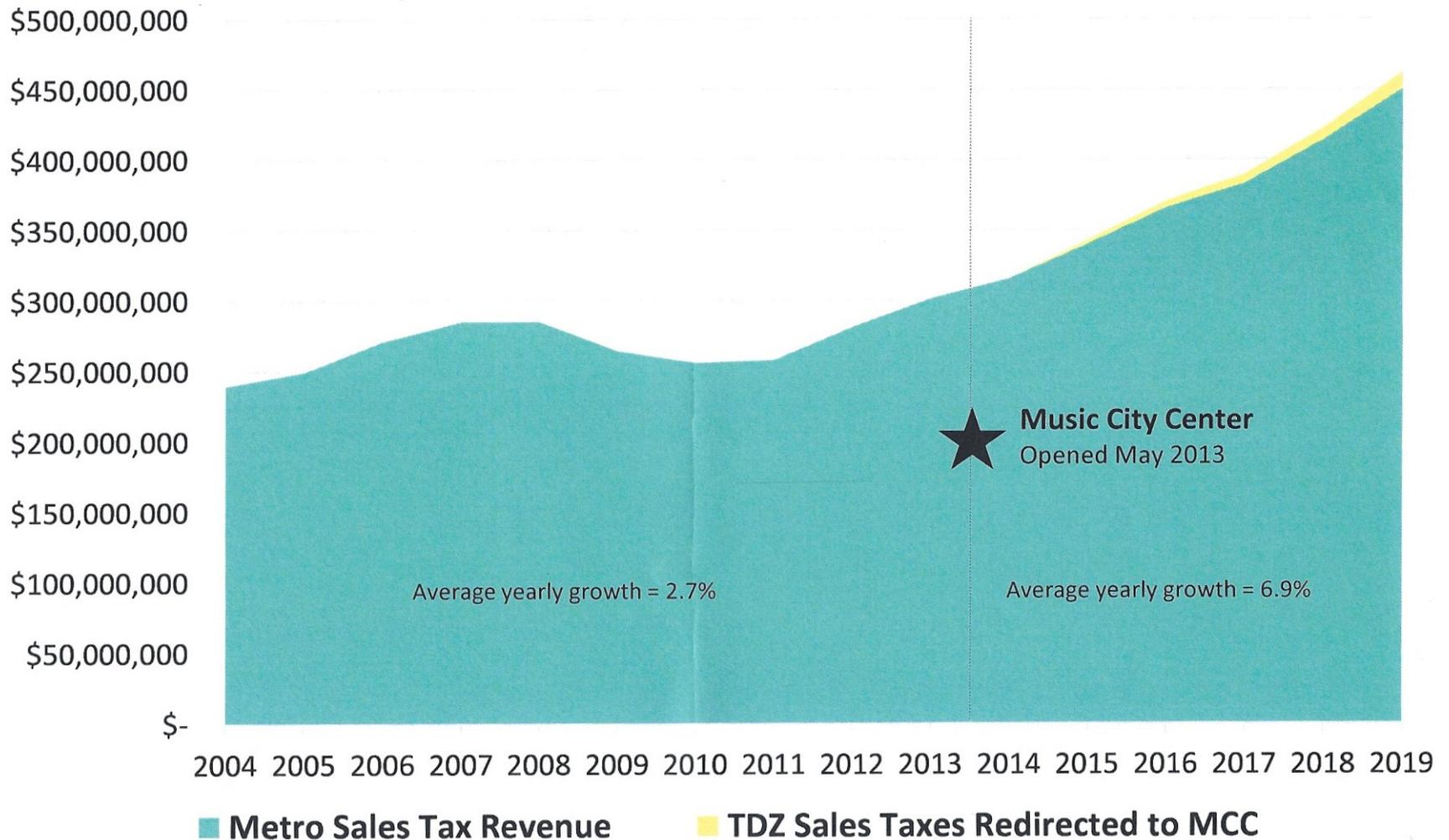


# LOCAL OPTION SALES TAX COLLECTIONS





Charles L. Starks  
President & CEO

June 3, 2019

Vice-Mayor Jim Shulman  
Members of the Metro Council  
1 Public Square, Suite # 204  
Nashville, Tennessee 37201

**Re: Music City Center Tourism Development Zone Background**

Dear Vice-Mayor Shulman and Members of the Metro Council:

Please allow this letter to respond to the various questions and comments that we have recently received from Members of the Metro Council and the public regarding the utilization and performance of the Music City Center Tourism Development Zone (the "MCC TDZ") in Nashville.

**1. Music City Center.** As of May 20, 2019, the Music City Center has now been open for six years. During this time, the Music City Center has hosted 1,775 events (including 360 non-profit events) with approximately 3,475,000 attendees accounting for more than 2,000,000 hotel room nights. The direct economic impact to Davidson County has been in excess of \$2,150,000,000 (averaging \$980,000 per day).

Perhaps more importantly, the development and operations of the Music City Center have directly contributed to the increase in Nashville's property and sales taxes collections. While we readily admit that the Music City Center is not the only contributor to the increase in these taxes and the growth of tourism in Nashville and visitors to the City, we have certainly been one of the primary catalysts. One has to look no further than the development in the area south of Broadway and the development of new hotels across the City, all of which are paying significant property taxes and accounting for various sales and other taxes.

**2. Financing the Music City Center.** The Music City Center is principally funded through tourism tax revenues from the following six sources: [i] 3% of the 6% Hotel/Motel Tax authorized by Tennessee Code Annotated ("TCA") Section 7-4-102, [ii] \$2.00 of the \$2.50 Hotel Room Occupancy Tax authorized by TCA Section 7-4-202, [iii] the \$2.00 Contracted Vehicle Tax authorized by TCA Section 7-4-203, [iv] the 1% Rental Vehicle Surcharge Tax authorized by TCA Section 67-4-1908, [v] an allocation of Campus Sales Tax, consisting of state and local sales and use taxes collected on the premises of the Music City Center campus and on any convention center hotels, and [vi] an allocation of state and local sales and use taxes derived from incremental sales tax growth within the Music City Center Tourism Development Zone authorized by TCA Section 7-88-101.

While these tourism taxes accounted for more \$102,000,000 in collections by the Music City Center in fiscal year 2018, it is important to understand that these revenue streams would

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not exist in the absence of the Music City Center. Most of these revenues, including the TDZ collections, terminate on the earlier of thirty years from the commencement of the Music City Center's operations or until its debt is retired.

**3. Tourism Development Zone Summary.** The MCC TDZ was approved by the Metro Council in 2009, pursuant to RS 2009-603. Thereafter, in accordance with the Convention and Tourism Development and Financing Act of 1998, the Convention Center Authority submitted an application for the MCC TDZ. The Music City Center qualified as a public use facility, and the application was certified by the Tennessee Department of Finance and Administration on November 10, 2009. Subsequently, the MCC TDZ was approved on November 12, 2009 by the State of Tennessee Building Commission.

While there has been much discussion about the MCC TDZ, its application is frequently misunderstood. Essentially, a tourism development zone is an allocation of both state and local sales and use taxes derived from incremental sales tax growth within a tourism development zone. To the extent that the growth of sales taxes receipts in the MCC TDZ exceeds the growth of the sales tax receipts in Davidson County in that year as a whole, the incremental growth is redirected to the Music City Center. The primary benefit to this financing mechanism is that the Music City Center is allowed to capture certain sales taxes that would otherwise go to the State of Tennessee.

As a result, the MCC TDZ receives revenues that are over and above a baseline level established in the Music City Center's first year of operations (2013), as adjusted (up or down) each year according to the growth rate of sales taxes countywide. These funds can be used for the Music City Center's debt and capital expenditures, but not operating expenses.

**4. Tourism Development Performance.** The MCC TDZ has accounted for approximately \$122,880,864.70 over the last six years. Nearly three-fourths of these funds (\$87,954,638.58) have come from tax revenues that the State would otherwise be entitled to keep, summarized as follows:

<u>Fiscal Year</u>	<u>Local Option</u>	<u>State</u>	<u>Total</u>
FY 2014	-	482,553.54	482,553.54
FY 2015	2,763,461.77	8,785,454.16	11,548,915.93
FY 2016	4,773,249.78	10,896,165.29	15,669,415.07
FY 2017	6,642,653.71	16,135,509.70	22,778,163.41
FY 2018	8,524,646.86	19,116,736.89	27,641,383.75
FY 2019	12,222,214.00	32,538,219.00	44,760,433.00
Total	34,926,226.12	87,954,638.58	122,880,864.70

It is inaccurate to assume that the MCC TDZ is capturing all local taxes in the tourism development zone for two principal reasons. First, the State adjusts the baseline for collections each year based on the increase (or decrease) for collections across Davidson County, outside of the MCC TDZ. Accordingly, Metro’s receipt of local sales and use taxes collected in the MCC TDZ should continue to grow each year. Second, this tourism development zone exempts certain properties within the boundaries including, without limitation, residential areas, hospitals, car dealerships and certain government functions.

Furthermore, it is important to understand that Metro, including our public schools, continues to receive an increase in sales tax each year. In fact, in the ten years prior to the opening of the Music City Center sales tax growth increased an average of 2.71% per year. Since then, as summarized below, the local options sales tax collections by Metro have increased an average of 6.57%:

<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>
\$315,478,742	\$340,076,515	\$365,703,934	\$382,934,148	\$414,155,992
4.66%	7.80%	7.54%	4.71%	8.15%

**5. Conclusion.** From the outset, the Convention Center Authority and the Music City Center have sought to be partners with the City, to support its priorities and invest in the City’s economic development and cultural pursuits. While there are certain limitations as to how the Music City Center’s revenues and/or reserves can be spent, the Music City Center has

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directly spent or paid \$73,300,000 at the request of and in support of the City, summarized as follows:

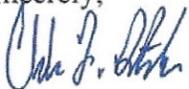
MOU Payments	\$20,000,000
5th + Broadway Parking Garage Payments	\$38,500,000
Lafayette Street Property Investment (MTA)	\$14,800,000
	<u>\$73,300,000</u>

If the Music City Center did not exist, the City would otherwise only be collecting the local sales tax portion within the MCC TDZ. However, in order to undertake this analysis, one would have to take into consideration the increased sales tax in the MCC TDZ attributable to our customers and attendees, sales taxes from our customers and attendees outside of the TDZ, other taxes paid within and outside the MCC TDZ such as liquor by the drink taxes, property taxes from the businesses and developments that would not have occurred but for the Music City Center, the benefit of the \$87,954,638.58 received by the Music City Center to-date from the State, and those monies that we have spent or paid at the request of and in support of the City.

By any measure, the MCC TDZ has done what it was intended to do. Whether measured by its economic impact to the City, the taxes collected by the City on both a direct and indirect basis, the monies paid to the City or spent on its behalf, or its contribution to the City's civic and cultural framework, the Music City Center has been an unqualified success during these first six years. Make no mistake, we refuse to take this success for granted and gladly acknowledge the contributions of those who have facilitated and contributed to this success, specifically the Metro Council.

Thank you for all that you do to lead Nashville and to support the Music City Center. Should you have any questions or need additional information, please do not hesitate to let me know.

Sincerely,



Charles L. Starks  
President & CEO

cc: Marty Dickens, Chair