

The Metropolitan Government of Nashville and Davidson County, TN

Issuer: The Metropolitan Government of Nashville and Davidson County, TN

Assigned	Rating	Outlook
General Obligation Improvement Bonds, Series 2024A	AA+	Stable
General Obligation Improvement Bonds, Series 2024B	AA+	Stable
General Obligation Improvement Bonds, Series 2024C	AA+	Stable

Affirmed	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.

The Series 2024 Bonds ("the Bonds") are direct obligations of the Metropolitan Government, payable from unlimited ad valorem taxes to be levied on all taxable property within the Metropolitan Government without limitation as to rate or amount. KBRA understands that the Bonds are being issued to: (i) finance the costs of various capital improvement projects of the Metropolitan Government as authorized pursuant to the Initial Resolutions; (ii) retire a portion of the principal amount of the Metropolitan Government's outstanding general obligation commercial paper bond anticipation notes at maturity; and (iii) pay certain costs of issuance related to the Bonds.

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.

Metro is the State's most populous city, and among the nation's fastest growing large cities. Population increased by approximately 8.2% between 2013 and 2023 and was estimated at approximately 687,787 in 2023. Furthermore, Metro serves as the focal point of a 13-county metropolitan area with a population of approximately 2.1 million and is the economic engine for the north central Tennessee region. Per capita personal income, 2022, ranks second in the State, while exceeding the State average by 47%. 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 decade and the tax base evidences no concentration.

Metro's direct general obligation ("GO") debt totals about \$3.21 billion, but that figure is increased by about \$1.2 billion 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 all obligations to market valuation is a relatively moderate 2.8%, however, due to the substantial size of the tax base. Full value per capita is approximately \$220,000, 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 70% of which is retired in 10 years. As per Metro policy, the average life of any debt will not exceed the weighted average lives of the projects financed thereby, and the final maturity of debt will be limited to 30 years after the date of issuance, unless otherwise specifically approved by the Metropolitan Council in the debt authorizing resolution. School-related debt accounts for about 29% 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 2029. 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.



At FYE 2023, unassigned general fund balance (\$379 million) was equivalent to 22.5% of general fund expenditures and other financing uses. Liquidity is also solid at 131 days' cash on hand ("DCOH"). KBRA believes these strong balances position Metro well in the event of a recession. Financial operations fared relatively well despite 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, the rising price of consumer goods, and pent-up demand. Sales tax collections declined by only 1.4% during FY 2020, and FY 2022, and FY 2023 collections rebounded to exceed pre-pandemic totals by more than 40%.

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 2024 budget includes approximately \$57.8 million for this purpose.

The Stable Outlook reflects a strong financial standing that positions Metro to 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 actions reflect 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, which KBRA presently views as unlikely.	+
▪ Significant unplanned draws on accumulated reserves.	-
▪ Failure to adhere to adopted policies and procedures.	-

Key Facts

Overall Debt Per Capita	\$6,888
Overall Debt as a % of Full Market Value	2.8%
Debt Amortization Within 10 Years	70.5%
Unassigned General Fund Balance as a % of General Fund Expenditures, FY 2023	22.5%
Fixed Costs as a % of Governmental Expenditures	18.6%
Population Growth 2012-2022 ¹	
Nashville-Davidson County	8.3%
State of Tennessee	9.1%
United States	6.0%
Per Capita Income (2023) ²	
Nashville-Davidson County as % of State	131.4%
Nashville-Davidson County as % of U.S.	116.9%

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	AAA
4. Municipal Resource Base	AAA

A discussion of KBRA’s bankruptcy assessment can be found in the [report](#) dated February 6, 2023.

RD 1 Update: 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 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, treasury, payroll, public property, and DEI. 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 current 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. As per Metro policy, the average life of any debt will not exceed the weighted average lives of the projects financed thereby, and the final maturity of debt will be limited to 30 years after the date of issuance, unless otherwise specifically approved by the Metropolitan Council in the debt authorizing resolution. School-related debt accounts for about 29% of overall debt. Existing debt service is structured with declining annual requirements, which accommodates future issuance. 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 debt 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 Update: 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 \$3.21 billion, plus approximately \$1.2 billion 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 certain obligations from 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	\$	6,888
Overall debt as % of full market value		2.8%
Debt amortization within 10 years		70.5%
Debt service as a % of governmental expenditures		10.6%

Source: POS and FY 2023 ACFR

Total debt is a moderate 3.0% of full market value, and an affordable \$6,888 per capita. The GO debt structure is conservative, with approximately 71% amortizing within 10-years. Annual debt service steps down gradually through the final maturity of 2042.

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 2024 CIB, adopted in June 2023, pertains to the six-year period through FY 2029. It includes spending requests totaling \$20.2 billion, most of which are designated for FY 2024 and reflect major, ongoing countywide capital programs. GO Bonds of \$12.05 billion, if approved by resolution, would fund most of these requests.

GO bonds have been authorized for approximately \$2.16 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.

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 pay-go basis. The combined OPEB liability of the two plans based on an actuarial valuation as of June 30, 2023, is approximately \$2.2 billion, two-thirds of which is attributable to the Metro plan, and one-third of which is attributable to the School Professional Employees’ plan. Notably, this liability reflects a \$1.9 billion (26.2%) decrease realized in FY 2022 due to legislation approved in July 2021 that moved certain Medicare-eligible Metro retirees to a hybrid medical plan.

RD 3 Update: Financial Performance and Liquidity



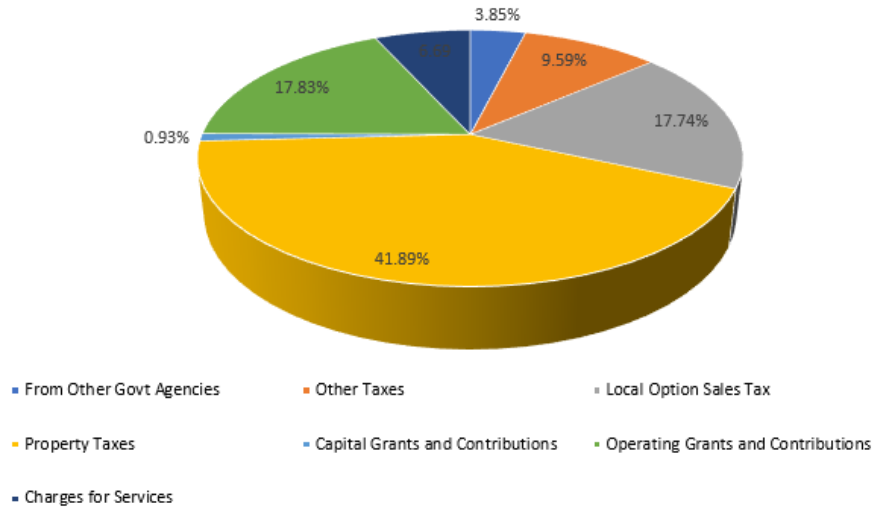
Metro’s financial operations are maintained in a satisfactory manner and characterized by increasing general fund reserves and ample liquidity. A structurally balanced budget matches recurring expenses with recurring revenues and available fund balances, and both the Metropolitan Charter and Tennessee 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 six operating funds.

Revenue Sources

Property taxes comprise approximately 42% of FY 2023 actual governmental fund revenues, while sales taxes account for 18%. Governmental aid, including federal/state grants for education and charter school funding represents 25%, and other taxes/licenses and permits totals approximately 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.

Figure 2

**Metropolitan Government of Nashville and Davidson County
Revenues by Source - Governmental Activities FYE June 30, 2023**



Source: FY 2023 ACFR

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

**The Metropolitan Government of Nashville and Davidson County
General Fund Financials Summary
FYE June 30 (dollars in thousands)**

	2019	2020	2021	2022	2023
Summary Statement of Income					
REVENUES					
Property Taxes	\$ 565,210	\$ 597,829	\$ 754,776	\$ 781,477	\$ 815,179
Local Option Sales Tax	141,902	113,464	168,158	204,274	240,876
Other Taxes, Licenses and Permits	160,882	159,919	159,909	191,692	194,640
Other Governmental Agencies	124,461	139,187	173,009	148,550	186,098
Other	82,159	57,330	61,845	67,524	92,879
Total Revenues	1,074,614	1,067,730	1,317,697	1,393,517	1,529,672
EXPENDITURES					
General Government and Fiscal Administration	75,429	77,067	79,384	87,824	100,655
Administration of Justice, Law Enforcement, and Prisons	354,160	369,910	382,192	428,187	461,103
Fire Prevention and Control	130,612	136,829	138,444	156,954	172,979
Public Welfare, Public Health, and Hospitals	73,132	73,592	70,703	83,153	93,171
Retiree Benefits	87,856	88,233	89,296	91,008	82,537
Other	229,583	261,727	215,487	270,499	344,279
Total Expenditures	950,772	1,007,358	975,505	1,117,625	1,254,724
Excess (Deficiency) of Revenues Over Expenditures	123,842	60,371	342,192	275,893	274,948
Other Financing Sources (Uses)	(109,058)	(78,038)	(130,481)	(135,144)	(200,146)
Net Change in Fund Balance	14,784	(17,667)	211,711	140,749	74,803
Beginning Fund Balance	76,661	91,445	73,775	285,487	429,072
Ending Fund Balance	91,445	73,778	285,486	426,235	503,875
Summary Balance Sheet					
ASSETS					
Cash and Cash Equivalents	\$ 79,137	\$ 66,594	\$ 275,517	\$ 411,008	\$ 479,200
Property Taxes Receivable, Net	520,664	664,154	717,890	739,853	776,152
Sales Tax Receivable	25,433	20,904	33,344	51,567	54,184
Accounts Receivable	61,762	75,127	51,565	58,464	50,808
Due from Other Funds of the Primary Government	5,457	6,159	7,271	20,920	27,436
Other	600	954	733	8,794	11,118
Total	693,052	833,892	1,086,320	1,290,607	1,398,898
LIABILITIES					
Accounts Payable	22,001	16,688	18,630	32,976	23,756
Accrued Payroll	25,824	27,110	33,293	38,987	33,163
Due to Other Funds of the Primary Government	15,274	22,537	14,869	22,388	33,904
Other	1,426	6,453	10,167	17,404	15,281
Total Liabilities	64,524	72,788	76,959	111,756	106,103
Deferred Inflows (Mostly Property Taxes)	537,083	687,329	723,874	752,615	788,920
FUND BALANCES					
Nonspendable	512	708	861	871	1,625
Assigned for:					
Specific Projects	6,307	11,995	19,650	32,407	32,096
Subsequent Year Budgetary Appropriation	7,300	-	-	14,000	71,121
Unassigned	77,326	61,073	264,975	378,958	339,480
Total Fund Balance	91,445	73,775	285,487	426,235	444,323
Unassigned Fund Balance as a % of Expenditures Calculated including other financing sources	7.1%	5.5%	23.5%	29.2%	22.5%

Source: ACFRs

FY 2023 Financial Operations

At FYE 2023, unassigned general fund balance (\$339 million) was equivalent to 22.5% of general fund expenditures and other financing uses. Liquidity is also solid at 131 days' cash on hand ("DCOH"). KBRA believes these strong balances position Metro well in the event of a recession. Financial operations fared relatively well despite 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, the rising price of consumer goods, and pent-up demand. Sales tax collections declined by only 1.4% during FY 2020, and FY 2022, and FY 2023 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, which has been fully appropriated.

FY 2024 Budget

The Fiscal Year 2024 budget adopted by the Metropolitan Council contemplated general fund expenditures of \$1.674 billion, representing a \$100 million or 5.9% increase from the Fiscal Year 2023 budgeted expenditures. The adopted 2024 budget did include the use of fund balance of \$71 million to General Service District General Purpose Debt Service to be in compliance with the Fund Balance Policy.

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 2024 budget includes approximately \$57.8 million for this purpose.

RD 4 Update: 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 2.1 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 1.82% from 2012 to 2022, to approximately 687,787, versus CAGRs of 0.87% for the State and 0.59% for the nation.

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 (12.7% increase versus 8.6% for the State and 8.0% 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 \$50,643 (2023) is strong at 131.4% of the State and 113.3% of the U.S.

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 2.7% from 2013 through 2023, outpacing the employment CAGR of the State and nation, which grew at 1.4% and 1.1%, respectively.

While employment sectors continue to diversify, Metro Government’s 10 principal employers include higher education, governmental and healthcare related entities. These entities employed approximately 12% of Metro employees in 2023.

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 July 2024, the MSA unemployment rate was 2.9%, compared to 3.6% for the State and 4.5% for the U.S.¹

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



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.

KBRA analyzes many sector- and issuer-specific ESG issues but our analysis is often anchored around three core topics: climate change, with particular focus on greenhouse gas emissions; stakeholder preferences; and cybersecurity. Under environmental, as the effects of climate change evolve and become more severe, issuers are increasingly facing an emerging array of challenges and potential opportunities that can influence financial assets, operations, and capital planning. Under social, the effects of stakeholder preferences on ESG issues can impact the demand for an issuer's product and services, the strength of its global reputation and branding, its relationship with employees, consumers, regulators, and lawmakers, and, importantly, its cost of and access to capital. Under governance, as issuers continue to become more reliant on technology, cybersecurity planning and information management are necessary for most issuers, regardless of size and industry.

KBRA's assessment of ESG management can be found in the KBRA [report](#) dated February 6, 2023.

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