THE METROPOLITAN GOVERNMENT OF NASHVILLE & DAVIDSON COUNTY

RECOMMENDED OPERATING BUDGET FOR FISCAL YEAR 2021

STABILITY AMID CRISIS

- This is a difficult time for all Nashvillians. Thousands of residents have lost their jobs during the pandemic and that makes the decision to raise taxes all the more difficult
  - This budget will ensure the continuity of essential services so that Metro and MNPS can still meet the need for response and recovery
- Metro's front-line employees are putting themselves at risk every day to deliver the essential services that keep Nashville running
- Outlook in other cities:
  - Over 2,100 cities around the country are anticipating major budget shortfalls
  - Almost 600 cities are predicting layoffs
  - 1,100 cities are preparing to reduce services, with 1,000 cities contemplating an impact on public safety departments

LEADERSHIP RESPONSE TO CHALLENGE

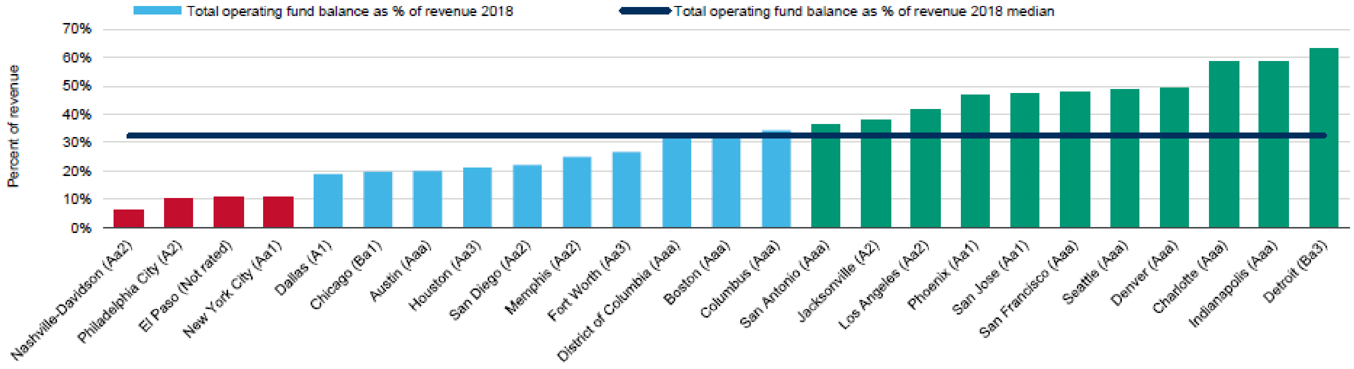
- We already had a $70M non-recurring and reserve depletion problem
- Disaster quarter will leave Metro with fund balances of only $12 million at end of 4th quarter
- We are projected to lose over $470 million in revenue over a 16-month time frame. Net revenue loss of $216M next in FY21
- Management actions produce over $234M in savings, reductions or deferrals
- The budget includes a property tax increase of $1.00 to cover a $332M shortfall – to replenish $100M in cash, $216M in net revenue losses in FY21 and $16M in net operating needs for a “continuation of effort” budget
  - The property tax rate will be $4.155, up from $3.155, still the lowest of peer cities
- This is a crisis budget, not a discretionary budget
  - We have struck a balance between departmental cuts and new taxes. This budget allows us to continue delivering Metro services and be ready for recovery
  - No pay raises, but due to management savings, new revenue, and a tax increase, we are avoiding layoffs or pay cuts
- While this budget does not include the many new investments we had hoped to make in employee pay, affordable housing, transportation, social-emotional learning, and much more, this budget will provide needed financial stability

HOW WE GET THROUGH THE CRISIS BUDGET

Background to Crisis → Q4 → The Revenue Crisis → FY21 Budget Overview → FY21 Budget: Spending Choices → Conclusion

PRE-CRISIS NASHVILLE FUND BALANCE WAS ALREADY LOWEST AMONG PEER CITIES; NO RAINY DAY FUND

Most cities have healthy reserves as of fiscal 2018
Operating fund balance as a percent of revenue



Sources: Moody's Investors Service, audited financial statements

METRO ALREADY HAD A VERY DIFFICULT FINANCIAL SITUATION

1

Fiscal FY20
Unbalanced FY20 Budget

- Operating reserves < 5%
- Other funds (e.g., Injury-on-Duty) depleted
- No "rainy day fund" or ability to absorb emergencies
- State Comptroller did not approve original Budget

ACTIONS TAKEN ($M)

• Department budgeted target savings	$12
• December Corrective Action Plan	42
• Delayed and Reduced Capital Spending	

EF-3 TORNADO IMPACT FURTHER DEPLETED CASH

1

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Unbalanced FY20 Budget

- Operating reserves < 5%
- Other funds (e.g., Injury-on-Duty) depleted
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2

EF-3 Tornado

- March 3rd tornado response and recovery further depleted cash
  - Estimated total cost $40M
- Strong insurance policy and FEMA will support recovery, but will take time to attain most reimbursement

ACTIONS TAKEN ($M)

Department budgeted target savings	$12
December Corrective Action Plan	42
Delayed and Reduced Capital Spending	

Insurance Anticipated ($6M advance; reimbursement)	$20
FEMA/TEMA Anticipated	15
Convention Center Authority MOU increase	5

Background to Crisis

COVID-19 BRINGS WORST FINANCIAL SITUATION IN METRO'S HISTORY

1 Fiscal FY20 Unbalanced FY20 Budget

- Operating reserves < 5%
- Other funds (e.g., Injury-on-Duty) depleted
- No "rainy day fund" or ability to absorb emergencies
- State Comptroller did not approve original Budget

2 EF-3 Tornado

- March 3rd tornado response and recovery further depleted cash
  - Estimated total cost $40M
- Strong insurance policy and FEMA will support recovery, but will take time to attain most reimbursement

3 COVID-19

- Unprecedented global pandemic response underway
- Significant and sharp Metro revenue losses
  - $192M estimated Q4 loss attributable to COVID
- Federal CARES Act will not directly cover revenue losses

ACTIONS TAKEN ($M)

Department budgeted target savings	$12
December Corrective Action Plan	42
Delayed and Reduced Capital Spending	

Insurance Anticipated ($6M advance; reimbursement)	$20
FEMA/TEMA Anticipated	15
Convention Center Authority MOU increase	5

Metro hiring & travel freeze, spending reductions	$13
MNPS hiring freeze, savings from school closure	35+
Capital Spending Ramp-Down / Pause	

HOW WE GET THROUGH THE CRISIS BUDGET

Background to Crisis → **Q4** → The Revenue Crisis → FY21 Budget Overview → FY21 Budget: Spending Choices → Conclusion

Q4

HOW ARE WE GETTING THROUGH Q4?
$216M Q4 REVENUE SHORTFALL

1

REVENUES	
All Funds	**$M**
FY20 Budgeted Revenue	$2,331
Q4 Impact of Tornado & COVID-19	- 192
Other revenue adjustment *	- 24
FY20 Re-forecasted Revenue	**2,116**

= $216M Q4 revenue loss

** Other Revenue Adjustment includes: removing $41.5M of DES and Parking one-time revenues, adding in $22.6M PILOT revenues, and $4.5M of other net revenue adjustments*
Projections as of 4/28/2020; Revenue numbers do not total due to rounding

Q4

HOW ARE WE GETTING THROUGH Q4?
MANAGEMENT RESPONSE HAS SAVED $124M

1

REVENUES

All Funds	$M
FY20 Budgeted Revenue	$2,331
Q4 Impact of Tornado & COVID-19	- 192
Other revenue adjustment *	- 24
FY20 Re-forecasted Revenue	**2,116**

To respond to the revenue decrease of $216 million, we reduced expenses…

2

OPERATING EXPENSES

All Funds	$M
FY20 Budgeted Operating Expenses	$2,331
Reductions/Savings	- 124
FY20 Re-forecasted Operating Expenses	**2,207**

** Other Revenue Adjustment includes: removing $41.5M of DES and Parking one-time revenues, adding in $22.6M PILOT revenues, and $4.5M of other net revenue adjustments*
Projections as of 4/28/2020; Revenue numbers do not total due to rounding

Q4

HOW ARE WE GETTING THROUGH Q4?
THE HIT TO CASH IS $92M. BY END OF Q4, METRO WILL HAVE $12M FUND BALANCE

1

REVENUES

All Funds	$M
FY20 Budgeted Revenue	$2,331
Q4 Impact of Tornado & COVID-19	- 192
Other revenue adjustment *	- 24
FY20 Re-forecasted Revenue	**2,116**

To respond to the revenue decrease of $216 million, we reduced expenses…

2

OPERATING EXPENSES

All Funds	$M
FY20 Budgeted Operating Expenses	$2,331
Reductions/Savings	- 124
FY20 Re-forecasted Operating Expenses	**2,207**

Spending reductions filled more than half of the gap, but fund balance was needed to make up the $92M difference…

3

FUND BALANCES

All Funds	$M	Metro Fund Balance %	MNPS Fund Balance %
FY20 Budgeted Closing Fund Balance as of 6/30/20	$104	*5%*	*3.5%*
Fund Balance Spent	- 92		
FY20 Re-Forecasted Closing Fund Balance as of 6/30/20	**12**	*0.1%*	*0.9%*

** Other Revenue Adjustment includes: removing $41.5M of DES and Parking one-time revenues, adding in $22.6M PILOT revenues, and $4.5M of other net revenue adjustments*
Projections as of 4/28/2020; Revenue numbers do not total due to rounding

HOW WE GET THROUGH THE CRISIS BUDGET

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WITH ONLY $12M IN RESERVES, METRO REVENUES ARE OFF $472M (BETWEEN Q4 AND FY21)

$M @ current Property Tax Rate of $3.15 per 100	FY20 Budget	FY21 Baseline	FY20 Re-Forecasted	FY21 Tornado & COVID-19 Impacted
	Path Pre-COVID-19		*Path Post-COVID-19*	
Property Taxes	$1,065	$1,088	$1,079	$1,084
Local Option Sales Tax	479	514	384	352
Grants & Contributions	427	405	416	383
All Other Revenues	311	327	230	233
One-Time Asset Sales & Fund Balance	49		7	0
Total	**2,332**	**2,333**	**2,116**	**2,052**

Normal year: FY21 Baseline assumes growth in tax base, removes one-time asset sales and fund balance from FY20

				TOTAL	Tornado & COVID-19 Revenue Impacts Relative to FY20 Budget ($M)
$192	+	**280**	=	**472**	

Projections as of 4/28/2020
FY20 Re-forecasted includes $24M of revenue adjustments unrelated to Tornado or COVID listed on slide 9

THE $540M CHALLENGE: FY20 REVENUE REPLACEMENTS + TORNADO & COVID IMPACT TO FY20 Q4 + FY21 REVENUE IMPACT

FY20 Revenue Replacements	$M
Replacement of Parking & DES revenue	42
Replacement of "final year" of CCA MOU	10
Fund balance use	7
Arena Revenue Fund – Excess Fund Balance Transfer	6
Hall Income Tax phase out	3
State Sales tax – Bridgestone Arena	2
E-Bid Excess Fund Balance Transfer	1
TOTAL	**$70**

Not included: other funds not replenished in FY20 such as injury-on-duty, legal reserves

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Tornado & COVID-19 Revenue Impacts Relative to FY20 Budget ($M)		
FY20 Re-forecasted	FY21 Forecast	**TOTAL**
$192	280	**472**

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$540M+ Revenue Crisis

Numbers do not total due to rounding

FEDERAL FUNDING WILL NOT MAKE UP FOR OUR REVENUE LOSS

- Metro is directly allocated $122M in CARES Act State & Local Funding
  - Additional agencies such as MTA, MDHA and Education are also receiving funds through FTA, HUD and Department of Education, respectively
  - Additional funds are also available via the State of TN and Federal agencies (e.g., national grant competitions)

- The CARES Act provides that payments from the State & Local Fund may only be used to cover costs that—
  1. are necessary expenditures incurred due to the public health emergency with respect to the Coronavirus Disease 2019 (COVID–19);
  2. were not accounted for in the budget most recently approved as of March 27, 2020; and
  3. were incurred during the period that begins on March 1, 2020, and ends on December 30, 2020

- The majority of CARES Act funding provides for new, one time, out of pocket expenses related to COVID-19 response
  - It does not provide for revenue replacement or compensation and benefits of employees working on COVID-19 response that were already accounted for in FY 20 budget

HOW WE GET THROUGH THE CRISIS BUDGET

Background to Crisis → Q4 → The Revenue Crisis → **FY21 Budget Overview** → FY21 Budget: Spending Choices → Conclusion

FY21 IS A CRISIS BUDGET

GUIDING PRINCIPLES

- Emergency response is our highest priority
- Replenishing critical cash – if we don't, we risk our ability to serve the public
- We will use every resource we can – particularly maximizing Federal and State assistance
- We will maintain continuity of effort for our services to ensure Nashville emerges from this crisis stronger – managing budget cuts in balance with a sharp tax increase

FEDERAL FUNDS MAY BE USED TO IMPROVE OUR RESPONSE, NOT TO CLOSE BUDGET GAP

	SOURCES	CURRENT IDENTIFIED USES	NEXT STEPS
COVID Direct Response	• Federal CARES State & Local • BJA, CDC	• Testing, contact tracing • Supplies, equipment • Repurposed staff • Sick leave • Homeless shelters	• Ensure public health / safety needs met • Implement hazard pay policy with Civil Service Commission • Review further guidance on additional uses
MTA / RTA	• FTA	• Ensure continuity of service • Supplement Metro subsidy	• Underway working with MTA / RTA
Food & Shelter Non-profits	• Federal CARES State & Local • HUD	• Shift Food, Shelter and Safety services to Federal funding sources; expand where need dictates • Services to homeless population	• Communications underway with non-profits • Application period to be announced
MAC – NCAC Workforce Development	• Federal CARES • CSBG	• Leverage expanding Federal programs for opportunities incl youth • Streamline operations = merge NCAC into MAC; staff impacts anticipated	• Redesign programs • Over time, move redesigned programs to sustained federal workforce funding • Administer MAC’s incorporation of NCAC
MNPS Education	• Education Stabilization Funds	• Distance learning tools and resources • Ensuring student health & safety • Investing in technology • Training & long-term planning	• Working with MNPS

FY21 REVENUES: REDUCING THE $280M REVENUE LOSS TO $216M WITH $64M IN NEW REVENUES

Relative to FY20 Budget

FY21 REVENUES	
All Funds	**$M**
Losses Due to Tornado & COVID-19	280
Less New Revenues	-64
Total Revenue Losses	**216**

New Revenues $M	
Conv Center Authority MOU	$35
Conv Center Authority PILOT	13
Water PILOT	10
Sheriff Federal inmates (gross revenues)	2
Fire Fee Increases	1
Parks Fee Increases	1
Codes Fee Increases	1
TOTAL	**64**

Numbers do not total due to rounding

Projections as of 4/28/2020

IN FY21 BUDGET, CASH & FUND BALANCE REPLENISHMENT WILL COST $100M

FY21 CASH REPLENISHMENT	
All Funds	**$M**
Bring General Fund up to 5%	56
Bring MNPS to 3.5% *	26
All Other Fund Balances	11
Fund Balance Restored to FY20 levels	**92**
Bring MNPS to 4% (move closer to existing 5% policy) *	3
Total Fund Balance Replenishment	**95**
Establish Modest Rainy Day Fund	5
TOTAL	**100**

* MNPS replenishment funded by General Fund

OPERATING BUDGET NEED FOR "CONTINUITY OF EFFORT" FY21 IS $16M

Relative to FY20 Budget

FY21 OPERATING NEED	
All Funds	**$M**
Public Safety & Health	17
Pay (Required Classification Adjustment Only), Benefits/Healthcare & Injury on Duty	19
All Other Metro Departments	21
MNPS	<1
Total Continuity of Service Needs	**57**
Debt Service	6
Less Savings / Reductions	- 48
Net Operating Need	**16**

Operating Needs don't total due to rounding

$216M NET REVENUE LOST + $100M CASH REPLENISHMENT + $16M OPERATING NEED = $332M BUDGET GAP

Relative to FY20 Budget

FY21 REVENUES

All Funds	$M
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Total Revenue Losses	**216**

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FY21 CASH REPLENISHMENT

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FY21 OPERATING NEED

All Funds	$M
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Debt Service	6
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Total Operating Need	**16**

=

GAP	$M
Total Revenue Losses	216
Total Cash Replenishment	100
Net Operating Need	16
TOTAL GAP	**$332M**

A $1.00 increase to the property tax rate will generate $332 million in new revenue

Operating Needs don't total due to rounding

WHAT IS THE BUDGET PRESSURE FROM DIFFERENT COVID SCENARIOS? IT CAN BE WORSE

Current Revenue Assumptions:

Sales tax and other impacted activity taxes (e.g., alcohol/beverage) at 10-40% of YTD FY20 average monthly revenue through end of June. Then they begin to grow by 10% through first half of FY21, at which point they plateau at 80% of the pre-COVID FY20 monthly average

Slower than expected recovery period

- Recovery phases take longer than four weeks
- More sustained reduction in special events, slower tourism recovery

=

-$20-40M
Additional Impact to FY21 Revenue Forecast

Late fall "Secondary Spike" (onset of flu season)

- Requires Safer@Home for November & December
- Begin recovery process again in January

=

-$110M
Additional Impact to FY21 Revenue Forecast

Note: Scenarios are not independent; if combined; impacts should not be added together

HOW WE GET THROUGH THE CRISIS BUDGET

Background to Crisis → Q4 → The Revenue Crisis → FY21 Budget Overview → **FY21 Budget: Spending Choices** → Conclusion

FY21 OPERATING EXPENSES: CONTINUITY OF SERVICE NEEDS = $57M

	Policies	Highlights of Investments over FY20	$M
Public Safety / Health	• Ensure COVID-19 Response – Maximize Federal Funding (outside of budget) – Maintain a Public Safety & Health contingency	• Fully funding graduating Police recruits • Logistics staffing and safety for Fire • New jail costs & US Marshals program • Contracts / statutory increases • Contingency	$17
Pay (Required Only), Benefits & Injury-on-Duty	• Minimize pay increases during crisis • Implement hazard pay via Federal Funding (outside of budget)	• Implement only required classification adjustments • Fulfill Benefits & Injury-on-Duty obligations	19
All Other Metro Departments	• Continuity of Service – Fulfill all Charter or essential services – Reduce all other spending • Maximize Federal Funding if possible	• Fund obligated increases, e.g, contractual, water rates • Add back DES at significantly lower subsidy ($0.6M) • Minimal investments: e.g., Elections, Reappraisal, Census redistricting, burials	22
MNPS	• Maintenance of Effort budget • Maximize Federal Funding $26M via Dept of Ed (outside of budget)	• Fund MNPS to legal requirement *Note: MNPS Fund balance replenishment $29M is also from General Fund*	<1
Total			**57**

FY21 OPERATING EXPENSES: DEBT SERVICE INCREASE LIMITED TO COSTS INCURRED IN MANAGING FY20 CASH SHORTAGE = $6M

Policies	
Debt Service	• Meet all obligations • Managed to delay a $39M increase in debt service cost by delaying a bond issuance due to slowed capital spending

Debt Service

$M	FY20	FY21
GSD	208	207
USD	19	20
Schools	111	116
Total	**337**	**343**

- $1.7M USD payment and $5.3M MNPS payment are carry overs from FY20 cash shortage that will be funded by FEMA Tax Anticipation Notes. The FY21 budget repays this borrowing

Total Increase Over FY20 due to Debt Service = $6M

FY21 SAVINGS: SUPPLEMENTAL FEDERAL ASSISTANCE TO COVID RESPONSE = $27M SAVINGS

Savings		$M
MTA / RTA Annual Subsidy	• Reduce subsidy by shifting reimbursable cost to CARES Act Federal Funding for FTA for Continuity of Service	22.3
Food / Shelter / Safety Non-profits + Community Funds - Federal Funding	• Work with non-profits currently funded by Metro to provide food, shelter and safety to redesign programs (may are already) to serve COVID response. These funds will qualify for Federal CARES Act funding.	2.8
Opportunity Now / Career Readiness / NCAC @ 50% - Federal Funding & Streamline	• Change to direct services programs to support expansion of federal funding (e.g., CARES CSBG funding) and prioritize zip code 37208 and other targeted communities over the 200% poverty threshhold • Streamline operations: there will be staff impacts	2.0
TOTAL		**$27**

Numbers do not total due to rounding

FY21 REDUCTIONS: HARD CHOICES HAD TO BE MADE ON DISCRETIONARY SPENDING = $21M SAVINGS

Reductions	$M
TIF Refinancing: MDHA refinancing of Tax Increment Financing obligations in FY20	9.3
Discretionary Spending Reductions:	
Longevity Pay: Pause longevity pay program for fiscal year	3.9
Department cuts above baseline implementation of Target Savings (travel freeze, eliminate consulting studies, no body-worn cameras expansion phases)	2.8
Economic Development Grants @ 50%: 6 companies historical incentives reduced	1.2
Arts Grants @ 50%: reduction in number/amount of grants	1.2
All Remaining Non-Profit / Chambers Grants @ 50%: 4 Chambers + 15 non-profits impacted	0.9
Nashville GRAD @ 50%: redesign program with Nashville State Community College	0.5
Eliminate Community Education Commission: Department elimination	0.5
Housing Incentive Program $100K reduction: surplus funding not currently going to rent	0.1
TOTAL	**$21**

On top of these cuts: we are fully implementing $12.1M department historical target savings as direct cuts to department budgets

Numbers do not total due to rounding

FY21 COST AVOIDANCE: COSTS NOT INCLUDED IN BUDGET SUCH AS FURTHER EMPLOYEE PAY, FURTHER DEBT SERVICE AND NEGOTIATED SAVINGS

Costs Avoided Include:	
Pay Plan	• $25M pre-crisis plan to fund 2% COLA and merit (via open range and steps) for employees not funded; only $2.2M required classification adjustments have been funded – Cost for merit for Metro would be $4.2M steps plus $4.6M @ 2% increase - $6.9M @ 3% increase for open range. To include MNPS would be another $8.4M for steps. Total cost could be as much as $17-19M • This Administration has also invested in studying teacher pay and hopes to return to bringing MNPS to best in class pay after the crisis
Further Debt Service Increase	• $39M Bond deferral via slowed capital spending
Negotiations of Contractual Increases (e.g., software license cost increases, rent)	• ~$1.1M savings on DES annual subsidy reduced from historical (FY16-19) $1.7M to $0.6M • ~$1.4M in contract renegotiation savings (ITS reductions and deferrals, Public Property rent)

HOW WE GET THROUGH THE CRISIS BUDGET

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MANAGEMENT ACTIONS (MINIMUM $234M TARGET) TO REDUCE THE NEED FOR FY21 PROPERTY TAX INCREASE

(INCLUDES ONE-TIME DUE TO Q4 CLOSURES, COST AVOIDANCE WITH CONTRACTUAL)

Management Actions To-Date		$M
FY20	December Corrective Action Plan	42
	Convention Center FY20 MOU Increase	5
	Metro hiring freeze, travel freeze, spending reductions	13
	MNPS hiring freeze, savings harvested from school closure	35+
FY21	FY20-21 Capital spending reduced / delayed, them ramp-down / pause slows cash burn in FY20 and allows for deferral of FY21 debt payment	39+
	New Revenue Sources (increase in Conv Center Authority MOU, PILOTs, fees)	64
	Operating Savings & Reductions	48
	Implementing Historical Budgeted Target Savings as a Baseline Department Cut	12
	Cost Avoidance with Contractual Increases	3

GENERALIZED LOOK AT SOURCES AND USES OF CRISIS BUDGET FY20 + FY21

Sources & Uses		$M
Uses	**FY20 Adjustments**	
	• Revenue replacements (e.g., One time sales, Fund balance)	$70
	• Missing Q4 revenue	192
	FY21 Effect	
	• Missing FY21 Revenue	280
	• Net cost of “Continuity of Service” budget	16
	• Additional Cash Reserves (including Rainy Day Fund)	8
	Total	**566**
Sources	Management Actions	234
	Tax Increase	332
	Total	**566**

FY21 UNBALANCED: $332M GAP ACCUMULATED BETWEEN REVENUE LOST AND CASH & OPERATING NEEDS

Relative to FY20 Budget

FY21 REVENUES

All Funds	$M
Losses Due to Tornado & COVID-19	280
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FY21 CASH REPLENISHMENT

All Funds	$M
Fund Balance Replenishment	95
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+

FY21 OPERATING NEED

All Funds	$M
Continuity of Service Needs	57
Debt Service	6
Less Reductions / Savings	- 48
Total Operating Need	**16**

=

GAP	$M
Total Revenue Losses	216
Total Cash Replenishment	100
Net Operating Need	16
TOTAL GAP	**$332M**

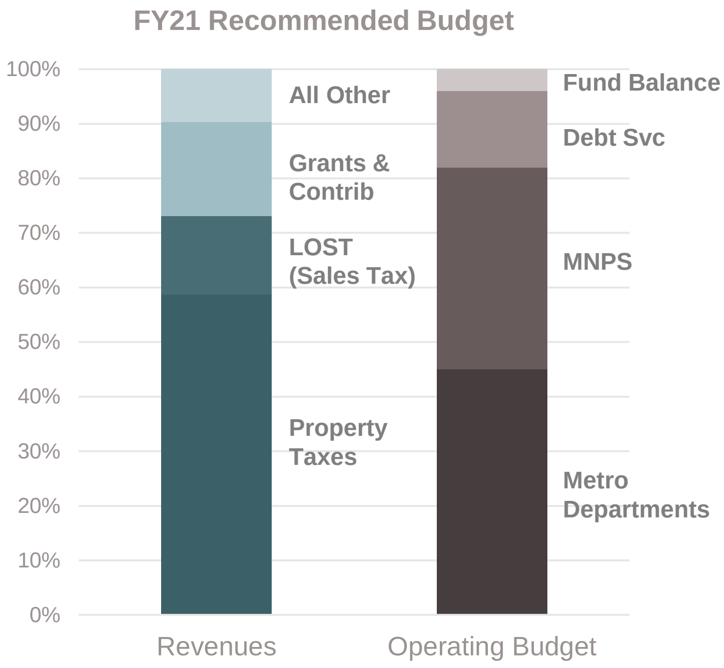
A $1.00 increase to the property tax rate will generate $332 million in new revenue

Operating Needs don't total due to rounding

$1.00 TAX INCREASE = RATE OF $4.15

- Significant shock of acute revenue reductions from tornado and COVID **- $472M revenue losses in 16 months -** with no recovery options and a extremely low fund balance, on top of **$70M of FY20 revenue challenges** creating a **$540M+ revenue crisis**
- **Management actions of over $234M** to reduce crisis
- FY21 funding needs are almost entirely cash to ensure we can maintain services and restore our fund balances to the mandated thresholds
- Balancing our revenue and operating needs requires a **$1.00 property tax increase**
  - At $4.15, Nashville/Davidson County will still be the lowest of the big 4 TN cities (Chattanooga/Hamilton, Knoxville/Knox, Memphis/Shelby)
  - Translates into an increase of $750 for a home of $300,000 ($3,116 bill instead of $2,366)
  - Over the past 25 years, Metro's combined GSD/USD property tax rate has averaged $4.30
  - In the 5 years prior to the historically low rate that began in FY2018, the combined rate averaged $4.545

FY21 RECOMMENDED BUDGET: $2,447,489,500



- FY21 Budget isn't the budget we wanted, but it's the budget we need
- Ensures our ability to respond to tornado recovery and pandemic crisis, given uncertainties on further impact, recoveries and timing
- The tornado recovery and pandemic crisis have demonstrated the importance of appropriate fund balance levels
  - First budget since FY13 that does not propose a depletion of fund balances

THANK YOU