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INDEPENDENT ACCOUNTANT'S REPORT

To the Honorable Mayor and Members of the Council
Metropolitan Government of Nashville and Davidson County
Nashville, Tennessee

We have examined management of the Metropolitan Government of Nashville and Davidson County's ("Metro Nashville") assertions related to the Plan of Finance ("Plan of Finance") for a proposed transit improvement program that demonstrates the program's financial feasibility. The Plan of Finance includes management's assertions, attached in Appendix A, about the methodology and assumptions used in the financial forecasts and projections supporting its analysis, and includes assertions about the amount of the transit improvement program's infrastructure to be financed through bonds, sales tax surcharges, or other financing methods. Management also asserts that the data included in its *Transit Improvement Plan* agrees with the Plan of Finance. For the purposes of this report, management's assertions about the "financial feasibility" mean the transit improvement program is likely to be viable after taking into account the anticipated costs, risks, and liabilities of the transit improvement program, the anticipated revenue generated by the surcharges, federal funding, farebox collections, long-term financing, and Metro Nashville's financial position. Metro Nashville is responsible for its assertions. Management's assertions specifically relate to criteria found in Sections 67-4-3201 through 67-4-3206, *Tennessee Code Annotated.* Our responsibility is to express an opinion on management's assertions related to the Plan of Finance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards applicable to attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the examination to obtain reasonable assurance about whether management's assertions related to the Plan of Finance are presented in accordance with criteria set forth in Sections 67-4-3201 through 67-4-3206, *Tennessee Code Annotated,* in all material respects. The examination involved performing procedures to obtain evidence about management's assertions related to the Plan of Finance. The nature, timing, and extent of the procedures selected depend on our judgment, including an assessment of the risks of material misstatement of management's assertions related to the Plan of Finance, whether due to fraud or error. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

There will usually be differences between the forecasted and actual results because events and circumstances frequently do not occur as expected, and those differences may be material.

We are required to be independent and to meet our other ethical responsibilities in accordance with relevant ethical requirements relating to the engagement.

In our opinion, management's assertions related to the Plan of Finance about the methodology and assumptions used in the financial forecasts and projections supporting its analysis that the proposed transit program is financially feasible, and assertions about the amount of the transit improvement program's infrastructure to be financed through bonds, sales tax surcharges, or other financing methods, provide a reasonable basis for Metro Nashville's Plan of Finance and are presented in accordance with criteria set forth in Sections 67-4-3201 through 67-4-3206, *Tennessee Code Annotated*, in all material respects.

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Nashville, Tennessee
May 13, 2024

FREDDIE O'CONNELL
MAYOR

METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY

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Appendix A - Management's Assertions

Management's assertion is that the sources and uses identified in the Plan of Finance included as the Appendix of the Transit Improvement Plan (the "Plan"), are financially feasible to fund the transit plan as proposed. Specifically:

- The actual fiscal year 2023 (FY2023) sales tax surcharge revenues were used as the basis to calculate revenue for a potential 0.5% Local Option Sales Tax Surcharge. Sales Tax Surcharge revenue collections would begin February 1, 2025.
- Sales Tax Surcharge revenue projections from the base year ($152m in FY23) to the revenue collections start year are calculated using the current fiscal-year, year-to-date, growth rate of 3.9% in FY2024 and 3.4% in FY2025. Rates are assumed at 4.5% from FY2026 to FY2036, and 3.0%. thereafter. Overall projections are considered conservative with significantly lower growth rate assumptions compared to Metro's Local Option Sales Tax 30-year empirical growth rate of 6%.
- Total revenue needed during construction will be $6.934 billion **in** future dollars. The main revenue sources are the sales tax surcharge, in addition to bond proceeds and state and federal grants:
  - $3.26 billion, which is our sales tax surcharge of 0.5%, grown at the previously described growth rates from 2024 to 2039.
  - $2 billion, which will be bond proceeds from multiple revenue bonds issued from 2026 to 2039.
  - $1.52 billion in federal and state grants, with the remainder coming from farebox revenues: frequent network, local and crosstown, regional and express, and WeGo Access expansion.
- All Federal and state grant sources are based on current Metro experiences and recent grant awards made to similar transportation systems. Federal and state grant funding assumptions are considered reasonable for the Plan.
- The underlying assumptions related to bond issuance and the related debt service and financing costs are based on current municipal bond market interest rates plus 100 basis points, for the issuance of revenue bonds.
- Includes an estimated reduction of $5 million per year beginning in fiscal year 2026 from the Metro subsidy to WeGo. No additional ancillary revenue is assumed, including potential investment income, advertising revenue, or other partner contributions.
- Capital cost estimates - including construction and other capital purchases - for the Plan are based on recent experience of similar national transit systems undertaking comparable expenditures, and provide reasonable, industry-standard, planning-level costing benchmarks for the additional transportation projects outlined in the Plan. Capital costs are assumed to escalate by 3.5% per year, which is significantly higher than historical national construction cost growth.

- The entire construction period of 15 years (2025 to 2039) would cost $3.096 billion. That is the cost that it would take to incur all 15 years' worth of expenses, today.
- The operating and maintenance costs for transit service are based on Nashville WeGo's fiscal year 2025 operating costs per hour by mode with a 5% contingency assumption. Operating costs are assumed to escalate by 3.0% per year, which provides a reasonable assumption of ongoing annual costs of operation.
- Once construction is complete and the new transit plan is fully operational, its annual operating cost will be $111 million, in today's dollars. Equivalent to having all of the services in this plan available today.
- Escalation rates for capital and operating and maintenance costs are conservatively assumed at rates higher than those reported in the Engineering News-Record (ENR) Construction Cost Index (CCI) and U.S. Bureau of Labor Statistics (BLS) Consumer Price Index (CPI) for All Urban Consumers. Both are nationally recognized, reliable sources to use for projecting capital and operating and maintenance cost escalation for future years. Using higher growth rates than these two indices result in a conservative projection of costs for the plan.
- In developing the Plan, the methods and assumptions appropriately take into account the costs, risks and liabilities associated with the Plan. The overall reasonableness of the projected revenues and of the development of the budgeted contingency are sufficient to reduce unforeseen risks.
- Through preliminary sensitivity testing, the Plan provides for financial flexibility if costs or revenue were to be higher or lower than projected. Potential adjustments could include the use of budgeted contingency, the use of the Plan's 30 percent operating reserve, and the modification of service level increases and/or phasing of capital or service build out to accommodate cash flow needs.

/s/ Kevin Crumbo

Finance Director

May 13, 2024