

# Revenue Overview

## Revenues

The following pages provide background information on Metro's revenues and ongoing expenditures. Revenue projections and expenditure changes are discussed in the Executive Summary section.

Deficit financing is prohibited by both Tennessee Law and the Metropolitan Charter; expenditures must be matched by equal dollars of revenue and appropriated fund balances.

The operating budgets for the GSD and the USD are supported by a variety of revenue sources. The primary sources are presented in the Executive Summary and discussed on the following pages.

Detailed revenue projections are included in the budget ordinance, which is included in Appendix 1.

Recent revenue trends can be seen in Expenditure Overview in Schedule 1 - Summary of Revenues, Expenditures, and Changes in Fund Balances.

## Economic Trends

The resources available to Metro are directly and indirectly dependent on the strengths of the national and state economies. Given these relationships, the status of these economies and their expected impact on Metro's revenues are reviewed prior to setting funding levels.

Much has happened since the onset of the pandemic, but from an economic perspective, Metro, like the rest of the nation, has benefitted immensely from consumers being as well positioned to spend as in any time in recent history. Strong household balance sheets, flush with cash, lower debt, and a strong desire to spend led to an unprecedented upward swing in Metro's activities-based taxes during the last few years; one that blew past recovery and resulted in all-time high collections. While consumer activity has certainly started to moderate, Metro is well positioned for resilience given its economically diverse tax base. Nevertheless, sound financial management and prudent resource allocation going forward will play a key role in Metro's continued economic stability.

While current economic trends (April 2024) indicate growth, cautious optimism should prevail. Inflation sits at 3.5%, but core inflation has grown 4.5% on a three-month annualized basis. Price levels continue to outpace expectations despite rate hikes intended to create declines. Consumer spending is steady, increasing by 1.4% since August 2023, but growth is likely to slow due to: diminished excess savings, plateauing wage gains, savings rates that have fallen below prepandemic levels and less pent-up demand. Household expenses in the form of recently reinstated student loan payments and growing credit card debt are expected to weigh on growth.

Real gross private domestic investment increased 0.19% from 1QFY24 to 2QFY24. The Federal Funds Target Rate range is currently 5.25% - 5.50% but will likely trend lower due to potential FOMC (Federal Open Market Committee) rate reductions anticipated during the remainder of FY 2024. The current GDP growth forecast stands at 2.5% for the remainder of CY 2024, but consensus expectations suggest growth will slow to 1.7% in CY 2025. These economic indicators, as well as others nationally and locally, are contemplated in FY 2025's funding levels.

## Property Taxes

The largest single source of operating revenue is the property tax. The property tax is authorized by the State Constitution as an *ad valorem* ("according to value") tax based on the market value of property. This tax is levied based on the assessed value of various types of property, including:

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

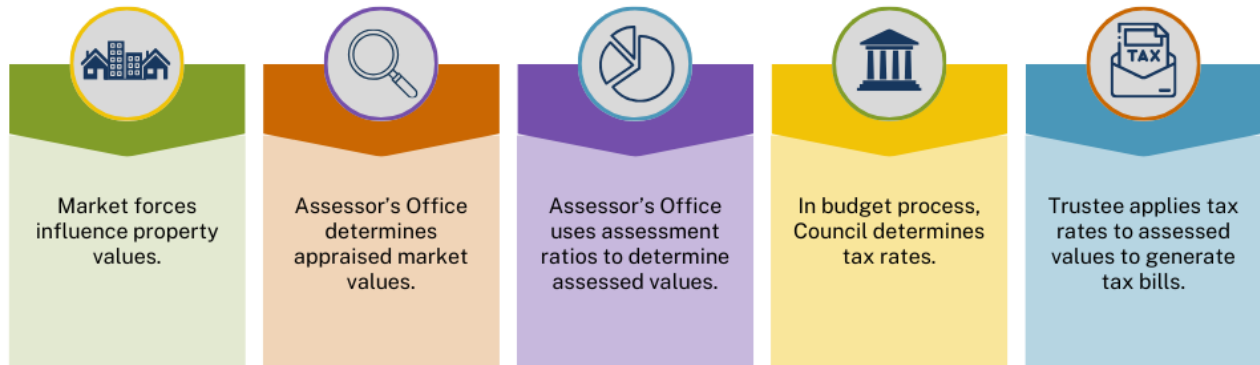
Property tax law and policy are set by the State Constitution, legislature, courts, and Board of Equalization. The Legislature makes laws which govern the administration of the tax. The State Board of Equalization establishes rules and regulations to be followed by local assessors, and the entire process is subject to court interpretation.

Certain types of property (governmental, religious, educational, etc.) are exempt from property taxes.

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## How the Property Tax Works

The following diagram shows the appraisal and budgetary process.



### 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 arms-length transaction between a willing and knowledgeable buyer and a willing and knowledgeable seller.
<i>Appraisal</i>	The value of property as determined by the Assessor of Property so that the tax burden is distributed equitably among all property owners.
<i>Assessor of Property Office</i>	<p>This office executes tax policy to identify, classify, appraise, and assess all property.</p> <ul style="list-style-type: none"> <li>• Produce an annual assessment roll—adding new construction and removing demolished buildings.</li> <li>• Perform site inspections of all properties to update assessment records.</li> <li>• Collect and verify sales prices for all real estate transfers.</li> <li>• Analyze sales data and property characteristics to produce 100% appraisals in the fourth year of the appraisal cycle.</li> </ul>
<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 adapted these traditional appraisal techniques to produce large-scale reappraisal projects with accurate and cost effective results.

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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 is 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 exceeded the current value of their property, while others pay on appraisals that reflected 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. The last county wide reappraisal for Davidson County was 2021, FY 2022.

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 property 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.

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 piece of property changes (usually because of an improvement to or demolition of the property), notices of the property's new appraised value, the classification in which it is now placed, and the resulting assessment are mailed by the Assessor. There is a process established for appeals of the appraisal, but the Assessor can only consider information about value, not tax bills.

## 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 – what it would bring if sold on the open market and its classification – whether it is used for residential, utility, commercial, industrial or farm purposes, which determines the percentage of assessment,
- \* The assessment - applying the classification percentage to the appraised value to arrive at an assessed value; and,
- \* The tax rate set by the local governing body which is applied to the assessment to calculate your property tax bill.

Property Class	Assessment Rate
<b>Residential &amp; Farm</b>	
• Real Property	25% of appraised value
<b>Commercial &amp; Industrial</b>	
• Real Property	40% of appraised value
• Personal Property	30% of appraised value
• Public Utility	55% of value set by the State Comptroller

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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](https://nashville.gov/departments/trustee/calculate-property-taxes)

With FY 2025’s recommended property tax rate of \$3.254, the calculation would be:

$$\begin{aligned} \text{tax} &= (\$25,000/\$100) \times \$3.254 \text{ per } \$100 \\ &= \$253.25 \times \$3.254 \\ &= \$824.08 \end{aligned}$$

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](https://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.

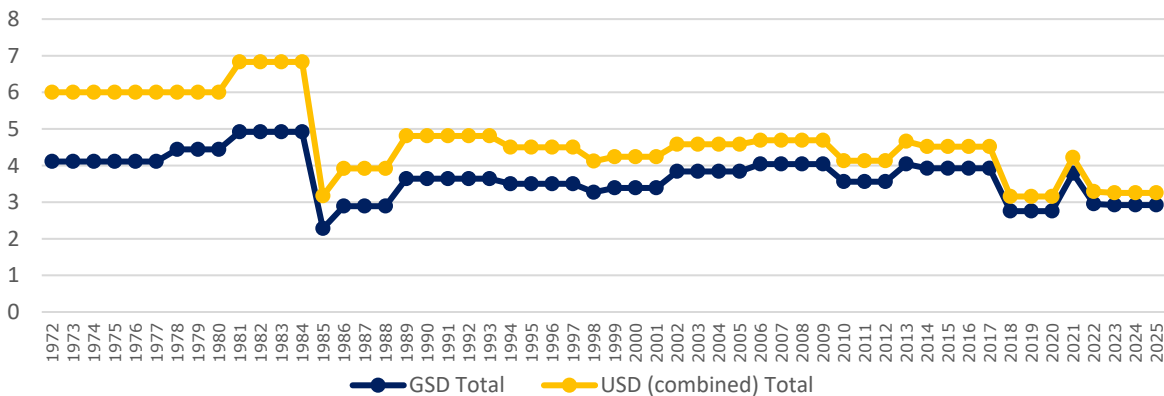
Property Value Trends: Metro expects many of the contributing growth factors of recent years to continue into FY 2025. Namely, demand is anticipated to continue to outpace supply. Despite rising interest rates, this disparity should continue to drive new development while helping to safeguard against a correction in market prices.

Property Tax Rates: FY 2024 and FY 2025 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.

## History of Property Tax Rates



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## Local Option Sales Tax

Local option sales tax collections provide the second largest source of revenue to the operating budget. With the exception of select items purchased within downtown's CBID, which now include an additional tax of 0.50%, Nashville's 9.25% sales tax rate consists of a 2.25% local option tax and a 7.00% state tax (the total rate is 6.25% on unprepared food, because the state rate for such food is 4.00%). The tax is levied on all retail sales in Davidson County, although the local portion is limited to the first \$1,600 of the cost of each item. Tennessee Code Annotated, Title 67, Chapter 6, Part 7 states, at least 1/2 of the local sales tax must be allocated to schools. The local option rate can be raised by referendum. Sales and sales taxes should reflect economic activity at the national and local levels, although some activities are not subject to the tax.

State Sales Tax Rate	7.00%
State Food Tax	4.00%
Local Option Sales Tax Rate	2.25%
CBID Additional Fee Downtown – Sales Tax	.50%
Property Tax (per \$100 assessed value)	
General Services District	2.922
Urban Services District	3.254
Income Tax on Salaries and Wages	None
Lottery	Yes

## State & Federal Revenues

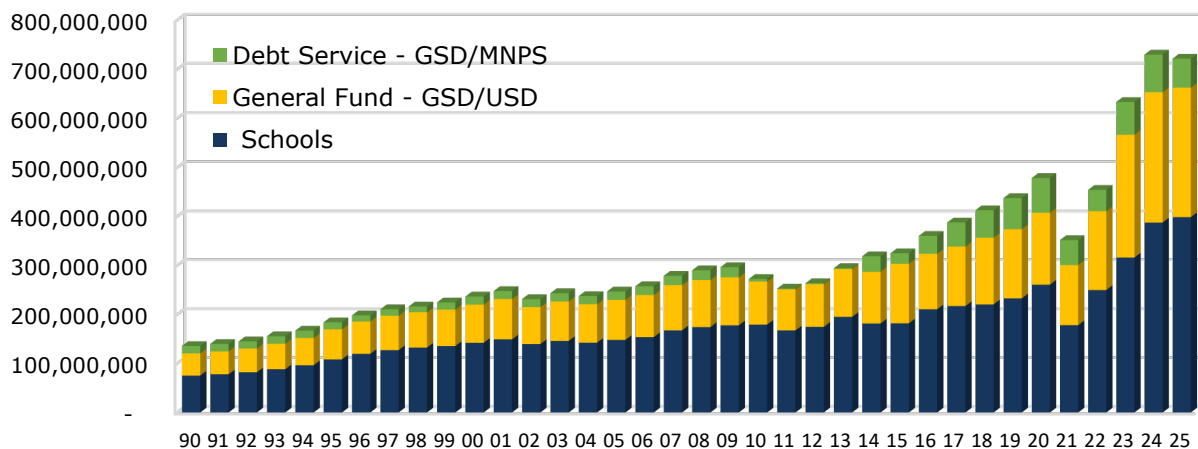
Major sources of revenue from the State of Tennessee are equalizing funds for education (based on average daily school attendance), healthcare-related revenues, and Metro's share of statewide sales and gasoline taxes. Most of these funds are categorical, being tied to specific functions and services.

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.

The Finance Department has moved most grant revenues and expenditures from the general funds to various grant special revenue funds. This practice began in FY 2000.

## Distribution of Local Option Sales Tax Collection



Sources: FY90-03 Comprehensive Annual Financial Reports; FY04-25 Budget Ordinance

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## Other Local Revenues

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, vehicle emission test 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 expending 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 recommended, at a minimum, that governments, regardless of size, maintain unrestricted budgetary fund balance in their general fund of no less than two months of regular general fund operating revenues 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 expenditures should be at or above 17% to handle unanticipated contingencies. Debt Service Funds are required to be at or above 50%. The FY 2025 budget is compliant with this policy.

**Revenue Conclusion:** We anticipate revenues sufficient to fund budgeted expenditure appropriations in FY 2025 and will monitor the shifting economic landscape going forward for any material changes.