The Metropolitan Government of Nashville and Davidson County, TN - GO

Issuer: The Metropolitan Government of Nashville and Davidson County, TN		
Assigned	**Rating**	**Outlook**
General Obligation Improvement Bonds	AA+	Stable

Methodology:

U.S. Local Government GO Methodology
ESG Global Rating Methodology

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Rating Summary: The assigned general obligation bond rating reflects the Metropolitan Government of Nashville and Davidson County's (the "Metropolitan Government", "Metro" or "City") favorable socio-economic and demographic trends, strong institutional practices, moderate levels of debt amortized at an above-average rate, and well-maintained financial operations distinguished by recently augmented reserves which were further buttressed by a strengthened reserve policy.

As a combined city and county government, and acting as administrator of schools and a hospital, Metro has broad responsibilities. In KBRA's opinion, operations derive credit strength from an economic base that continues to undergo rapid growth and diversification. The location of the state capital and a large institutional presence including Vanderbilt and other universities and healthcare-related activity, as well as music and entertainment industry employment, and a vibrant tourism and convention sector underpin the economy. KBRA believes economic resilience is underscored by a historically low unemployment rate that quickly receded from the 16.4% high at the outset of the COVID-19 pandemic to 5.4% in December 2020 and is now below 3%.

Metro is the State's most populous city, and among the nation's fastest growing large cities. Population increased by almost 15% between 2010 and 2020 and stands at approximately 690,000. Furthermore, Metro serves as the focal point of a 13-county metropolitan area with a population of approximately 1.9 million and is the economic engine for the north central Tennessee region. Per capita personal income, 2021, ranks second in the State, while exceeding the State average by 45%. Although the poverty rate is in excess of State and national averages, that figure is likely influenced by the significant presence of higher education enrollment (65,000). Property market value has increased at an accelerated compound annual rate (CAGR) of almost 10% over the past nine years and the tax base evidences no concentration.

Metro's direct general obligation ("GO") debt totals about $3.5 billion, but that figure is increased by about $965 million in contingent obligations associated with payment liabilities of Metro-controlled entities. Metro's non-ad valorem tax pledge serves as back-up security in the event of primary revenue insufficiency, unless otherwise approved by Metro. The ratio of these obligations to market valuation is a relatively moderate 3.0% due to the substantial size of the tax base. Full value per capita is almost $215,000, and the net pension liability represents a nominal fraction of valuation. All GO long-term debt is in the form of fixed rate obligations, approximately two-thirds of which are retired in 10 years. As per Metro policy, GO debt maturity can be no more than 20 years following issuance, unless otherwise specifically approved by Metro. School-related debt accounts for about 28% of overall debt. Existing debt service is structured with declining annual requirements, which accommodates future issuance.

A long-term view to capital needs is evidenced by Metro's six-year Capital Improvements Budget ("CIB"), which runs through FY 2028. The CIB is strictly a planning document; it does not appropriate funds or authorize or approve any projects, but represents an accounting of identified capital improvement projects, with operating budget impacts of each prospective project noted. Schools, water and sewer, parks and recreation, public works, and the Sports Authority represent the major components. General governmental capital projects are typically financed through draws on GO commercial programs, prior to issuing GO bonds to retire the commercial paper. These programs consist of: 1) up to $375 million of notes for which liquidity support is provided by Bank of America, and (2) up to $325 million of extendable notes for which there is no liquidity provider. At present, there is $44.4 million in short-term obligations outstanding. Officials expect to utilize the existing GO CP program and then take out those obligations with a general obligation bond issuance of approximately $650 million in 4Q 2024.

Metro's favorable financial position is highlighted by large operating surpluses in FY 2021 and FY 2022 stemming from robust revenue performance and expenditure restraint that have significantly increased reserves and improved liquidity. At FYE 2022, unassigned general fund balance ($379 million) was equivalent to 29.3% of general fund expenditures and other financing uses. Liquidity is also solid at 68 days' cash on hand ("DCOH"). The fiscal 2023 budget appropriates a low $14 million of fund balance. KBRA believes these strong balances position Metro well in the event of a recession. Financial operations have fared relatively well despite health and economic challenges and uncertainty following the onset of the COVID-19 pandemic. Despite the property tax rate limitation of $4.69 per $100 valuation, the City retains significant operating flexibility as it currently levies at $2.568 per $100 valuation for operations ($3.254 overall). Economically sensitive sources like the Local Option Sales Tax ("sales tax") have recovered faster than anticipated, which Metro officials attribute to federal stimulus, deployment of vaccines, rising price of consumer goods, and pent-up demand. Sales tax collections declined by only 1.4% during FY 2020, and FY 2022 collections rebounded to exceed pre-pandemic totals by more than 40%. Metro received approximately $380 million in federal stimulus funds under the CARES Act and ARPA, of which the remaining $5.5 million will be expended during FY 2023.

Despite the improved financial position, the Metro-owned Nashville General Hospital ("NGH"), a safety net facility for the provision of acute medical services, remains dependent on Metro to subsidize current and future operations. The subsidy represents a recurring obligation that is unlikely to recede any time soon. The fiscal 2023 budget includes approximately $54 million for this purpose.

The Stable Outlook reflects an improved financial standing that positions Metro to better withstand potential recessionary headwinds, with support derived from ongoing economic base expansion and population growth. Planned debt issuance is manageable and accommodated within the existing debt service structure.

Key Credit Considerations

The rating was assigned because of the following key credit considerations:

Credit Positives

- Metro's broad and diverse economic base that features governmental, commercial, institutional, healthcare and tourism-based activity, and sizable property tax base.
- Well-maintained financial operations, strengthened through recent operating surpluses and adoption of a more restrictive fund balance policy.
- Adopted financial and debt policies that provide a framework for effective management.

Credit Challenges

- Presence of contingent liabilities related to debt issued by Metro-controlled authorities.
- Ongoing operating subsidies to NGH.

Rating Sensitivities

▪ Maintenance of financial reserves while addressing identified capital needs ▪ Elimination of subsidy to NGH	+
▪ Significant unplanned draws on accumulated reserves ▪ Failure to adhere to adopted policies and procedures	-

Key Facts	
Overall Debt Per Capita	$6,867
Overall Debt as a % of Full Market Value	3.0%
Debt Amortization Within 10 Years	67.1%
Unassigned General Fund Balance as a % of General Fund Expenditures, FY 2022	29.3%
Fixed Costs as a % of Governmental Expenditures	17.2%
Population Growth 2010-2020[1]	
Nashville-Davidson County	14.7%
State of Tennessee	8.9%
United States	7.4%
Per Capita Income (2020)[2]	
Nashville-Davidson County as % of State	145.1%
Nashville-Davidson County as % of U.S.	128.0%

[1] *Source: U.S. Census Bureau decennial census.*
[2] *Source: Bureau of Economic Analysis*

Rating Determinants (RD)	
1. Management Structure and Policies	AA+
2. Debt and Additional Continuing Obligations	AA
3. Financial Performance and Liquidity Position	AA+
4. Municipal Resource Base	AAA

RD 1: Management Structure and Policies

KBRA views the City's management structure and policies as providing a favorable foundation for operations and service delivery. Adopted policies require financial monitoring and oversight, and the City engages in long-term financial and capital planning. The City's debt management and recently augmented fund balance reserve policies are designed to protect financial resources and meet long-term capital needs. Annually, a comprehensive review of citywide policies to is undertaken to ensure the relevance of financial controls across the government.

Establishment of Metropolitan Government

On June 28, 1962, the voters of the City of Nashville and Davidson County approved the Charter of the Metropolitan Government (the "Charter"). On April 1, 1963, the governments of the City of Nashville and Davidson County were consolidated into a single "Metropolitan Government of Nashville and Davidson County", under which the boundaries of the City and County are co-extensive.

Form of Government

As a consolidated government, the Metropolitan Government is responsible for providing all the services typically provided by cities, counties, and school districts. The Metropolitan Mayor (the "Mayor") is popularly elected at-large for a four-year term and is the chief executive and administrative officer.

The Metropolitan Council is the legislative body of the Metropolitan Government and is comprised of 40 members elected for four-year terms; 35 are elected from council districts and five are elected at-large. The vice mayor serves as the presiding officer of the Council. Both the Mayor and Council are elected on a nonpartisan basis. School system operations are managed by the Metropolitan Board of Education ("MBE"), which consists of nine publicly elected members.

Metro's management team has significant experience, drawing from diverse backgrounds. Key positions include:

Finance Director

The Director of Finance is responsible for the administration of financial affairs and supervises the divisions of budgets, accounts, purchasing, collections, and treasury. Under the Charter, the Director of Finances submits a monthly financial report to the mayor, for presentation to the council, showing the financial condition of the various funds of the metropolitan government, as well as the condition of all items included in the adopted annual operating budget, including estimated revenues, revenues received, appropriations and allotments for such appropriations.

Budget Officer

The budget officer compiles the departmental estimates and other necessary data and assists in the preparation of the budgets. The budget officer monitors departmental budgets as compared to actual activity and alerts the Finance Director of any significant issues.

Metropolitan Charter

The Charter provides the framework for local government in Nashville and creates two service districts: the general services district (the "GSD") and the urban services district (the "USD"). The GSD consists of the entire area of Davidson County, and its residents are taxed to support those services and debt obligations which benefit the total population, including general administration, police and fire protection, courts, jails, health and hospitals, streets and roads, schools, parks and recreation, and libraries. The USD includes a more urbanized area (approximately 38% of County area), which includes the original boundaries of the City of Nashville, which have subsequently been expanded. USD residents are charged an additional tax to support services and debt obligations, which only benefit the USD. These include additional police and fire protection, storm sewers, street lighting, and refuse recycling and collection.

Property Taxes

By referendum passed on November 7, 2006, voters amended the Charter to require that all future increases in the real property tax rate of $4.04 per $100 of assessed value in the GSD and $4.69 per $100 in the USD be first approved by voter referendum prior to implementation. Prior to the adoption of the ballot proposal, the Metropolitan Council was authorized to set the real property tax rate without any requirement of voter approval. The Charter amendment does not purport to specifically limit that portion of the tax rate allocable to the payment of debt service. The FY 2023 certified property tax rate is $3.254 ($2.922 GSD, $0.332 USD) per $100. In accordance with State law, the Assessor's Office conducts a county-wide reappraisal every four years to bring appraised values up to current market value. After a reappraisal, local governments must lower the tax rate to a level which will produce the same amount of revenues from the new appraisals as was generated from the old rates and appraisals - except for new construction. Residential and farm real property is assessed at 25% of appraised value, commercial and industrial real property at 40%, personal property at 30%. The State Comptroller assesses public utility property at 55% of appraised value.

Key Policies and Procedures include:

Fund Balance Policy
Metro recently adopted an enhanced fund balance reserve policy, which pertains to the unrestricted fund balance of the GSD general fund, the USD general fund and the general purpose school fund. This balance is referred to as the operating reserve. The operating reserve is required to have a minimum target of 17% of budgeted operating expenditures of each fund; 30% of the operating reserve is designated as an operating budget stabilization reserve.

Debt Management Policy
The term of any debt (including refunding debt) used to finance a capital improvement or equipment is required to have an anticipated useful life equal to or less than the average useful life of the project. General obligation bonds are required to have a final maturity of no more than 20 years after the date of issuance or the date the project is placed in service, whichever is earlier, unless otherwise specifically approved by Metro. Debt issuance is expected to be structured with level debt service, unless otherwise specified in the authorizing resolution of the Metropolitan Council. Balloon maturities are to be avoided, excepting term bonds with mandatory sinking fund requirements or refunding bonds. Refunding bonds are considered when aggregate present value savings of at least 3.5% are expected, and the term of the bonds is required to be with the term of the originally issued debt. Debt may only be used to fund operating expenditures when such debt is repaid in the fiscal year issued. The Policy does not restrict the use of variable rate date or derivatives. However, the policy states that no interest rate agreements or forward purchase agreements will be considered unless a policy defining the use of such products is considered and approval of the Comptroller of the State of Tennessee is obtained.

Budget Process
The Metropolitan Government operates on a July 1 to June 30 fiscal year. The budget process begins in January, when departments submit their operating budget proposals to the Office of Management and Budget ("OMB"), followed by budget submission reviews by the Mayor's Office, Finance Director, and OMB staff in February through April. No later than May 1st, the operating budget ordinance and tax levy are filed by the Mayor. The budget is then submitted to the Council and goes through three readings. Between first and third readings, the Budget and Finance Committee holds a public series of departmental hearings, and the Council holds a Charter-mandated hearing for public comment the first reading of the recommended operating budget, tax levy ordinances and capital improvements budget is held by the Council. The Charter deadline for the Council to pass a balanced budget and property tax levy is June 30. The Council may approve the Mayor's budget, amend it, or create a substitute. They cannot change revenue estimates, except to correct errors. The University of Tennessee Center for Business and Economic Research assists the Department of Finance in forecasting certain revenues for the budget. Metro also sends its budgets to the State of Tennessee Comptroller's Office for approval.

The budget is governed by policies set out in the Charter and by executive decision. Policies are enforced by the Department of Finance through ongoing processes, internal control systems, special analyses and the independent audit. Once Council has passed the final budget, any further changes to budget totals must be approved by Council by Resolution, which requires only one reading. The Council may make appropriations in addition to the current operating budget, but only from an existing, unappropriated surplus in the fund to which it applies

Capital Planning
The Charter requires the Metropolitan Government to annually prepare a capital improvements budget that includes proposed capital expenditures for the following fiscal year, and the next five fiscal years (six-year horizon). In mid-May, the Mayor is required to file the Capital Improvement Budget ("CIB") Ordinance, which follows the same review process as the Operating Budget. The Charter deadline for the Council to pass the CIB is June 15. A debt report from the Director of Finance is required each time a capital spending plan or an initial general obligation bond resolution is filed, containing information about the impact capital spending will have on Metro's debt levels. The Capital Status Report is produced every quarter and details the status of approved capital projects from the prior capital spending plans.

RD 2: Debt and Additional Continuing Obligations

Metro's debt and continuing obligations profile is characterized by moderate debt ratios despite a relatively high level of outstanding general obligation debt and contingent debt obligations, fully funded pensions, and moderate fixed costs.

As a consolidated government, Metro is responsible for services typically provided by cities, counties and school districts. Outstanding GO debt of $3.49 billion, plus $965 million of contingent liabilities associated with backstop non-ad valorem pledges on debt issued by the District Energy System, The Sports Authority of the Metropolitan Government of Nashville and Davidson County, Convention Center Authority of the Metropolitan Government of Nashville and Davidson County, and the Metropolitan Development and Housing Authority reflects both the scope of capital project responsibilities and the capital funding needed to accommodate rapid growth in the City and County. Approximately 28% of outstanding GO debt was issued for school district capital project funding. Despite the relatively high level of debt outstanding, debt ratios remain manageable, due to strong growth in population and the taxable base.

Figure 1

Metropolitan Government of Nashville and Davidson County		
Debt Ratios		
Overall direct and indirect debt per capita	$	6,867
Overall debt as % of full market value		3.0%
Debt amortization within 10 years		67.1%
Direct debt service as a % of governmental expenditures		10.8%

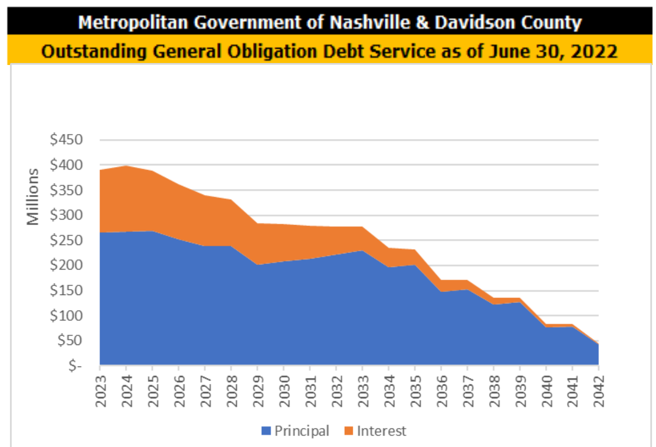
Source: Series 2022AB General Obligation Improvement Bonds OS and FY 2022 ACFR

Total debt is a moderate 3.0% of full market value, and an affordable $6,867 per capita. The GO debt structure is conservative, with approximately 67% amortizing within 10-years. Annual debt service steps down gradually through the final maturity of 2042. MADS on outstanding GO bonds of $398.1 million occurs in FY 2024.

Capital Program

The Charter requires the Metro planning commission to annually submit recommended capital improvements to the Mayor. This CIB process prioritizes desired capital improvements in alignment with the Nashville Next Plan, the Government's long-term strategic capital plan. The FY 2023 CIB, adopted in June 2022, pertains to the six-year period through FY 2028. It includes spending requests totaling $16.5 billion, most of which are designated for FY 2023 and reflect major, ongoing countywide capital programs. GO Bonds of $10.39 billion, if approved by resolution, would fund most of these requests.

Figure 2



GO bonds have been authorized for approximately $1.15 billion of capital projects. Authorized projects are initially funded with GO commercial paper, which has a funding capacity of $700 million, including up to $375 million of traditional notes supported with external bank liquidity, and up to $325 million of extendable notes for which there is no liquidity provider. There is presently $44.4 million in extendable notes outstanding.

Pension Obligations

Metro provides seven single-employer, defined benefit pension benefits to qualifying employees. Metro is also a participant in cost-sharing, multi-employer plans administered by the Tennessee Consolidated Retirement System. Additionally, employees of the Sports Authority, and certain eligible employees of the Hospital Authority and Convention Center Authority (component units of Metro Government) are eligible to participate in Metro's plans.

Article XIII of the Metropolitan Charter, effective April 1, 1963, requires that all pension plans be actuarially sound. Six of the primary government single-employer plans are closed to new members. Of these, five plans which have been closed since the effective date of the Charter are participants in a guaranteed payment program created by the Metropolitan Council to ensure actuarially sound funding, with aggregate net pension liabilities amortized over a 30-year period.

The aggregate net pension liability of the primary government plans and Metro's proportionate share of the Tennessee Consolidated Retirement System plans is a manageable $42.9 million as of the June 30, 2022 measurement date. This equates to an exceptionally low NPL of $63.20 per capita and 0.03% of full market value.

OPEB Plans

Retirees in the Metro, City or County Plans may participate in the Metro Employees' Medical Benefit Plan. Retirees in the County Education Plans are eligible to participate in the Metropolitan Nashville Public Schools Professional Employees' Insurance Plan. Both healthcare plans are single employer, defined benefit plans funded on a paygo basis. The combined OPEB liability of the two plans based on an actuarial valuation as of June 30, 2022, is $2.41 billion, two-thirds of which is attributable to the Metro plan, and one-third of which is attributable to the School Professional Employees' plan. This liability reflects a $1.9 billion (26.2%) decrease in FY 2022 due to legislation approved in July 2021 that moved certain Medicare-eligible Metro retirees to a hybrid medical plan.

Fixed Costs

Reflecting the Metro Government's broad funding responsibilities, the FY 2022 fixed cost ratio, which considers GSD general purposes and school purposes debt service ($351.6 million), pension contributions ($157.1 million) and OPEB contributions ($87.3 million) as a percentage of total governmental expenditures, was moderately high at 17.2%.

RD 3: Financial Performance and Liquidity

Metro's financial operations are maintained in a satisfactory manner and characterized by increasing general fund reserves and ample liquidity. A structurally balanced budget matches recurring expenses with recurring revenues and available fund balances, and both the Metropolitan Charter and Tennessee law prohibit deficit financing. Metro employs the modified accrual basis of accounting for budgeting. The recently strengthened fund balance policy requires unrestricted reserves of at least 17% of expenditures and other financing sources, which aligns with Government Finance Officers Association ("GFOA") best practices. Most of Metro's tax dollars are deposited and expended from six funds: GSD general fund; USD general fund; schools (MNPS) general purpose fund; USD debt service fund; GSD debt service fund; schools (MNPS) debt service Fund. The GSD general fund and USD general fund combine to form Metro's general fund and provide for the traditional operating services of the government. The school fund is Metro's largest special revenue fund. It receives a dedicated portion of the property tax and, by state law, at least 50% of the local option sales tax. The fund balance policy applies to each of the three operating funds.

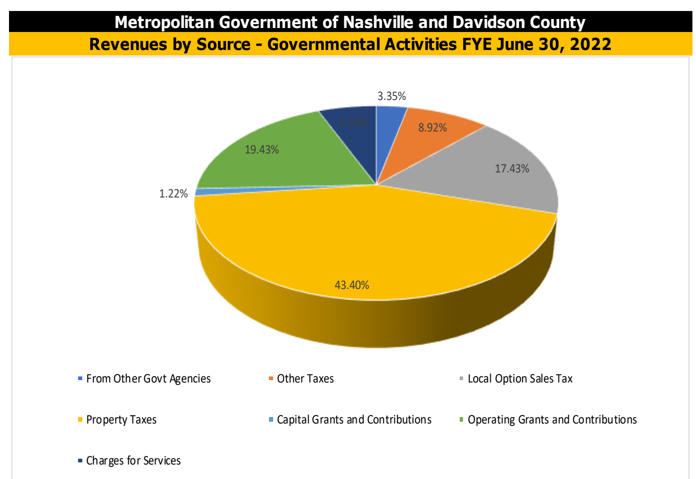
Revenue Sources

Property taxes comprise 43% of governmental fund revenues, while sales taxes account for 17%. Governmental aid, including federal/state grants for education and charter school funding represents 25%, and other taxes/licenses and permits totals 10%, with other sources accounting for the balance. Property tax levies are limited to a rate of $4.69 per $100 of valuation by voter referendum in 2006. Otherwise, there would be no limitation as to rate. Metro's Department of Law has issued its opinion to the effect that such Charter amendment requiring voter referendum is invalid because it violates the Tennessee Constitution, but the constitutionality of the voter referendum requirement has not been adjudicated. Nevertheless, the City has significant flexibility to raise rates in any year. The local option sales tax rate is 2.25% (9.25% total rate). The local option rate can be raised by referendum up to a maximum of 2.75%. Almost two-thirds of sales tax revenues and approximately 35% of property taxes were allocated to school activities. Other taxes include hotel occupancy taxes, a portion of which is dedicated to the repayment of certain revenue debt of Metro controlled entities, beverage taxes, wheel taxes, business taxes and franchise taxes.

Expenditures

Education represents Metro's largest expenditure (37%), followed by public safety (17%), debt service (10%), capital outlay (10%), general government (5.4%), public health and hospitals (3.4%). School-related debt service accounts for about one-third of overall debt service.

Figure 3



Source: FY 2022 ACFR

Fiscal 2021 and 2022 Financial Operations

General fund reserves have increased sharply in the past two fiscal years, despite this time period coinciding with the pervasive COVID-19 pandemic. The FY 2021 general fund budget included a 34% increase in the property tax rate and a $53 million planned increase in cash and fund balances. Revenue and expenditure estimates were conservative, recognizing associated pandemic economic impacts. Actual results were favorable to budget as fund balance increased by $212 million ($188 million positive variance) to $284 million, and unassigned fund balance rose by $204 million. Revenue exceeded budget by $136 million. Key revenue sources, including sales taxes, beer and alcoholic beverage taxes, building and construction related permits, and the Tennessee sales tax levy all rebounded faster than anticipated. Expenditures were $57 million below budget with savings achieved across all Metro departments.

The FY 2022 budget forecasted expenditures of $2.65 billion, a $180 million or 7.3% increase over FY 2021. As a result of the 2021 reappraisal of real property values, the FY 2022 budget included a decrease in the GSD and USD property tax rates. The budgets for the general fund included a planned decrease in fund balance of $69.8 million. However, the total fund balance of the general fund increased by $140.7 million during FY 2022. Revenues increased by $75.8 million compared to the prior year primarily due to increases in property taxes, sales taxes, other taxes, licenses and permits, charges for services, and permit revenue, partially offset by intergovernmental revenue reductions. Ongoing operating expenditures increased by $142 million but were almost $50 million below final budgeted numbers. At the end of FY 2022, unassigned fund balance for the general fund was $379 million, 29.3% of total general fund expenditures and other financing uses.

Figure 4

The Metropolitan Government of Nashville and Davidson County General Fund Financials Summary FYE June 30 (dollars in thousands)	2018	2019	2020	2021	2022
Summary Statement of Income					
REVENUES					
Property Taxes	$ 539,343	$ 565,210	$ 597,829	$ 754,776	$ 781,477
Local Option Sales Tax	133,885	141,902	113,464	168,158	204,274
Other Taxes, Licenses and Permits	155,826	160,882	159,919	159,909	191,692
Other Governmental Agencies	112,150	124,461	139,187	173,009	148,550
Other	73,150	82,159	57,330	61,845	67,524
Total Revenues	1,014,355	1,074,614	1,067,730	1,317,697	1,393,517
EXPENDITURES					
General Government and Fiscal Administration	74,550	75,429	77,067	79,384	87,824
Administration of Justice, Law Enforcement, and Prison	348,459	354,160	369,910	382,192	428,187
Fire Prevention and Control	131,840	130,612	136,829	138,444	156,954
Public Welfare, Public Health, and Hospitals	76,407	73,132	73,592	70,703	83,153
Retiree Benefits	87,580	87,856	88,233	89,296	91,008
Other	234,391	229,583	261,727	215,487	270,499
Total Expenditures	953,227	950,772	1,007,358	975,505	1,117,625
Excess (Deficiency) of Revenues Over Expenditures	61,128	123,842	60,371	342,192	275,893
Other Financing Sources (Uses)	(91,164)	(109,058)	(78,038)	(130,481)	(135,144)
Net Change in Fund Balance	(30,035)	14,784	(17,667)	211,711	140,749
Beginning Fund Balance	106,697	76,661	91,445	73,775	285,487
Ending Fund Balance	76,661	91,445	73,778	285,486	426,235
Summary Balance Sheet					
ASSETS					
Cash and Cash Equivalents	$ 70,892	$ 79,137	$ 66,594	$ 275,517	$ 411,008
Property Taxes Receivable, Net	506,740	520,664	664,154	717,890	739,853
Sales Tax Receivable	24,163	25,433	20,904	33,344	51,567
Accounts Receivable	59,114	61,762	75,127	51,565	58,464
Due from Other Funds of the Primary Government	6,458	5,457	6,159	7,271	20,920
Other	8,495	600	954	733	8,794
Total	675,862	693,052	833,892	1,086,320	1,290,607
LIABILITIES					
Accounts Payable	19,406	22,001	16,688	18,630	32,976
Accrued Payroll	27,827	25,824	27,110	33,293	38,987
Due to Other Funds of the Primary Government	13,976	15,274	22,537	14,869	22,388
Other	6,172	1,426	6,453	10,167	17,404
Total Liabilities	67,381	64,524	72,788	76,959	111,756
Deferred Inflows (Mostly Property Taxes)	531,820	537,083	687,329	723,874	752,615
FUND BALANCES					
Nonspendable	842	512	708	861	871
Assigned for:					
Specific Projects	8,090	6,307	11,995	19,650	32,407
Subsequent Year Budgetary Appropriation	8,850	7,300	-	-	14,000
Unassigned	58,880	77,326	61,073	264,975	378,958
Total Fund Balance	76,661	91,445	73,775	285,487	426,235
Unassigned Fund Balance as a % of Expenditures	6.2%	8.1%	6.1%	27.2%	33.9%
Calculated without including other financing sources					

Source: ACFRs

FY 2023 Budget

The FY 2023 budget forecasts spending of $2.96 billion, a $312 million or 11.8% increase over FY 2022. Expenditure increases reflect education funding ($94 million), debt service ($51 million) and various other Metro responsibilities. The property tax rate is reduced from $3.288 per $100 of assessed value to $3.252 for the USD. Additional projected revenues reflect $103 million in property taxes generated from property tax base growth, local option sales tax revenue growth of $138 million, and other revenues of $57 million. A $14 million draw on general fund balance is included.

RD 4: Municipal Resource Base

KBRA considers the Metropolitan Government's resource base to be a key credit strength. Factors influencing our assessment include the rapid pace of growth in population, employment, residential real estate, and tax base diversity. Wealth and income levels have consistently exceeded State and national averages, while unemployment has historically been low compared to the State and the nation.

The City of Nashville is the capital of the State of Tennessee and its most populous city. The City of Nashville, located at the center of a 13-county metropolitan statistical area with a population of 1.9 million in northern Middle Tennessee is among the nation's most rapidly growing cities. Its diverse economic base includes healthcare, financial services, trade, transportation, utilities, education and healthcare, publishing, manufacturing, and leisure/hospitality. The City's prominence as a music and entertainment industry hub contributes to its attraction as a tourist destination.

Population

Coincident with Metro's significant business recruitment and economic development efforts over the last decade, population growth has significantly outpaced that of the State and the nation. Metro population grew at a compound annual growth rate (CAGR) of 1.08% from 2011 to 2021, to approximately 679,000, versus CAGRs of 0.86% for the State and 0.63% for the nation.

Figure 5

Metropolitan Government of Nashville and Davidson County
Population Statistics

	2011	2021	% Δ 2011 to 2021	10 Year CAGR (2021)
Nashville-Davidson metropolitan government (balance), Tennessee	609,637	678,845	11.4%	1.08%
Tennessee	6,403,353	6,975,218	8.9%	0.86%
United States	311,591,919	331,893,745	6.5%	0.63%

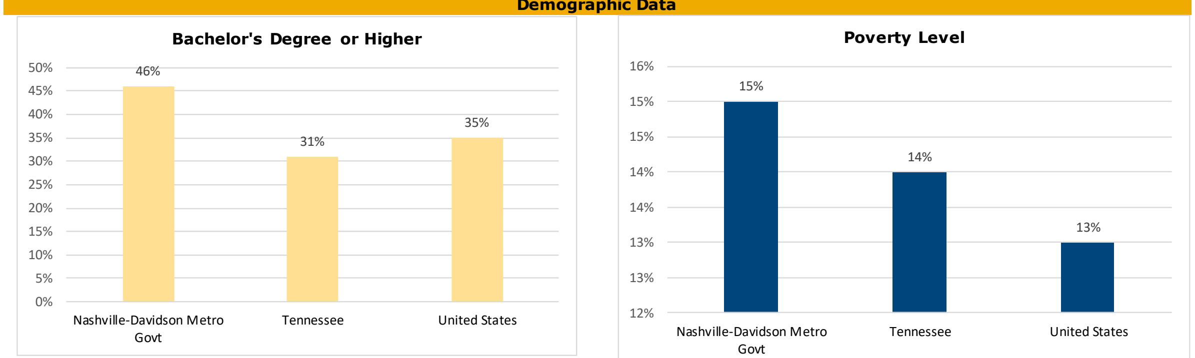
Source: U.S Census

Educational Attainment, Poverty and Income Per Capita

Population characteristics of the Metro Government include above average levels of educational attainment relative to the State and nation, and a faster growth rate in the percentage of the populace with a Bachelors' Degree or higher than both the State and nation over the last decade (12.5% increase versus 7.4% for the State and 6.8% for the nation). Poverty levels are slightly elevated versus the State and nation as is commonly the case in major urban areas, particularly those with large student populations. However, per capita income of $42,268 (2021) is strong at 124.7% of the State and 110.3% of the U.S.

Figure 6

Metropolitan Government of Nashville and Davidson County
Demographic Data



Source: U.S. Census
Bachelor degree or higher defined as "% of population over 25 with Bachelor's degree or higher". Poverty level defined as "portion of population living below the poverty line".

Employment

In recent years, business relocation or expansion into the Metro Government and the Nashville-Davidson-Murfreesboro-Franklin MSA has driven robust employment gains and an increase in high-wage jobs. MSA employment grew at a CAGR of 2.5% from 2011 through 2021, outpacing the employment CAGR of the State and nation, which grew at 1.2% and 0.9%, respectively.

In exchange for diversion of 50% of its property taxes for up to 25 years, Oracle Corp., a computer technology corporation, plans to develop a $1.2 billion, 65-acre campus in Nashville, bringing roughly 8,500 new jobs by 2031. The development is expected to create 11,500 ancillary jobs and 10,000 temporary construction jobs.

The first office tower of Amazon's $230 million operations center in downtown Nashville has opened, and approximately 3,000 local jobs have been created to date, with 5,000 total jobs anticipated. Additionally, Amazon Air is establishing cargo aircraft operations at Nashville International, a venture expected to support over 70 jobs. The corporate relocation of the global IT consulting firm Capgemini is expected to create at least 500 new jobs. Further high-wage job growth is anticipated with the recent arrival of a new video game development studio creating 108 new technology jobs, and a retirement company headquarters expected to contribute 130 new fintech jobs. A new vinyl record pressing company is projected to bring 225 new jobs to Nashville.

While employment sectors continue to diversify, Metro Government's 10 principal employers include higher education, governmental and healthcare related entities. These entities employed 13.3% of Metro employees in 2021.

MSA unemployment rates have been below those of the State and nation since 2001, and during both the Great Recession and the pandemic. Favorably low unemployment rates evidence the diverse and resilient nature of the employment base. As of November 2022, the MSA unemployment rate was 2.6%, compared to 3.3% for the State and 3.4% for the U.S.[1]

ESG Management

KBRA typically analyzes Environmental, Social, and Governance (ESG) factors through the lens of how issuers plan for and manage relevant ESG risks and opportunities. More information on KBRA's approach to ESG risk management in public finance ratings can be found here. Over the medium-term, public finance issuers will likely need to prioritize ESG risk management and disclosure with the likelihood of expansions in ESG-related regulation and rising investor focus on ESG issues.

Environmental Factors

Nashville is susceptible to Cumberland River overflows —such as the floods in 2010 and in 2021—due to the increased intensity of storms resulting from climate change paired with regional urbanization. Various plans have been adopted or proposed that include sustainable solutions, such as more tree canopies and green spaces, along the River. Unlike like pipe or flood wall infrastructure, this framework is intended to allow public access to the river.

Metro's Sustainability Advisory Committee released its Climate Change Mitigation Action Plan in January 2021.The report considers various responses to the challenge of reducing the City's carbon footprint and recommends a target 80% reduction in annual greenhouse gas emissions from 2014 levels by 2050. These actions include decarbonization of the electrical grid, incentives to encourage electrification of new and existing buildings and increase energy efficiency in government, residential, commercial and industrial buildings, reduction of vehicle miles travelled by passenger vehicles through increased public transit and commuting options and developing a priority bicycle network.

Social Factors

Metro's Office of Diversity, Equity, and Inclusion's mission statement is to:

- Provide leadership, guidance, and oversight of the City's equity, inclusion, and anti-racism framework.
- Promote equitable procurement, contracting, and entrepreneurship outcomes.
- Establish ourselves as conveners while continuously reviewing and redefining strategies, processes, and priorities to better reflect a continuum in equity

The Vision includes:

- An intentionally diverse, equitable, and inclusive experience throughout the Nashville Metropolitan area
- A workforce reflective of Nashville's diverse population with equally accessible opportunities and a strong sense of belonging
- Recognized as core institutional values, and inform thinking, policies, and practices

The Climate Change Mitigation Action Plan recognizes the existence of environmental equity issues and that disadvantaged communities are disproportionately impacted by social inequities that exacerbate environmental and climate inequities. The Plan recommends the establishment of an environmental equity taskforce.

Governance Factors

With regard to cybersecurity, the Metro government has instituted various policies and procedures to protect its information technology infrastructure including a cybersecurity training requirement for employees. As of 2022, no security incidents resulting in a loss of service to residents has been reported.

[1] MSA unemployment data was used, as the U.S. Bureau of Labor Statistics does not provide data for the Metropolitan Government.

Bankruptcy Assessment

KBRA has consulted outside counsel on bankruptcy matters and the following represents our understanding of the material bankruptcy issues relevant to the Metropolitan Government and the General Obligation Improvement Bonds.

A. Eligibility to be a Debtor Under Chapter 9

To be a debtor under the municipal bankruptcy provisions of the U.S. Bankruptcy Code (Chapter 9), a local governmental entity must, among other things, qualify under the definition of "municipality" in the Bankruptcy Code, and must also be specifically authorized to file a bankruptcy petition by the State in which it is located.

The Metropolitan Government meets the definition of a municipality under Chapter 9 of the U.S. Bankruptcy Code. As to authorization, Tennessee law does not currently permit municipalities in the State to file for protection under Chapter 9. However, the State of Tennessee could adopt in the future a law that would permit municipalities such as the Metropolitan Government to file for bankruptcy relief.

B. Pledged Revenues as Special Revenues Under the Bankruptcy Code

The principal of and interest on the General Obligation Improvement Bonds are payable from the levy and collection of direct and continuing *ad valorem tax* on all taxable property located within the Metropolitan Government.

If the Metropolitan Government were to file a petition commencing a Chapter 9 proceeding, Chapter 9 provides for post-petition recognition of (i) a security interest represented by a pledge of specific special tax revenues or municipal enterprise revenues (each "special revenues") and (ii) a statutory lien on revenues pledged for municipal obligations. By contrast, the pledge of general *ad valorem* property taxes for general purpose obligations of a municipality is not recognized as a security interest or lien that survives the filing of a petition under Chapter 9.

Accordingly, because (a) the funds pledged to pay the General Obligation Improvement Bonds are not from a separate, dedicated source of revenues that meets the definition of "special revenues" under Chapter 9, and (b) there is no statutory lien imposed on the pledged *ad valorem* tax revenues levied to pay the General Obligation Improvement Bonds, therefore holders of the General Obligation Improvement Bonds should be treated as unsecured creditors of the Metropolitan Government.