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Metropolitan Council Blue Ribbon Commission

Credit Strategy and Financing Considerations

March 9, 2020

Today's objectives

- UBS is pleased to provide the Commission with subject matter expert testimony to discuss our view of:
  - Key considerations for Metro's General Obligation credit
  - Key considerations for Metro's Convention Center credit
  - Potential financing solutions to increase the flexibility of the revenue streams currently dedicated to the Convention Center Authority ("CCA") Indenture

- We look forward to your questions following the presentation

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Speaker Biographies

Kristin L. Stephens

Managing Director, Head of Credit Strategies

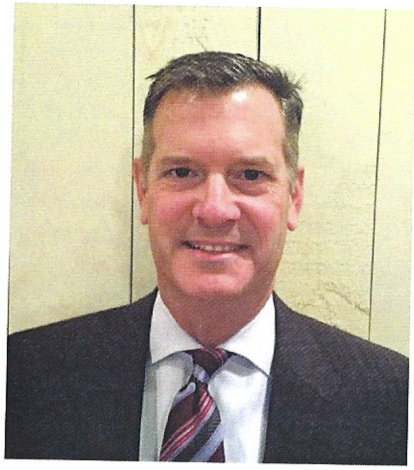
UBS Wealth Management Americas – Public Finance

Kristin Stephens is a Managing Director and the Head of Credit Strategies for the UBS Public Finance Department. In this capacity, she works with a variety of governmental issuers and non-profit organizations to help achieve their goals in accessing the tax-exempt and taxable fixed income markets. With twenty years of experience in municipal credit analysis, Kristin applies a deep knowledge of the high-grade and high-yield sectors to apprise clients of industry trends and developments, provide innovative credit solutions, develop rating agency strategies, and enhance investor outreach.

Previously the Senior Municipal Credit Strategist for the UBS Chief Investment Office, Kristin has shared her knowledge of municipal credit with UBS clients and financial advisors for nearly a decade. In this role, she was a lead contributor to the monthly flagship *Municipal Market Guide* and other municipal credit publications.

Kristin earned her bachelor's degree in economics and political science from Northwestern University in Evanston, Illinois. She maintains FINRA Series 7 and 63 securities licenses.

Kristin is a former chair of the Municipal Analysts Group of New York (MAGNY) and served as a member of the Board of Governors of the National Federation of Municipal Analysts (NFMA) from 2015-16. Kristin was named a Rising Star by *The Bond Buyer* in 2016.



David Moffett

Executive Director, Southeast Region Banking

UBS Wealth Management Americas – Public Finance

David Moffett has 16 years of relevant banking experience in Tennessee, including Metro Nashville, and various states in the Southeast. His practice focus has been threefold (a) traditional Southeast general municipal business; (b) select public utility clients, including Nashville and (c) project finance including micro energy solutions, real estate and structured financings.

Throughout his career, Mr. Moffett has served as underwriter to various Tennessee entities including the Metropolitan Government, Nashville Electric Service (NES), City of Memphis, and the Chattanooga EPB, to name a few.

Mr. Moffett graduated from Tulane University with a B.S. in Mathematics and from Louisiana State University with a M.B.A. in Quantitative Analysis. He also holds the Chartered Financial Analyst (CFA) designation.

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Metro Nashville and UBS – Community Partners

- UBS is the largest financial services provider in the Metro Nashville area by number of employees and is the 31st largest employer in the Metro region[1]
- The Firm's US-based Business Solutions Center is located in Nashville, at 315 Deaderick Street, and employs nearly 1,200 professionals. Our Metro area employee total is currently 1,376 professionals
- In addition to our operations employees, UBS has 31 financial advisors based in Nashville, who manage approximately $1.2 billion in municipal bonds for high net worth clients
- UBS delivers the expertise and capabilities of a national firm, combined with an expansive local presence, allowing us to deliver superior, customized solutions for our issuer clients
- The firm's public finance team is committed to Metro
  - Veteran banking, underwriting, credit and sales professionals have specific experience with Metro debt transactions and national convention center financings
- UBS is also a strong community leader in the Nashville region
  - In 2018, UBS donated to 302 Tennessee non-profit organizations through employee giving and business-related contributions programs, and UBS employees volunteered 846 hours to support local organizations
- Given our Firm's commitment to Metro with our US-based Business Solutions Center located in Nashville, UBS is a committed resident and community partner and our Firm strives to deliver excellence and support wherever possible

UBS Global Business Solutions Center
315 Deaderick Street, Nashville, TN

NASHVILLE AREA CHAMBER OF COMMERCE

UBS ranks as the **#1 largest financial services institution in the Metro Nashville area** in terms of employees and the **31st largest employer in the Metro Nashville area** as reported by the Nashville Area Chamber of Commerce
(As of March 6, 2020)

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1. Per the Nashville Area Chamber of Commerce as of March 6, 2020.

UBS is a top holder of Metro Bonds

- UBS is a top 5 holder of Metro's Bonds when compared to the top institutional holders across all of Metro's credits

Top Institutional Holders Metro - All Credits		
Rank	**Bondholder**	**Holdings**
1	State Farm Insurance Companies	$221,430,000
2	Vanguard Group	213,921,000
3	BlackRock	159,737,000
4	JP Morgan Asset Management	112,810,000
5	**UBS Retail Holdings**	**105,710,000**
6	Liberty Mutual Insurance Group	100,530,000
7	Deutsche Bank Asset Management	93,103,000
8	Nationwide Insurance Co (Office of Investments)	92,525,000
9	Tennessee Farmers Insurance Companies	72,725,000
10	Goldman Sachs Asset Management	68,740,000

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Source: Emaxx as of March 4, 2020.

General Obligation Credit Considerations

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The budgetary backdrop

- Metro implemented a corrective action plan to address a $41.5 million budget shortfall for FY2020 which was approved by the State Comptroller on December 11, 2019
- The comprehensive plan includes the following measures:
  - $12.6 million in PILOT payments from Music City Center (in addition to the previously earmarked $10 million)
  - $5 million in reduced funding to the city's affordable housing program
  - $10 million in new PILOT payments from Metro Water Services (included in the water and sewer rate increases approved on December 3, 2019)
  - $3.6 million in debt service reimbursements from the Nashville Convention and Visitors Corp.
  - $10.3 million in other identified cost savings and reductions
- It is our understanding that Metro is also currently preparing for its upcoming budget process for FY2021
  - Budget is expected to be approved by Metro Council in the beginning of June 2020
  - Commentary from the Comptroller's office focused on Metro's need to raise recurring revenues and decrease spending in order to achieve a structurally balanced budget
  - Sentiment seems to be motioning in the direction of a property tax increase for FY2021
- Limitations presented by Charter Amendment
  - In November 2006, Metro voters approved a ballot initiative prohibiting the County Council from raising real property tax rates from their current and future maximum levels without voter approval, an initiative which Metro has asserted violates the Tennessee Constitution

    in an off appraisal year?
  - Moody's opines that future necessary tax rate increases may be limited by this charter amendment, leading to constrained financial flexibility

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Structural imbalance and below average reserves appear to be pressuring Metro's rating outlook

S&P Global Ratings

AA (Stable)

Last Report: January 22, 2019

Analysts:
Kristin Button
Joshua Travis

Credit Strengths

+ Strong economy with access to a broad and diverse metropolitan statistical area
+ Very strong liquidity

Credit Challenges

X Weak budgetary performance, with operating deficits in the general fund and at the total governmental fund level in FY18

X Weak debt and contingent liability position

X Large capital needs

Outlook

- Ongoing structural imbalance will likely result in downward rating pressure
- Inability to stabilize and strengthen reserves consistent with 'AA' rated peers will likely result in a negative ratings impact

MOODY'S

Aa2 (Stable)

Last Report: January 17, 2019

Analysts:
Christopher Coviello
Robert Weber

Credit Strengths

+ State capital and regional economic center
+ Prudent fiscal management; proven history of maintaining financial flexibility through periods of modest reserve levels
+ Large, rapidly growing and diversifying tax base

Credit Challenges

X Above average debt levels which are expected to remain high given rapid tax base growth and large capital needs

X Reserves and liquidity have declined to more narrow levels in recent years

Outlook

- Satisfactory financial position but narrowed reserves and liquidity present a risk
- Future financial flexibility may be constrained by the charter referendum requiring a public vote to raise property taxes above current and future maximum levels

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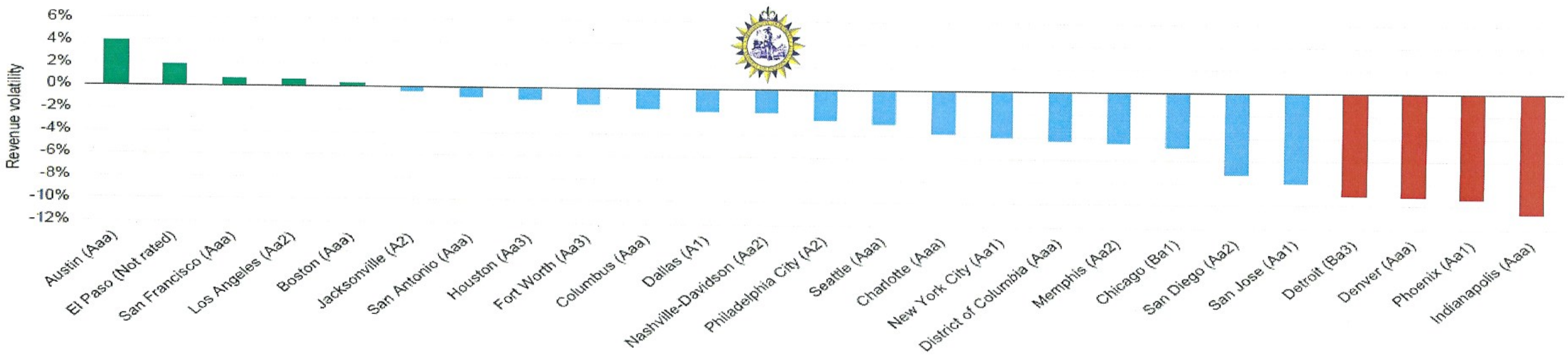
Source: S&P Global Ratings, Nashville & Davidson County Metropolitan Government Convention Center Authority, Tennessee Nashville & Davidson County Metropolitan Government; Miscellaneous Tax, dated January 22, 2019 and Moody's Metro. Govt. of Nashville and Davidson County, TN, dated January 17, 2019.

Recession preparedness is a growing concern

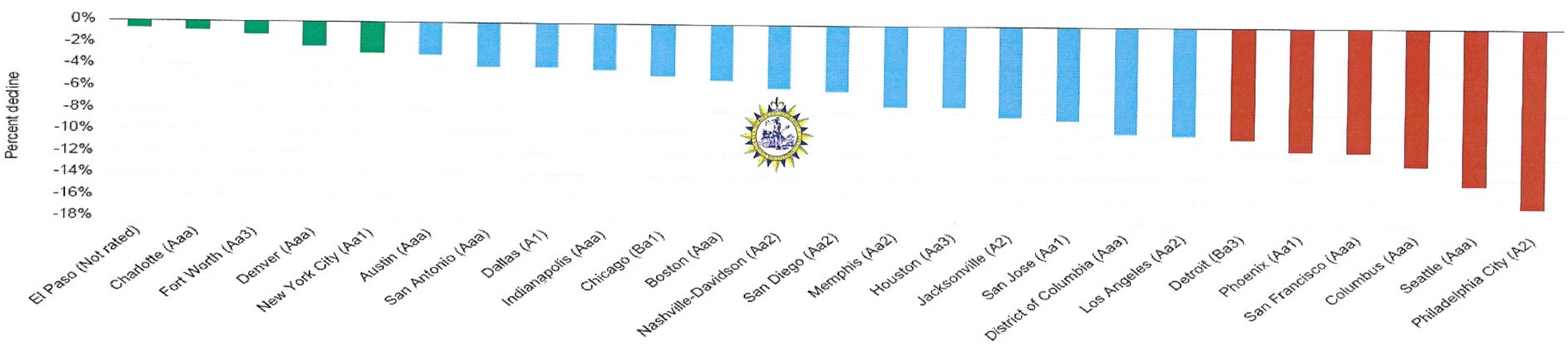
- A recent report by Moody's of the largest 25 cities by population finds that most are unlikely to have a sudden, unexpected drop in revenue >5%, based on their largest 1-year decline in prior downturn; median largest 1-year decline was 2.7% between 2007 and 2011, 5 cities had no decline at all

Largest 1-year operating revenue decline in the last recession



- However, fund balance as a % of revenue declined universally, with the median peak-to-trough decline of 6.1%

Peak-to-trough fund balance decline as a % of revenue, 2007-11



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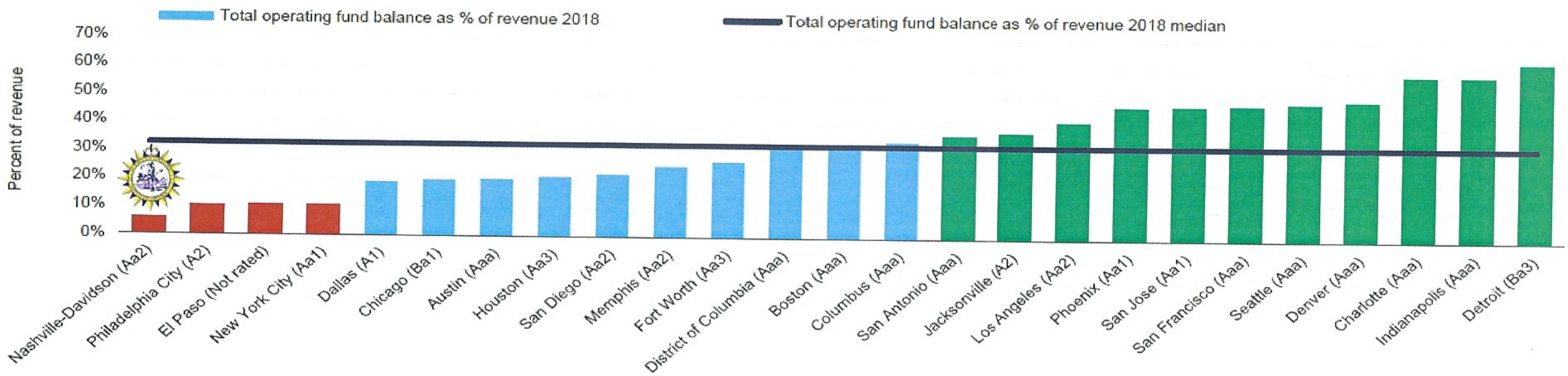
1 The Federal Reserve defines the last recession as the period between December 2007 and June 2009. In its research, Moody's uses the 2007-2011 fiscal years to encompass the recession and its immediate aftermath. Source: Moody's, Sector In-Depth, Local government – US, "Strong reserves, financial flexibility position most large US cities to weather a recession," December 10, 2019.

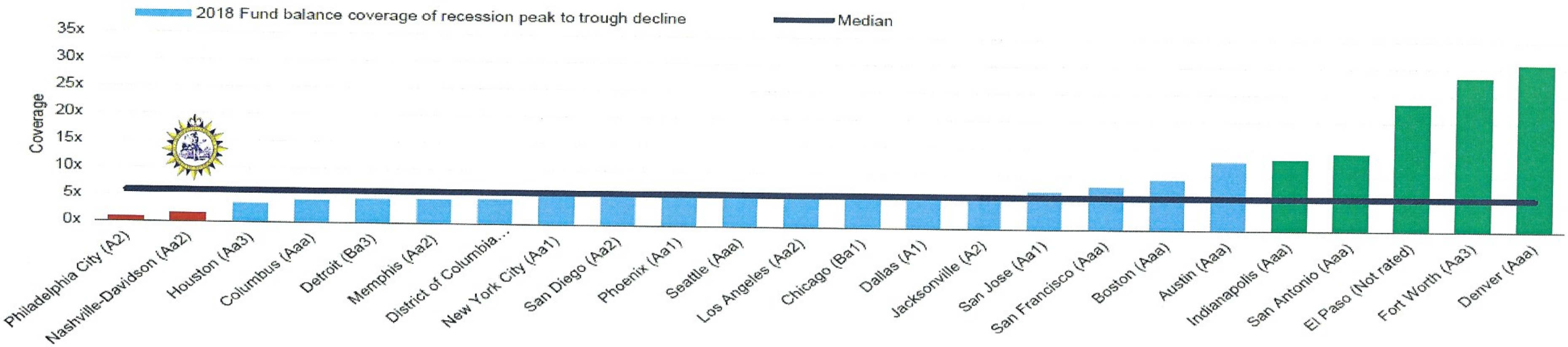
Rainy Day Funds have been a bright spot for many local governments; Metro has been an outlier in this regard

- Median reserves across the sample of cities, median reserves reached 32.4% of revenue in FY18, from 24.3% in FY07 and, on a nominal basis, fund balance increased from a median $387 million to $582 million, up 50%, over the 10-year period

Operating fund balance as a % of revenue



Fund balance coverage of peak-to-trough decline vs. median



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Source: Moody's, Sector In-Depth, Local government – US, "Strong reserves, financial flexibility position most large US cities to weather a recession," December 10, 2019.

A Path Forward: A Potential Restructuring of CCA Debt

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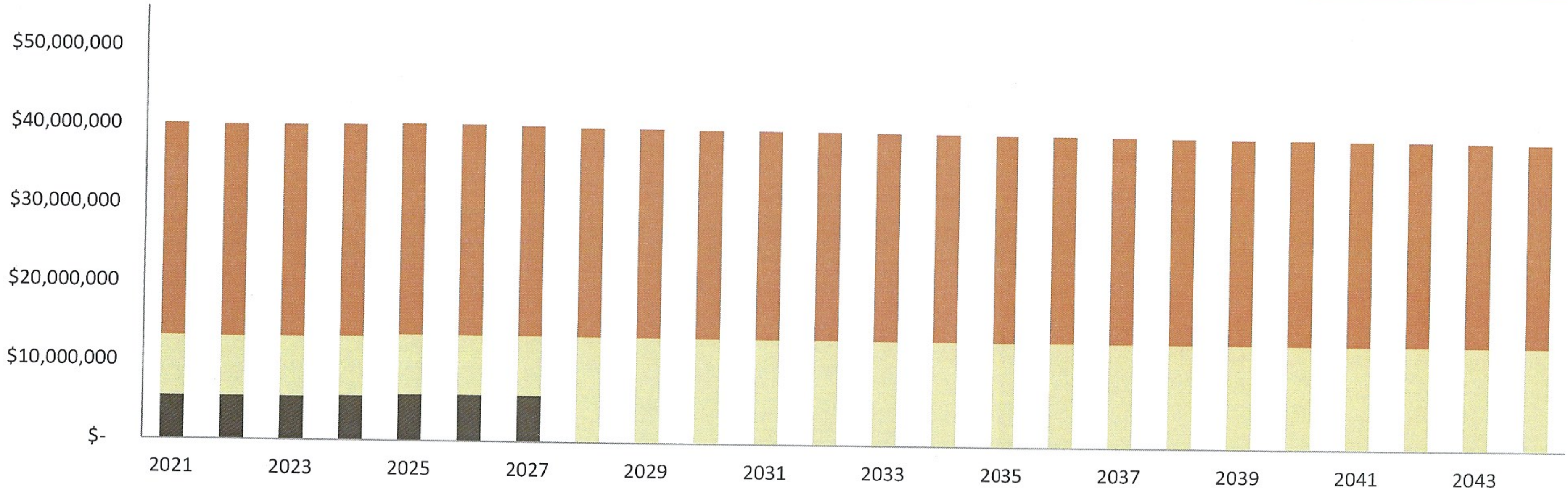
Summary of the Convention Center Debt Profile

Summary of Convention Center Outstanding Bonds

Series	Original Par	Par Outstanding	Tax Status	Coupons (%)	Call Date	Final Maturity	Ratings (M/S)	Debt Structure
2010 A-1	$51,730,000	$33,935,000	Tax-Exempt	4.000 - 5.000	7/1/2020	7/1/2026	A1/A+	Level Debt Service / Short
2010 A-2	152,395,000	152,395,000	Taxable (BABs)	7.431	Make Whole Call	7/1/2043	A1/A+	Wrapped / Downward Sloping
2010B (sub)	419,090,000	389,805,000	Taxable (BABs)	5.692 - 6.731	Make Whole Call	7/1/2043	Aa3/AA	Downward Sloping

Outstanding Debt Service by Series[1]

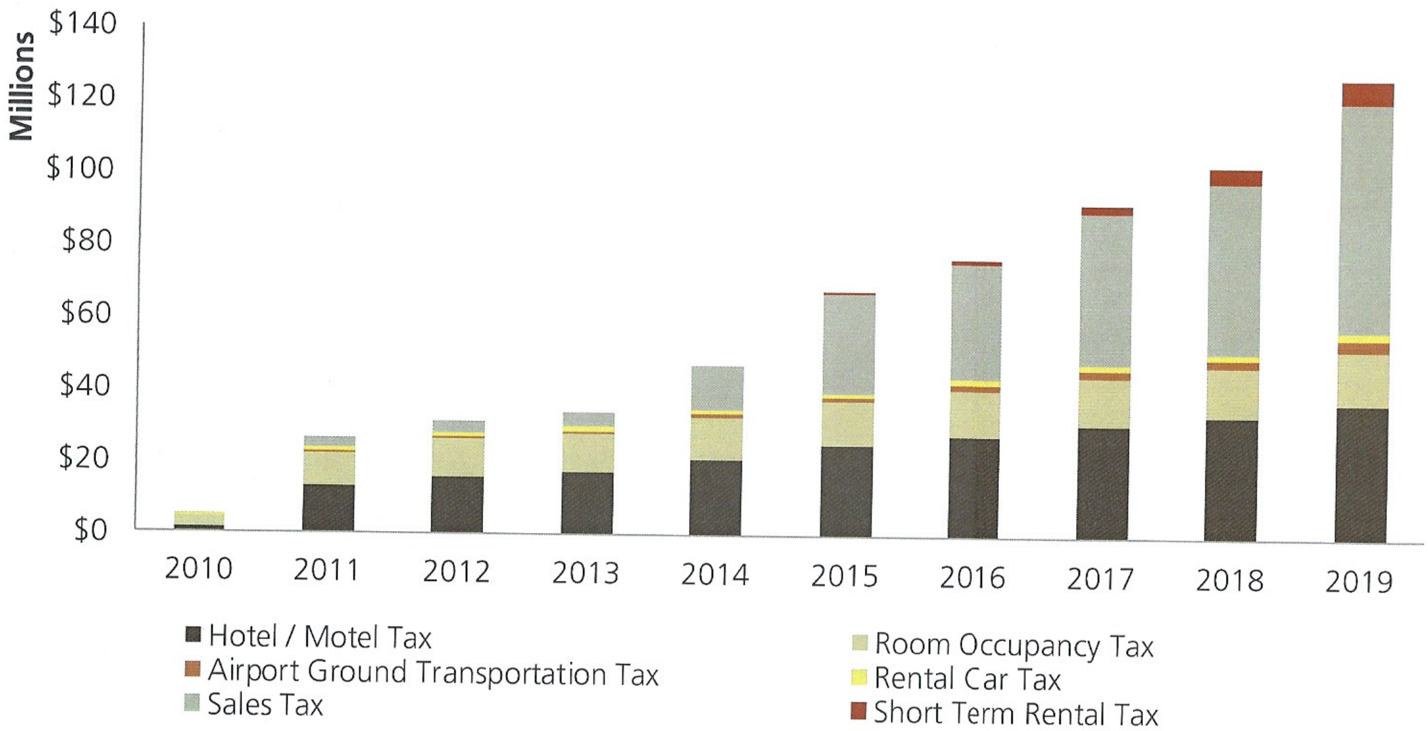


1. As of March 6, 2020. Debt service shown on a fiscal year basis inclusive of Federal Subsidies.

Growth of pledged revenues has been dramatic since the time of original issuance of the CCA debt

- Tourism tax revenues that secure the Convention Center bonds have grown materially since the Bonds were issued in 2010
  - Overall aggregate revenues have grown over 23x
  - Average annual growth rate of 22.2%

Recent Performance in Tourism Tax Revenues[1]



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1. *Per Tourism Taxes – Overview document provided by Metro for the Blue Ribbon Commission meeting held on January 27, 2020.*

Situation Analysis – Potential Restructuring Considerations

- Backdrop
  - Majority of outstanding bonds carry make-whole call
  - Pledged revenues have grown to $126.9 million in FY2019, providing:
    - 3.33x coverage of Senior and Subordinate bonds
  - Unrestricted cash / investments of $156.6 million (FY 2019)
  - Potential solution should balance general fund support and CCA credit profile

- Potential Restructuring Assumptions
  - Model revenues to provide approximately 1.5x coverage
  - Potential for bond insurer to wrap debt service and provide DSRF surety bond
  - Make whole call premium funded partly with unrestricted cash and investments
  - Restructured bonds with flexible par call, no extension in final maturity (FY 2044); and potential to build in additional optional redemption flexibility
  - Ability to remove Metro's non-tax revenue pledge on existing bonds thereby relieving debt burden on General Obligation lien
  - Restructuring would require agreement between interested parties

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Potential redirection of tourism revenues post restructuring

- Metro has the potential opportunity to redirect $40 million annually in tourism tax revenues currently pledged to the Bonds

Debt Service Comparison (Existing vs. Restructure)[1]

Fiscal Year	Existing Debt Service	Restructured Pro Forma Debt Service	Variance (Favorable) / Unfavorable
2021	36,028,209	35,169,667	(858,542)
2022	40,054,322	39,208,875	(845,447)
2023	40,085,336	39,233,750	(851,586)
2024	40,150,025	39,298,000	(852,025)
2025	40,306,963	39,456,375	(850,588)
2026	40,293,375	39,438,875	(854,500)
2027	40,194,883	39,340,000	(854,883)
2028	39,981,234	39,664,125	(317,109)
2029	39,938,068	39,622,375	(315,693)
2030	39,889,345	39,571,750	(317,595)
2031	39,843,201	39,530,000	(313,201)
2032	39,792,647	39,479,750	(312,897)
2033	39,740,682	39,423,875	(316,807)
2034	39,680,306	39,365,000	(315,306)
2035	39,624,292	39,310,375	(313,917)
2036	39,565,188	39,247,250	(317,938)
2037	39,500,643	39,182,875	(317,768)
2038	39,433,194	39,119,125	(314,069)
2039	39,365,138	39,052,750	(312,388)
2040	39,293,674	38,975,625	(318,049)
2041	39,215,988	38,899,375	(316,613)
2042	39,139,016	38,825,125	(313,891)
2043	39,054,594	38,739,125	(315,469)
2044	38,969,444	38,647,625	(321,819)

Potential for Tourism Tax Redirection[1]

Tourism Revenues (FY2019 Actual)	Restructured Pro Forma Debt Service	CCA Omni and PILOT Payments	CCA Surplus Dollars	Monies Available for Redirection
126,947,284	35,169,667	27,000,000	17,584,833	47,192,784
126,947,284	39,208,875	27,000,000	19,604,438	41,133,972
126,947,284	39,233,750	27,000,000	19,616,875	41,096,659
126,947,284	39,298,000	27,000,000	19,649,000	41,000,284
126,947,284	39,456,375	27,000,000	19,728,188	40,762,722
126,947,284	39,438,875	27,000,000	19,719,438	40,788,972
126,947,284	39,340,000	27,000,000	19,670,000	40,937,284
126,947,284	39,664,125	27,000,000	19,832,063	40,451,097
126,947,284	39,622,375	27,000,000	19,811,188	40,513,722
126,947,284	39,571,750	27,000,000	19,785,875	40,589,659
126,947,284	39,530,000	27,000,000	19,765,000	40,652,284
126,947,284	39,479,750	27,000,000	19,739,875	40,727,659
126,947,284	39,423,875	27,000,000	19,711,938	40,811,472
126,947,284	39,365,000	27,000,000	19,682,500	40,899,784
126,947,284	39,310,375	27,000,000	19,655,188	40,981,722
126,947,284	39,247,250	27,000,000	19,623,625	41,076,409
126,947,284	39,182,875	27,000,000	19,591,438	41,172,972
126,947,284	39,119,125	27,000,000	19,559,563	41,268,597
126,947,284	39,052,750	27,000,000	19,526,375	41,368,159
126,947,284	38,975,625	27,000,000	19,487,813	41,483,847
126,947,284	38,899,375	27,000,000	19,449,688	41,598,222
126,947,284	38,825,125	27,000,000	19,412,563	41,709,597
126,947,284	38,739,125	27,000,000	19,369,563	41,838,597
126,947,284	38,647,625	27,000,000	19,323,813	41,975,847

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1. *Assumes rates as of March 5, 2020.*

Q&A

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