Hello neighbors!

As many of you know, Mayor Cooper released his proposed budget for fiscal year 2023 (FY23) recently. I'll have more thoughts on the proposed budget as we dive into it in detail over the coming weeks, but I wanted to give you a history of where we've been and a snapshot of where we are financially, first. The revelation of metro's financial crisis in 2019 and the subsequent massive tax increase in 2020 came as a shock to many, even though we'd been barreling toward it with poor financial management and even worse decisions for decades. I do my best to share factual information with you as I know it's hard to find even when you're looking. We must keep our eyes open!

Remember, our budget process is as follows: The mayor proposes his/her budget by April 28th. The Council can either amend or substitute this budget, but this must happen before June 30. If the Council fails to amend or substitute with the required number of votes, the mayor's budget goes in to affect automatically. This has happened once in the history of metro. So, we effectively have 2 months to dissect a multi-billion-dollar budget. Realistically, the Council has the ability to change the proposed budget in a very minor way ($10-20 million usually), so the mayor has quite a bit of power here, even if his/her budget is amended or substituted.

Again, below is a detail of where we've been and where we are. The vast majority of this information came from the budget presentation and our current Finance Director, Kelly Flannery.

Taking a look back:

An important piece of creating and maintaining a financial stability is taking a look back on previous financial decisions.

In November 2019, right as I was elected, the State Comptroller very pointedly expressed his concerns with metro's finances. Specifically, we had minimal cash reserves (savings account) and we were relying on non-recurring revenues to balance the budget. Think selling your car to pay the rent. Because of this, the Comptroller did not accept the FY20 budget.

In June of 2020, the Council raised property taxes which is the largest source of revenue the city receives. While I didn't agree with the drastic increase, that increase in revenue certainly allowed for a balanced budget reliant on recurring revenue, as opposed to non-recuring, and made great strides in adequately funding our fund balance (savings account).

In May 2021, the Council passed legislation to address Metro's OPEB liability. OPEB stands for Other Post Employment Benefits. In other words, benefits for our retirees. We offered a group of eligible pensioners a Group Medicare Advantage plan which reduced the OPEB liability by $1 Billion – yes with a "B".

Currently, we do not expect to need to secure external partners to fund our tax anticipation notes, our operating funds balance has increased, and we have before us a balanced budget that does not rely on non-recurring revenue.

Our new Finance Director, Kelly Flannery, is in the process of modernizing the debt management policy as well as the policy surrounding our operating budget unrestricted funds balance policy. Currently, the policy is to maintain 5% of the operating budget in the unrestricted fund balance (savings account). She believes this is too low and I agree with her. Clearly the more you have in savings, the better you are from a financial health perspective. We know this in our own household budgets. It not only provides a safety net for unexpected expenses – think 2nd Ave bombing, tornado, floods, pandemics just to name a few…. But it's also a general, high-level indicator used by rating agencies and financial professionals to determine a government's financial health. Just like you and I have credit scores, so does metro. And it determines many things - not the least of which is the cost to borrow money – interest rates. If you or I have bad credit, we get a higher interest rate assigned to us because we are a higher risk, or we don't get the loan altogether. It's the same with government. If you look at the recommendations of the Government Finance Officers Association (GFOA) for unrestricted fund balance policies, you'll see they recommend no less than 2 months of operating revenues. I think a good short-term goal for use to try to achieve is an 8 % unrestricted fund balance.

As we make financial decisions, it's imperative to be familiar with metro's current financial condition. We should be focused on providing critical and valuable services to residents all while being focused on sustaining the ability to continue to provide those services well into the future. All decisions have a short- and long-term impact and it's important to take both into account. Our finances are multi-faceted but key considerations are the annual financial audit, fund balance levels, bond ratings, structurally balanced budget, and trends - both environmental and financial.

Annual Audit – The FY21 Audit did not have any audit findings, internal control weaknesses or significant deficiencies. This is good for our credit rating/bond rating.

Fund Balance – This is calculated annually and describes the net position of various funds and serves as a measure of the financial resources available to metro in case of emergency or one-time, non-recurring event. Again, think tornado, bombs, floods. It should ONLY be used in extreme one-time situations and to address an immediate need and is never supposed to be a source of recurring revenue in the operating budget. This is historically how metro used these funds, as recurring revenue, and is part of what got us in such trouble. Our operating funds balance as of fiscal year ending 2021 is $379 million which is a 300% increase over FY20. I'd like to see us get that to at least $600 million. Again, the recommendation is not less than 2 months of operating income which would be roughly $435 million. Three months would be roughly $640 million. Again, I'd like to see us get to $600 million in the short term.

Bond Ratings – Our current bond rating is Aa2 which is the third highest long term credit rating available. In May 2020, S&P (bond rating agency) revised metro's outlook to "negative" due to the uncertainty around tourism from the pandemic. It was quickly revised to "stable" in November 2020 and we expect to stay there over the near term. Again, the bond rating is like our personal credit rating. It determines the cost of borrowing money (interest rate) and the attractiveness of our bonds to investors. Both credit agencies (S&P and Moody's) see the recent tax increase as positive as well as the strong and diverse economy of the region itself. Their concerns lie in our reserves and cash balances. Metro's debt level is also elevated. This is partially due to the fact that Metro funds capital requirements for education which is not standard for most peer cities. They also note that eliminating or reducing significantly the annual subsidy to Metro General Hospital could lead to a rating increase.

Environment – Nashville's economy is strong and continues to build momentum. Our unemployment levels are back to pre-pandemic levels after reaching a high of 15.9% in April 2020. Please note, the "unemployment level" can be a bit deceiving. Reports say that unemployment is near a record low, yet all we hear from employers is that they can't find enough workers - which is counterintuitive to a low unemployment rate. I could do a whole article on just unemployment and the different types. But for the purposes of this article, I'll keep it simple by saying that the dichotomy between the unemployment rate and what we're seeing in reality is the difference between those that are actively looking for a job and those that are not. If you aren't actively looking for employment, you aren't counted in the unemployment numbers.

The information, finance and professional business service industries' payrolls have surpassed pre-pandemic levels. Metro's income and housing values reflect long term strength and the median family income as well as per capita income remain above the state average.

Negatively, the inflation rate is at the highest levels we've seen in over 40 years. So, while revenues have grown, expenses have grown as well. Commodities prices are expected to continue to surge. To try to control this, the Fed is expected to raise rates. From metro's perspective, this makes it more expensive to borrow money. This is a serious concern for us. The 20-year rate increased one full basis point over the last month alone. To put that into perspective, if we issued $100 million in bonds today, it would cost us nearly $15 million more over the life of those bonds than those issued in February. There's a 40% probability that we will see a recession next year.

Metro has recovered well from the pandemic. In April 2021 the local option sales tax revenue had fallen by 25%. Hotel occupancy fell by 70%. Revenue projections were conservative because of the uncertainty. Fast forward to 2022 – our sales tax growth has been strong and is expected to outperform projections due to the demand for goods and travel and higher prices. Hotel/Motel taxes are also expected to outperform projections.

Nashville's property tax rate is currently the lowest of the four major Tennessee cities. You'll hear people say it's the third lowest rate in metro's history. I understand this statement creates exasperation for many folks as their wallets tell a different story. While the rate is technically low, the liability (or bill) you pay is high. This is attributed to soaring real estate values to which the rate is applied. So, the tax rate went up in 2020 and your liability went up accordingly. We had a reappraisal in 2021 and values increased significantly. So, the rate went back down but the liability remained high, and in some cases even higher than 2020.

Fiscal Year 2023 Budget Proposal

The mayor's proposed budget is $2.966 billion. It is a balanced budget, meaning projected revenues equal projected expenditures. Of the $2.966 billion, 54% is expected form property tax revenue, the local option sales tax revenue accounts for 20% and the remaining 26% comes from grants, fines, fees and other revenues. The projected revenue growth is an estimated $319.6 million through FY23. About 75% of that is expected in this current fiscal year. (Metro's fiscal year runs from July 1 – June 30 so we are still in FY22) Over 40% of the revenue growth is attributed to local option sales tax revenue. Remember, the largest source of revenue is property tax revenue. The second largest is the local option sales tax revenue so it's impact on our budget is significant. About 35% of the revenue growth is from property tax collections and the remaining 25% is from other activity taxes and fees.

Tax supported expenditures are directed to three places: GSD Operating, USD Operating and Schools. GSD and USD Operating accounts for about 50%, roughly 40% goes to MNPS and the remaining goes to all debt service including the debt service for schools.

Over the last decade, the budget for education operations and debt service has increased over half a billion dollars, or more than 70%. This brings the total proposed fiscal year 2023 budget for education to $1.23 billion.

Debt service is the principal and interest payments we make on our general obligation bond issues and represents about 14% of the total FY23 proposed budget. Debt service as a percentage of the operating budget is 13.85%. While this is under the current council comfort level of 15%, I think it's too high. Imagine if you were paying almost 15% of your household budget to credit card debt.

Our previous Finance Director refinanced $628 million in general obligation (GO) bonds to take advantage of the lower interest rate last year. This resulted in a savings of $60 million over the life of those bonds. As we have much needed investments in our streets and parks, and those are paid for by issuing bonds, we would be wise to issue those bonds now, before the expected interest rate increases expected in June and July. There was already an increase in May.

The proposed budget for USD and GSD Operations is $1.45 billion, which is a 13.7% increase over the 2022 budget.

Personnel expenses are made up of employee pay, benefits and pension allocations and accounts for, on a ten-year average, about 60% of operating expenditures.

This week we begin the discussion on this proposed budget. My job is to make sure that I'm doing everything I can to ensure financial responsibility - Spending money where we need to, not spending it where we don't, keeping our debt levels in check, all while keeping your quality of life at the highest level possible. My priorities at a very high level are public safety which obviously includes our first responders, but it also includes safe streets, traffic calming and walkability to name a few. Reliable city services are another priority along with infrastructure maintenance and upgrades. Every single resident deserves to trust that their tax dollars are being spent wisely and prudently and to expect to be safe no matter if they're in their home, walking on the street, or enjoying a night out on the town. Education is a key component of a healthy and safe community. Wise investment into our children's education is a must.

I hope this was informative and helpful, albeit long! As always, it remains my true pleasure to represent and work for you every day. Please don't' hesitate to call or email with any questions or concerns. I can be reached at 615-953-9395 or Courtney.Johnston@nashville.gov.

All my best,

Courtney

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