

THE BOND BUYER

Nashville's \$5.4 billion transit plan driven by congestion and population growth

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With the Nashville region's population expected to reach 3 million by 2040 and tourists flocking to the Music City, local officials say a \$5.4 billion transit initiative is needed to help them all get around.

The key will be getting voters to approve the largely bond-financed plan backed by increases to local sales tax, hotel/motel, business and rental car taxes that would remain in place through 2068.

Early voting in Tennessee's capital city began April 11 and ends April 26. Voters will help seal the plan's fate at the polls on May 1.

"Nashville is growing at near-record levels," said Richard Riebeling, the city's chief operating officer. "The feeling was that we needed comprehensive transit to address the city's needs long term. This is a 15-year process."

The referendum comes as the city is dealing with a deficit of between \$20 million and \$25 million due to an increase in property tax appeals.

Riebeling said he did not know if the deficit issue could affect the vote on the transit plan, but the city has a \$2 billion budget so the shortfall is "not the end of the world." He anticipates the city will "tighten the belt" and cure the problem with less spending.

At the same time, the city is preparing for population growth and dealing with traffic congestion. The Nashville region has 2 million residents, with another million anticipated in the next 22 years.

Congestion in the region, measured as a cost per commuter, was 18th in the nation, according to the Texas A&M Transportation Institute's [2015 Mobility Scorecard](#). Commuters lost 45 hours annually due to delays.

To deal with the mobility challenges, former Mayor Megan Barry spearheaded the [Nashville Transit Improvement Program](#), a plan that calls for a nearly 30-mile light-rail system and expansion of bus service along the city's major corridors. The plan includes a 1.8-mile downtown tunnel and improvements for pedestrians.

Passage of the program is now the top priority of Mayor David Briley, who was sworn in March 6, the day Barry resigned from the office after pleading guilty to felony theft of \$11,000 related to her affair with her former police bodyguard.

"This is about establishing a better future for ourselves, for our families and for Nashville," Briley said April 3 when he signed a "Declaration of Transportation Independence" supporting the transit referendum. "The first step is to invest in a transit network that serves everyone, that can move more people faster, and that provides affordable options for those who need it most."

Before ascending to the mayor's office, Briley also supported the transit plan as vice mayor and leader of the City Council.

Joseph Krist, a partner at Court Street Group, said his firm has seen cities and states move forward with comprehensive transit programs instead of waiting for a federal infrastructure plan to be approved by Congress.

"They seem to be moving ahead with fairly large, ambitious plans almost under the assumption that there's not going to be a plan from the federal government or they're going to have to step up with a significant amount of funds so why wait," according to Krist, who said he is familiar with Nashville's plan.

With diminished federal investment and local under-investment in infrastructure, people "are looking for action," he said.

Nashville worked with the engineering and consulting firm HDR and Goldman Sachs to prepare the financial analysis for the Transit Improvement Program. It estimates the present-day capital cost of the plan to be \$5.4 billion.

The state required a 10-year financing and work plan to be disclosed, but Riebeling said the city chose to provide a 15-year outlook.

Over that period, it is estimated that \$8.95 billion in revenue will be needed for operations, construction, partial bond repayment and financing costs.

Some \$6.86 billion or 77% of the funding would be derived from \$3.4 billion in local option taxes and surcharges, \$3.03 billion in bond financing, \$262 million contributed by the airport and convention center, and \$192 million in farebox revenue.

The 30-year bonds probably will be backed by an increase in the local sales tax, which will be available until the debt matures, Riebeling said. It is anticipated that Nashville will issue the revenue bonds, but the city may also consider using a public-private partnership, he added. The city is not expected to provide a backstop for the debt.

Federal programs are expected to fund \$2.08 billion or 23% of the transit plan. They include \$500 million from the Transportation Infrastructure Finance and Innovation Act, \$1.4 billion from New Starts and Small Starts grants for fixed guideway systems, and \$153 million from the federal capital replacement grant program for bus and rail car vehicles.

The “estimate on federal funding was based on what has happened with the development of transit systems in other communities,” Riebeling said.

Let’s Move Nashville, the city’s [website detailing the transit plan](#), also says estimates for federal funding are based on conservative projections and states that “President Trump’s infrastructure plan prioritizes new local revenue sources that provide 80% local dedicated funding to a 20% federal match.”

One of the biggest drivers of planning risk when undertaking a large transit program is the uncertainty over how much the federal government will invest and the kinds of programs that will be eligible for funding, according to Krist.

“If people want to take advantage of the economy, favorable borrowing rates, and what looks to be in general an increased demand in transportation, other than cars, this seems as good a time to move forward as any,” he said.

Nashville isn’t alone in attempting to advance a major transit program.

In March, the county executive of Wayne County, Mich., unveiled a proposed \$5.4 billion, 20-year transit package, which would be funded with a four-county property tax levy despite a lack of support from several counties.

Warren Evans pitched the draft “Connect Southeast Michigan” at a meeting of the Regional Transit Authority of Southeast Michigan. He wants to get the plan on the November ballot.

Evans said transit has been debated for decades and “voters deserve an opportunity to see this proposed solution.”

In California, tolls on seven bridges across the Bay Area would increase by \$3 per trip between 2019 and 2025 if the voters in nine counties approve the Regional Measure 3 to fund transportation projects on the June 5 ballot.

If a majority of voters in Alameda, Contra Costa, Marin, Napa, San Francisco, San Mateo, Santa Clara, Solano and Sonoma counties approve the measure, toll revenues would finance a \$4.45 billion slate of highway and transit improvements in the toll bridge corridors and their approach routes, according to the area's Metropolitan Transportation Commission.

In Nashville, voters would see a series of surcharges on the ballot to support the transportation initiative.

The surcharges consist of a sales tax increase of 0.5% in the first five years that would increase to 1% in 2023; a hotel/motel tax increase of 0.25% for the first five years that would increase to 0.375% in 2023; a 20% surcharge on the business tax on gross income; and a 20% surcharge on the existing rental car tax.

Opponents, such as the NoTax4Tracks political action committee, argue that “those who can least afford it” will pay among the highest sales tax in the nation and that the added businesses tax will burden small companies.

The PAC’s website says the first sales tax increase under the transit plan will raise the city’s rate to 9.75% from 9.25%. “By 2023 the tax will have increased to 10.25% – making Nashville’s sales tax one of the highest in the U.S. - higher even than New York City,” the PAC said.

According to a pro-transit study by the Nashville Area Chamber of Commerce, visitors to Davidson County accounted for 47% percent of the \$16.5 billion in annual retail sales in 2016. The chamber estimates that 47% of the sales tax collected for the transit program will come from visitors, tourists, or out-of-county residents.

Americans for Prosperity, an advocacy funded by the conservative Koch network, calls Nashville’s proposal a “boondoggle” and says it won’t alleviate traffic. On its website, AFP also contends that residents were misled about the cost, saying that the original amount was about half of the estimated \$9 billion.

The referendum ballot includes estimated costs, which are detailed in the 55-page Transit Improvement Program document. Costs are also available on the city-sponsored Let’s Move Nashville website as well as the website of Transit For Nashville, a coalition of 135 organizations and businesses that support the plan.

Riebeling, the city’s COO and former finance director, said there has been debate and opposition to the plan, with some “passions running high.”

The city, he said, has pointed out that property taxes will not finance the plan. A majority of the local costs would be paid with the sales tax, and smaller business, hotel and car rental tax collections, he added.

Those dedicated revenue streams are necessary so that transit funding doesn't compete with other city services, he said, adding that the proposed taxes supporting the plan are a "greater way to spread the burden."

"We will have a high sales tax, that is a fact, but to do a project of this magnitude we've got to have a dedicated stream of revenue," he said. "The investment community is going to care more about that than anything else."

Riebeling also said that Nashville has experience operating an existing commuter rail system, a 32-mile regional service called the "Music City Star" connecting Davidson County with neighboring Wilson County. Trains provide weekday service into downtown Nashville.

"It's heavily used, and full most mornings," he said. "It's popular."