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METROPOLITAN GOVERNMENT OF NASHVILLE AND DAVIDSON COUNTY



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September 20, 2019

Ms. Sandra Thompson  
Director of the Office of State and Local Finance  
Comptroller of the Treasury  
425 Fifth Avenue North, 4th Floor  
Cordell Hull Building  
Nashville, TN 37243

Dear Ms. Thompson:

In response to your letter dated August 6, 2019 providing approval of \$300,000,000 in tax anticipation notes (TANs) for the Metropolitan Government of Nashville and Davidson County (Metro), **updated cash flow forecasts for all borrowing and lending funds** were provided in conjunction with the Mayor's letter dated August 23, 2019, requesting approval of the remaining TANs. These cash flow forecasts represent expected cash flows based on information available at the time of preparation and are based on actual cash balances at June 30, 2019 and at July 31, 2019.

Regarding your request **for a summary that explains the impact of the sale of assets, including property and parking rights, on the fiscal year 2020 budget in addition to the actual status of these sales**, the fiscal year 2020 operating budget for the GSD General Purposes Debt Service Fund includes \$41,500,000 in nonrecurring revenue from the anticipated sale of the Metropolitan District Energy System (DES) and from an anticipated up-front payment related to a proposed concession agreement for the operation and management of Metro's on-street metered parking program. The revenue estimates were based upon the results of responses to solicitations through the Purchasing Division of the Department of Finance.

It should also be noted that in the normal course of budget planning and monitoring, the city is required to adapt quickly to changing fiscal conditions, as it has successfully done in recent years. If the revenue does not materialize, Metro will be required to reduce operating expenditures, appropriate funds from the undesignated fund balances, consider increases to various revenue sources which may be implemented immediately, or consider a combination of the three options to make up any shortfall. Given the September 12 election results for the Mayor, the incoming Administration will need to decide which of these options to pursue should one or both of these projects not move forward as recommended in the fiscal year 2020 budget.

## **District Energy System (DES)**

DES provides heating and cooling for various Metro, state and private buildings through the generation and distribution of steam and chilled water, and the current generating facility was placed in service in 2003. Metro engaged a consultant in 2017 to evaluate DES and make recommendations to Metro regarding the future of the system. The consultant noted that significant future capital investment would be required in order to optimize the performance of the system and control costs. Based on the consultant's recommendations, Metro sought proposals from private companies to both manage and operate DES or to purchase DES. Metro received two qualified proposals to operate and manage DES and one to purchase it.

On March 22, 2019, the Metro Purchasing Agent issued an intent to award a contract to Engie Development, LLC, to purchase DES for \$60,000,000. The proposal is for Engie to acquire 100% of the assets comprising DES without the need for another financial investor and without any external debt financing contingency.

Metro and Engie are in the process of negotiating the contract terms for the purchase. Engie has obtained all required customer consents to the sale, including the consent of the State of Tennessee. Engie plans to seek a declaratory order from the Tennessee Public Utilities Commission that it will not be regulated as a utility if the sale is completed. A protest of the intent to award was filed by Constellation New Energy, Inc., and that protest will be scheduled for an appeal hearing before the Metro Procurement Appeals Board in the coming weeks. If the Appeals Board upholds the Purchasing Agent's decision, a contract for the sale of DES will be submitted to the Metropolitan Council for approval.

The \$60,000,000 purchase price of the DES assets would net Metro \$11,500,000 after defeasing all outstanding debt on DES and accounting for the cash in the operating reserve fund and debt service fund.

## **Parking**

Metro currently operates and maintains an on-street metered parking system primarily in the downtown area of Nashville. Metro determined that its on-street metered parking program needed modernization, was not as efficient and convenient as it could be, and did not obtain for Metro all the value that it was possible to obtain from this program. As a result of this determination, Metro issued a solicitation for Parking Management and Modernization Services with the objective of soliciting respondent qualifications and detailed feedback from parking management experts regarding ways that Metro could improve its metered parking system. Based on Metro's review of the submissions, Metro decided to proceed with a second solicitation.

On April 24, 2019, Metro issued an intent to award to Preston Hollow Capital, LLC (Parking Company), using LAZ Parking Georgia LLC as the operator, and has almost completed the final contract negotiations. The contract would grant the Parking Company the right, on Metro's behalf, to operate, maintain and improve the metered parking system for 30 years. Metro will maintain ownership of the metered parking system and has the sole discretion to dictate the means, manner and time in which the metered parking system will be operated (including whether to implement changes to rates, meters, hours of operation, system regulations, fees, street usage, curb design and maintenance, meter closures and other key public policy matters). The day-to-day operational decisions for the metered parking system will be made by the Parking Company.

The contract would result in two up-front payments to Metro in fiscal year 2020 totaling \$34,000,000, which would be an advance against guaranteed improvements in net revenues that the Parking Company would generate. Metro currently generates approximately \$1,500,000 in net income each year from the operation of the metered parking system, and the contract guarantees that Metro will continue to receive at least this amount annually, plus an increase tied to the CPI over the life of the contract. In addition to the \$30,000,000 budgeted in the GSD General Purposes Debt Service Fund, \$1,500,000 has been budgeted in the GSD General Fund to replace metered parking revenues and \$2,500,000 has been budgeted in the Surplus Parking Fund for other parking related needs.

NTN+ LLC protested the intent to award to Parking Company, and subsequently filed an appeal of the Metro Purchasing Agent's determination to the Procurement Appeals Board. The Procurement Appeals Board upheld the Metro Purchasing Agent's decision. NTN+ has appealed the decision of the Procurement Appeals Board to chancery court. A hearing in that lawsuit was held on September 4, 2019. The Chancellor took the matter under advisement, and no ruling has been issued as of the date of this letter. Approval of the Metropolitan Traffic and Parking Commission and the Metropolitan Council would be required in order for the contract to become effective.

Thank you for your assistance in the TANs approval process. Please let me know if you have questions or need additional information. We will be in touch regarding any proposed actions to be taken by the new administration as soon as we are able to do so.

Sincerely,



Talia Lomax-O'dneal  
Director of Finance

Copy: Mayor David Briley  
Mayor-Elect John Cooper  
Vice Mayor Jim Shulman  
Members of the Metropolitan Council