

Revenue Overview

Revenues

The feasibility of any government's budget is fundamentally determined by the availability of financial resources. Revenues and available fund balances must be sufficient to support planned expenditures, and both Tennessee law and the Metropolitan Charter prohibit deficit financing. Accordingly, expenditures must be fully supported by current revenues and available fund balances to ensure structural balance.

The Metropolitan Government's largest revenue sources are property taxes and sales taxes, which together form the foundation of the operating budget. These major revenue streams, along with other supporting sources, are discussed in detail in the following sections.

The operating budgets for both the General Services District (GSD) and the Urban Services District (USD) are funded through a diverse mix of revenues, reflecting the breadth of services provided across the Nashville metropolitan area and Davidson County. Detailed revenue projections supporting these budgets are included in the budget ordinance, located in Appendix 1.

Additional revenue and expenditure trends are presented in the Expenditure Overview, specifically in Schedule 1 – Summary of Revenues, Expenditures, and Changes in Fund Balances, which offers a comprehensive view of Metro's fiscal position over time.

Economic Trends

Metro Nashville's fiscal outlook remains closely connected to the performance of the national, state, and regional economies. Following several years of accelerated growth, economic conditions entering FY 2027 continue to normalize toward a more moderate and sustainable pace. According to projections from the University of Tennessee Boyd Center for Business and Economic Research, Tennessee's economy is expected to grow between approximately 2.0% and 2.5% in 2027, slightly outperforming national growth expectations.

The Nashville Metropolitan Statistical Area (MSA) continues to serve as a primary economic driver within the state, supported by healthcare, tourism, logistics, higher education, corporate headquarters operations, and professional services. Continued business investment and corporate relocations into the region have further strengthened the local economy, contributing to employment growth, commercial development activity, and long-term tax base expansion. Labor market conditions throughout FY 2026 remained stable, with unemployment averaging approximately 2.9% to 3.0%, supporting continued consumer spending and revenue performance across Metro's primary revenue sources.

While overall economic conditions remain positive, growth trends have moderated compared to recent years, and several external pressures continue to influence Metro Nashville's fiscal outlook. Inflationary pressures have eased from prior-year highs but remain elevated in key areas including housing, construction, utilities, and services. Population growth within Davidson County is expected to remain modest, while surrounding counties within the regional MSA continue to experience stronger residential growth patterns driven in part by affordability considerations. Metro also continues to monitor broader economic risks including interest rate policy, financial market volatility, and the continued phase-out of pandemic-era federal funding support. Additionally, ongoing property tax appeals associated with recent reassessment activity continue to create uncertainty within future property tax revenue projections and may affect the timing and recognition of revenues in future fiscal periods. As a result, FY 2027 financial planning continues to emphasize conservative revenue forecasting, disciplined expenditure management, operational efficiency, and long-term financial sustainability.

Property Taxes Overview

Property tax is the Metropolitan Government's largest and most stable source of revenue. It is established under the Tennessee Constitution as an **ad valorem tax**, meaning "according to value", and is based on the market value of taxable property.

This tax is levied on the assessed value of several categories of property, including:

- Real property: land, structures, and leasehold improvements
- Personal property: business equipment (excluding inventories for resale)
- Public utility property: real and personal property owned by utilities and organizations (regulated by the State).

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Property tax law and policy are governed by a combination of constitutional provisions, legislative statutes, judicial rulings, and administrative oversight. The Tennessee General Assembly establishes the legal framework for administration, while the Tennessee State Board of Equalization sets the rules and regulations followed by local assessors. The system is further subject to interpretation by the courts.

Certain categories of property are exempt from taxation, including property owned by governmental entities, religious institutions, and educational organizations. Despite these exemptions, property tax remains the predominant source of revenue supporting Metro services.

Property Tax Budget	
FY 2026	\$2,043.5
FY 2027	\$2,055.0
Change	\$11.5 M

The combined USD-GSD rate is the total paid for property in the USD; property outside of the USD is taxed at the GSD rate. Residents of the satellite cities within Metro pay the GSD rate plus the rate set by that satellite city.

FY 2027 Property Tax Distribution (Rates per \$100 of Assessed Value)			
District	Fund	2026 Rate	2027 Rate
GSD (General Service District)	General	\$1.339	\$1.405
	Schools General Purpose	0.901	0.901
	General Debt Service	0.389	0.373
	Schools Debt Service	0.103	0.103
	Subtotal- GSD	\$2.782	\$2.782
USD (Urban Service District)	General	\$0.006	\$0.007
	General Debt Service	0.026	0.025
	Subtotal- USD	\$0.032	\$0.032
Combined USD/GSD Rate		\$2.814	\$2.814

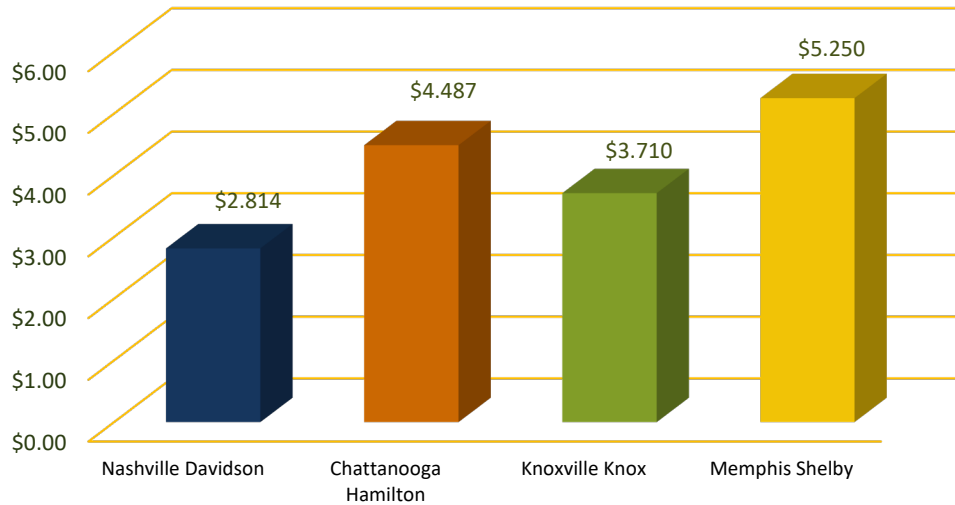
Property Reappraisal

The Assessor’s Office conducts a property reappraisal under Tennessee state law, with calendar year 2025 (FY 2026) serving as the most recent and the next to occur in calendar year 2028 (FY 2029.) The reappraisal estimates the value of all property in Davidson County. This is performed to periodically adjust recorded property assessments to generally reflect market values.

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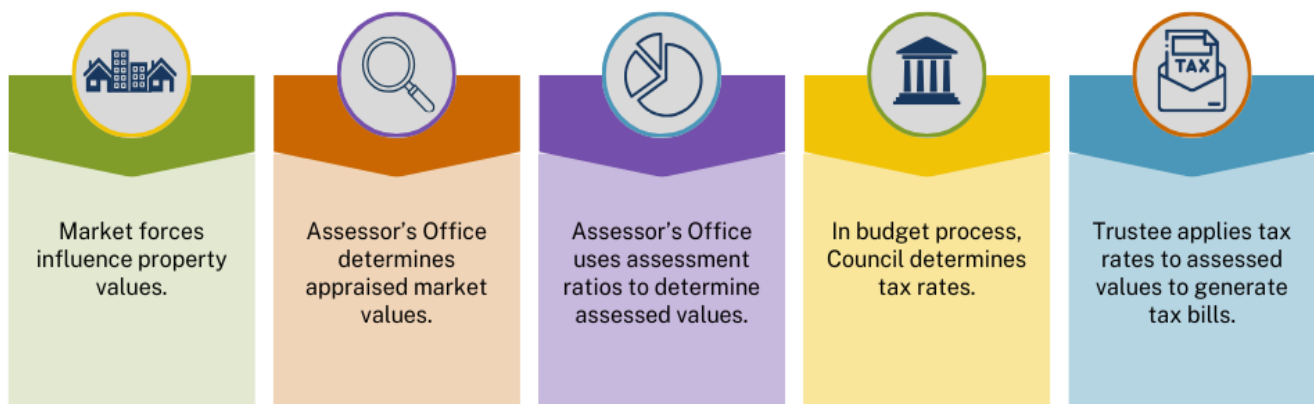
Exclusive of new construction, state law requires that this reappraisal be revenue neutral for local governments. This means that as the aggregate value of existing property changes, the tax rate must change as well to ensure that the local government receives the same amount of revenue. So, if the property in the county collectively increases in value, the actual property tax rate needs to drop so that the revenue collected remains the same. As was the case in 2022, 2025's (FY 2026) reappraisal resulted in a combined revenue neutral rate of \$2.222 and then was increased by \$0.592 in the FY 2026 recommended budget for a final rate of \$2.814. The new combined property tax rate of 2.814 is the lowest for Nashville in decades, the lowest rate among the largest cities in Tennessee, and one of the lowest in the country. The FY2027 property tax rate for Nashville and Davidson County is expected to remain the same at the combined \$2.814 per \$100 assessed value.

Major City/ County Tax Rates



How the Property Tax Works

The following diagram shows the appraisal and budgetary process.



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Key Components in Understanding Property Taxes

<i>Market values</i>	Market values of property are set in the open market. Market value is the most probable price of a piece of property in an arm’s-length transaction between a willing and knowledgeable buyer and a willing and knowledgeable seller.
<i>Appraisal</i>	The value of property is determined by the Assessor of Property so that the tax burden is distributed equitably among all property owners.
<i>Assessor of Property Office</i>	This office executes tax policy to identify, classify, appraise, and assess all property. The assessor’s process includes: <ul style="list-style-type: none"> • Producing an annual assessment roll, adding new construction, and removing demolished buildings. • Performing site inspections of all properties to update assessment records. • Collecting and verifying sales prices for all real estate transfers. • Analyzing sales data and property characteristics to produce 100% appraisals in the fourth year of the appraisal cycle.
<i>Appraised value</i>	Estimated market value of the property at a certain point in time.
<i>Assessment</i>	In Tennessee the assessed value upon which taxes are levied is a fraction (percentage) of the appraisal. The percentage varies depending on the classification of the property, which is determined by its use.

Metro's Assessor of Property determines the appraised value of all real and personal property in the county, except public utilities (whose values are determined by the State Comptroller’s Office). Three appraisal methods are used to estimate each property’s market value:

- The estimated *cost* to replace a structure, referred to as "replacement cost new," adjusted for depreciation based on the property's age and condition, yielding the "depreciated replacement cost."
- The *market value* or sale prices of similar properties that have recently sold.
- The *present value of the future net income* that can be generated by that or similar properties, sometimes called the "capitalization of income" method.

When used together, these three methods give the appraiser the best indication of what a property is worth. With the aid of modern computer systems, the Assessor has adopted these traditional appraisal techniques to produce large-scale reappraisal projects with accurate and cost-effective results.

In most years, appraised values on existing real property do not change unless there are substantial taxable additions or improvements to the property, the property is rezoned, or the owner files and wins an appeal from the county or state Board of Equalization. New construction between reappraisals are valued at levels consistent with tax roll appraisals of similar existing properties. However, over time, the market values of properties may change considerably and at different rates. The resulting inconsistency within the market causes some property owners to pay taxes based on appraisals that exceed the current value of their property, while others pay on appraisals that reflect only a portion of the current value.

So, 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 values. Current law allows for reappraisals on a four-year or six-year cycle; the Metro Assessor has chosen the former. After the reappraisal, all properties should be appraised consistently at 100% of their current market values. Periodic reappraisals are designed to equalize the appraised values of all property.

Tennessee's property tax laws protect taxpayers against an automatic or arbitrary increase in their tax bills 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. This is called the certified tax rate. Therefore, under state law, your property tax bill can't be raised by reappraisal unless your property value has grown more in value than the average for all other properties in the county.

In between reappraisals, the state performs a biennial analysis of appraised values conducted for all counties in the state. This analysis, known as a sales ratio study, compares sales prices with appraised values to determine both the level and equity of appraisals. However, this ratio is not used to increase residential property appraisals.

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The Tennessee Constitution mandates assessment percentages to be applied to the appraised value of different classes of property.

The appraised values are multiplied by percentages defined in the state constitution to arrive at assessed values, which are then multiplied by the tax rate to determine the taxes owed.

For example, the assessed value of a residential property with an appraised value of \$100,000 would be \$25,000 (.25 X \$100,000), while a commercial property of the same appraised value would have an assessed value of \$40,000 (.40 X \$100,000).

Assessments must be compiled annually on assessment rolls for the GSD, USD, and each of the seven satellite cities within the county.

If the value of a property changes (typically due to improvements or demolition) the Assessor mails notices reflecting the property's new appraised value, classification, and resulting assessment. There is a process established for appeals of the appraisal, but the Assessor can only consider information about value, not tax bills.

Property Class	Assessment Rate
Residential & Farm	
Real Property	25% of appraised value
Commercial & Industrial	
Real Property	40% of appraised value
Personal Property	30% of appraised value
Public Utility	55% of value set by the State Comptroller

Tax Rate set through Budget Process and Tax Bills are processed.

The tax rate is set through the budget process in the form of a tax levy ordinance that is recommended by the Mayor and approved by the Council. That ordinance (presented in Appendix 2) sets the GSD and USD rates per \$100 of assessed value.

The tax bill for a property is determined by:

- * The appraised value of the property, which reflects its estimated market value based on its classification (e.g., residential, commercial, industrial, utility, or farm);
- * The assessment, calculated by applying the classification percentage to the appraised value to arrive at the assessed value; and
- * The tax rate, set by the local governing body and applied to the assessed value to determine the final tax bill.

The Trustee's office prepares and distributes tax bills based on the assessed value of each property and the tax rate for its district.



To calculate your property tax bill, divide the assessed value by \$100 and then multiply that amount by the tax rate. For example, a property classified as residential and appraised at \$100,000 would be assessed at \$25,000 (the \$100,000 appraised value times the 25% residential assessment ratio). A tax calculator can be found on the Office of the Trustee's website at nashville.gov/departments/trustee/calculate-property-taxes.

With FY 2027's recommended combined property tax rate of \$2.814, the calculation would be:

$$\begin{aligned}
 \text{tax} &= (\$25,000/\$100) \times \$2.814 \text{ per } \$100 \\
 &= \$250 \times \$2.814 \\
 &= \$703.50
 \end{aligned}$$

Property tax bills are mailed to property owners and, if taxes are paid through an escrow account, also to the mortgage holder. This normally occurs in late September or early October. Tax payments are due by the end of the following February and can be mailed to the Office of the Trustee or made online at nashville.gov/departments/trustee.

Metro and the state assist the elderly and disabled with property taxes on the first \$25,000 appraised value of their homes through the Property Tax Relief program administered by the Trustee. The program also assists disabled veterans with the first \$25,000 of assessed value of their property.

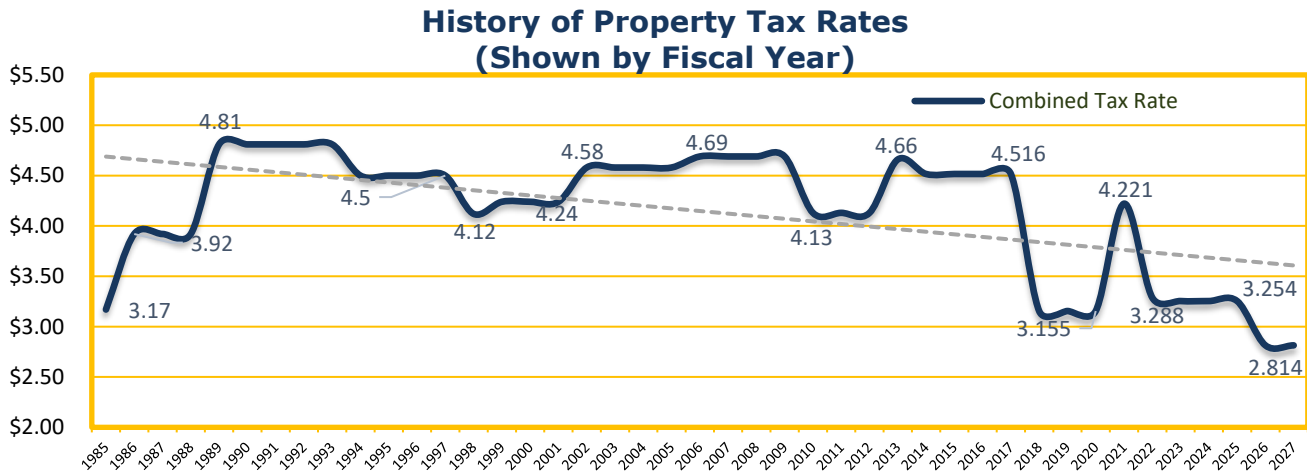
Property Value Trends: Metro expects many of the contributing growth factors of recent years to continue into FY 2027. Namely, demand is anticipated to continue to outpace supply. Despite rising interest rates, this disparity should continue to drive new development while helping to safeguard against a correction in market prices.

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Property Tax Rates: FY 2026 and FY 2027 tax rates are shown in the Executive Summary and in the tables on the following pages. The combined rate is the total paid for property in the USD; property outside the USD is taxed at the GSD rate. Residents of the seven satellite cities within Metro pay the GSD rate plus the rate set by that satellite city.

Nashville’s property tax rates are currently the lowest of the four major Tennessee cities, and competitive with those of surrounding communities.

Historic property tax rates are presented in the following graph. Property Tax changes, tax rate changes, and property values are presented in tables that can be found in Appendix 4.



Sources: FY90-03 Comprehensive Annual Financial Reports; FY04-27 Budget Ordinance

Local Option Sales Tax for Tax Fund Only

Sales Tax Budget	
FY 2026	\$737.4M
FY 2027	\$756.9M
Change	19.5M

Local option sales tax collections represent Metro Nashville’s second largest operating revenue source. The tax is levied on most retail sales in Davidson County, although the local portion applies only for the first \$1,600.00 of each item purchased. Under Tennessee Code Annotated, Title 67, Chapter 6, Part 7, at least one-half of local option sales tax collections must be allocated to education funding. Local option tax rates may only be increased through voter

referendum approval. Sales tax collection generally reflects both national and local economic activity and remains an important indicator of consumer spending trends within the regional economy.

Prior to February 2025, Nashville’s general sales tax rate consisted of a 7.00% state tax and a 2.25% local option tax, with an additional 0.50% tax applied with the downtown CBID district. On November 5th, 2024, Davidson County voters approved the Choose How You Move (CHYM) transit referendum, which added a 0.50% surcharge to the local option sales tax dedicated to transit improvements. As a result, the combined general sales tax rate increased to 9.75% effective February 1st, 2025. During this budget year, the mayor proposed reducing the local option sales tax rate on groceries by one-half cent to help ease the tax burden on Nashville taxpayers. The proposal would lower the total sales tax rate from 9.75% to 9.25% while maintaining funding stability for Metro services and transit initiatives.

State Sales Tax Rate	7.00%
State Food Tax	4.00%
Local Option Sales Tax Rate	1.75%
CHYM Sales Tax Surcharge	.50%
Total	9.25%
Downtown District Fee	
CBID Additional Fee Downtown – Sales Tax	.50%

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State & Federal Revenues

Federal, State, & Other Gov't Agencies Budget	
FY 2026	\$476.1M
FY 2027	\$476.8M
Change	746K

Major sources of revenue from the State of Tennessee are equalizing funds for education (based on average daily school attendance), healthcare-related revenues, and Metro's share of statewide sales and gasoline taxes. Most of these funds are categorical, being tied to specific functions and services.

The primary sources of federal funds received by Metro are categorical grants such as education funding, Title XX, Title III, and USDA nutrition funds, and reimbursements for services provided by Metro agencies such as the Health Department and Social Services. Most federal funds (including the entire Schools Special Grants Fund) are nondiscretionary in that their receipt requires Metro to carry out certain specified programs. Unrestricted grants such as revenue

sharing are now rare.

Federal funds received by the government are subject to federal government single audit provisions. These provisions provide that grants are audited as part of the city's annual independent audit. In an effort to properly reflect federal and state revenues that may be subject to such audit, the Finance Department has reclassified many revenues from other categories to this "State and Federal" category.

Other Local Revenues

Other Revenues Budget	
FY 2026	\$398.6M
FY 2027	\$365.3M
Change	(33.3M)

The Metropolitan Government generates various revenues locally.

Licenses and Permits include the business tax, wholesale beer tax, motor vehicle regulatory licenses, building permits and franchise fees.

Charges for Current Services are derived from user fees and charges levied in return for specific services provided by Metro. Among the many fees and charges collected are revenues generated for health services, parking fees, ambulance fees, dog registration charges, fees for the use of Parks' facilities, and waste disposal fees. Most of these fees are set by Metro, by the Council, or by action of oversight boards and commissions.

Fines, Forfeitures, and Penalties are collected by the various court clerks, the Sheriff, and the Police Department for fines, court costs, Sheriff's fees, DUI safety education, litigation taxes, and proceeds from confiscated property.

Revenue from the Use of Money or Property includes interest on investments and the rental of Metro-owned land and buildings. Metro investment practices emphasize safety, prudence, and liquidity; the government does not engage in speculative high-risk investments such as derivatives.

Commissions and Fees from Certain Officials consist of processing charges for services provided by the clerks of the courts and by the County Register. These fees are generally set by Metro or the State.

Transfers From Other Funds

Transfers may be made into the general funds of the GSD or USD from time to time from surpluses that have accumulated in certain special and working capital funds. Transfers are also made to reimburse various funds for services that are provided by those funds but are rightfully chargeable to another fund.

Fund Balances

Fund balances are the difference between the government's assets and liabilities. They result from receiving more revenue than estimated and/or expenditure less than budgeted in prior years. They provide some protection against unexpected expenditures or revenue losses and help to stabilize the government's finances. Industry best practices recommend that governments, regardless of size, maintain an unrestricted general fund balance of no less than two months of regular general fund operating expenditures.

Fund balances frequently increase by the end of the year due to actual revenues being higher than actual expenditures, often because of unspent appropriations and/or higher-than-estimated revenue collections. It is Metro's policy that General Fund balances as a percentage of expenditure should be at or above 17% to handle unanticipated contingencies. Debt Service Funds are required to be at or above 50%. Lastly, a Budget Sustainability Reserve is to be used to stabilize the budget in

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times of economic downturn. This reserve has a target range of 1% to 6% of the budgeted operating expenditures and budgeted debt services for each fund. The FY 2027 budget is compliant with this policy.

Revenue Conclusion

Metro anticipates that projected revenues for FY 2027 will be sufficient to support budgeted expenditures and ongoing operational needs. Revenue projections were developed using current economic conditions, historical performance trends, departmental activity, and broader regional and state economic indicators. While economic conditions across Nashville and the surrounding metropolitan region remain stable, the FY 2027 outlook reflects a more moderate growth environment compared to the accelerated expansion experienced in recent years.

Metro will continue to closely monitor key economic and revenue indicators including inflation, consumer activity, labor market conditions, development trends, interest rates, and property tax appeal activity to identify and respond to material changes that may affect revenue performance. This continued emphasis on conservative forecasting, disciplined financial management, and ongoing operational review supports the Metropolitan Government's commitment to long-term fiscal sustainability, maintenance of essential services, and compliance with both the Tennessee Constitution and the Metropolitan Charter.