

RatingsDirect®

Summary:

Metropolitan Government of Nashville and Davidson County, Tennessee; Appropriations; General Obligation; Miscellaneous Tax

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Credit Profile

US\$244.92 mil stad proj rev bnds (non-tax revs pledge) ser 2023D due 07/01/2056		
<i>Long Term Rating</i>	AA+/Stable	New
US\$35.075 mil stad proj rev bnds (non-tax revs pledge) ser 2023C due 07/01/2043		
<i>Long Term Rating</i>	AA+/Stable	New
Nashville & Davidson Cnty Metro Govt approp		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Nashville & Davidson Cnty Metro Govt GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Nashville & Davidson Cnty Metro Govt GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Nashville & Davidson Cnty Metro Govt GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Nashville & Davidson Cnty Metro Govt GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Nashville & Davidson Cnty Metro Govt GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Nashville & Davidson Cnty Metro Govt GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Nashville & Davidson Cnty Metro Gov't Sports Auth federally taxable pub fac rev rfdg bnds (Arena Proj)		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Nashville & Davidson Cnty Metro Gov't Sports Auth federally taxable pub fac rev rfdg bnds (Ballpark Proj)		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Nashville & Davidson Cnty Metro Gov't Sports Auth federally taxable pub fac rev rfdg bnds (East Bank Stadium Proj)		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Nashville & Davidson County Metropolitan Government Convention Center Authority, Tennessee		
Nashville & Davidson County Metropolitan Government, Tennessee		
Nashville & Davidson Cnty Metro Govt Convention Ctr Auth MISCTAX		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Nashville & Davidson County Metropolitan Government Sports Authority, Tennessee		
Nashville & Davidson County Metropolitan Government, Tennessee		
Nashville & Davidson Cnty Metro Gov't Sports Auth (Nashville & Davidson Cnty Metro Govt)		

Credit Profile (cont.)		
Long Term Rating	AA+/Stable	Upgraded
Nashville & Davidson Cnty Metro Gov't Sports Auth (Nashville & Davidson Cnty Metro Govt)		
Long Term Rating	AA+/Stable	Upgraded
Nashville & Davidson Cnty Metro Gov't Sports Auth (Nashville & Davidson Cnty Metro Govt)		
Long Term Rating	AA+/Stable	Upgraded
Nashville & Davidson Cnty Metro Gov't Sports Auth (Nashville & Davidson Cnty Metro Govt)		
Long Term Rating	AA+/Stable	Upgraded
Nashville & Davidson Cnty Metro Gov't Sports Auth (Nashville & Davidson Cnty Metro Govt)		
Long Term Rating	AA+/Stable	Upgraded
Nashville & Davidson Cnty Metro Gov't Sports Auth (Nashville & Davidson Cnty Metro Govt) (Arena Proj)		
Long Term Rating	AA+/Stable	Upgraded
Public Finance Authority, Wisconsin		
Nashville & Davidson County Metropolitan Government, Tennessee		
Public Fin Auth (Nashville & Davidson Cnty Metro Govt) (Pkg Real Estate Fd II LP Proj)		
Long Term Rating	AA+/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its long-term rating to 'AA+' from 'AA' on the Metropolitan Government of Nashville and Davidson County (Metro), Tenn.'s general obligation (GO) bonds outstanding and obligations supported by its nontax revenue.
- At the same time, S&P Global Ratings assigned its 'AA+' long-term rating to the Sports Authority of the Metropolitan Government of Nashville and Davidson County's (the Sports Authority) series 2023C and 2023D (federally taxable) stadium project revenue bonds, supported by Metro's nontax revenue pledge.
- The preliminary par amounts are \$35.1 million on the series 2023C bonds and \$244.9 million on the series 2023D bonds.
- The outlook is stable.
- The rating action reflects our view of Nashville's efforts to strengthen its financial position and enhance certain financial management practices and policies, helping ensure that recent improvements are sustained. The rating action also reflects our view of Nashville's diversified and rapidly growing economy.

Security

The series C/D trust estate, consisting of the Sports Authority's interest in pledged revenue pursuant to an intergovernmental agreement between Nashville and the Sports Authority, secures the 2023C and 2023D bonds. Pledged revenue under the C/D trust estate consists of:

- Ticket tax revenue and stadium lease payments (team rent), collectively referred to as "C/D pledged revenue";
- A subordinate pledge of the series 2023A and 2023B pledged revenue, consisting of a citywide 1% hotel tax, stadium sale tax revenue, and water/sewer payments in lieu of taxes (PILOT payments) that extend through 2027, collectively referred to as "A/B pledged revenue"; and

- To the extent there is a deficiency in the aforementioned revenues, non-tax revenue from Nashville's general services district general fund.

Series 2023C bonds have a second lien on C/D pledged revenue and a third lien on A/B pledged revenue; the 2023D bonds have a first lien on C/D pledged revenue and a fourth lien on A/B pledged revenue.

This report should be read in conjunction with our analysis on the 2023A (A/Stable) and 2023B (A-/Stable) bonds, which contains additional detail on the project overview and credit structure. See our report to be published July 10, 2023, on RatingsDirect.

The 2023C and 2023D bond proceeds will provide financing for Nashville's portion of project-related costs associated with the construction of an NFL stadium that will be the new home of the league's Tennessee Titans franchise. The 2023C and 2023D bonds are accompanied by series 2023A and 2023B bonds for a combined par amount of approximately \$709 million (the stadium bonds).

Metro's non-tax revenue pledge runs through the life of the bonds. In addition, the pledge is subordinate to those for various existing Sports Authority and Convention Center Authority obligations. Non-tax revenue consists primarily of other PILOT payments, licenses, permits, fees, and other charges for services, and account for approximately 17% of general fund revenue.

We rate the series 2023C and 2023D based on Metro's non-tax revenue pledge given that it carries a stronger credit profile than our assessments of the primary pledged revenue sources securing each series. Metro's non-tax revenue pledge applicable to the series 2023C and 2023D bonds is on par with the issuer credit rating given that the pledge runs through the life of the bonds, given Nashville's commitment to the project and its ultimate ownership of the stadium, and given our view of the fungibility of general revenue to support debt service. In addition, we do not distinguish between non-tax revenue lien positions given that we view the pledge as akin to a general operating pledge, reflecting its general creditworthiness.

Under a hypothetical scenario in which Metro's non-tax revenue pledge were triggered in full across all of its contingent Sports Authority and Convention Center obligations, all-in coverage of non-tax-revenue-supported debt, including the proposed series 2023C and 2023D bonds, would be approximately 2.6x, which we believe highlights the strength of the pledge and Nashville's ability to support contingent debt service, if need be. This ratio will improve to more than 3x as the Sports Authority's outstanding bonds related to the current stadium carrying non-tax revenue support are defeased in conjunction with the 2023 stadium bonds. We note that the defeasance of the existing stadium bonds is a condition precedent to closing on the series 2023 bonds. Metro covenants not to issue additional debt supported by its non-tax revenue pledge unless such revenue provides 2x coverage of existing and any new obligations.

Metro's GO bonds are secured by metro's full faith and credit and ability to levy ad valorem property taxes without limitation as to rate or amount.

Credit overview

The 'AA+' long-term rating reflects our view of Nashville's strengthened financial position, with growth in available

reserves and liquidity and a commitment to structural balance, and its favorable economic profile. Nashville's debt burden remains high but manageable, in our opinion, even considering the additional guarantees under the Sports Authority's 2023C and 2023D bonds and additional capital plans.

Nashville's economic strengths are characterized by its status as the state capital and home to the second-largest metro economy in the Mid-South, supported by rapid population growth and development across a variety of industries. With the enactment of material budgetary reforms several years ago Nashville's financial position has gradually improved, leading to available general fund reserves in excess 30% of expenditures in fiscal 2022 from less than 7% in fiscal 2020. Projections indicate Nashville will likely add to this position in fiscal 2023. The fiscal 2024 budget is structurally balanced, but utilizes approximately \$70 million in surplus reserves to increase the debt service fund balance and \$59 million for one-time capital. Metro recently codified changes to its reserve policy, substantially increasing the minimum operating reserve balances it is required to hold across its operating funds and debt service funds. It has also made progress toward institutionalizing long-term forecasting practices and integrating them with budgeting and planning processes. These changes will help cement recent improvements and provide a degree of confidence that those improvements will be maintained as a new mayor is elected later this year.

The 'AA+' long-term rating further reflects our view of Nashville's:

- High per capita income and market values and significant tax base growth in recent years;
- Strong financial position, with robust reserves and expectation for ongoing budgetary balance;
- Strong financial management and oversight practices; and
- Elevated debt and contingent liability profile, though recently enacted other postemployment benefit (OPEB) changes reduced its retirement liability and annual costs (Metro's high net direct debt burden is partly a result of its obligation to issue debt for Metro Nashville Public Schools).

Environmental, social, and governance

We believe Metro has taken adequate steps to manage responses to weather-related risks such as flooding and tornadoes, and we view environmental risks as neutral to credit quality. Metro is taking steps to mitigate exposure to cybersecurity risks. In addition, we view oversight by the Tennessee comptroller's office as a basis for positive governance attributes across the state.

Outlook

The stable outlook reflects our view that Nashville's diversified and growing economy supports its long-term credit quality and that recent financial improvements are likely to be maintained.

Downside scenario

All else equal, we could lower the rating if recent financial trends reverse course, leading to materially weaker reserves and liquidity. We could also lower the rating if it becomes apparent that the city's commitment to budgetary balance and strong financial management wanes amid the upcoming administration change.

Upside scenario

All else equal, we could raise the rating if Nashville's debt and liability burden moderates relative to that of higher-rated peers and if reserves improve in a similar fashion.

Credit Opinion

Diversified and rapidly growing local economy with comparatively high income and market value per capita for a large city

Nashville is the Tennessee state capital and the center of a 14-county metro area home to more than 2 million residents. Tourism and the music industry are historical economic engines for the area, although these sectors have given way to robust development across business and professional services, health care, financial activities, and information technology. State and local government positions buoy the employment base, as do higher education institutions, including Vanderbilt University and a campus of the University of Tennessee system. Net domestic migration inflows, particularly among highly educated and young individuals, have supported economic diversification and business expansion. The metro area's employment base grew 37.4% from 2012 to 2022, third-fastest among all metropolitan statistical areas with a population of more than 1 million.

Nashville continues to be one of the top destinations for expansions or relocations across a variety of industries. In 2021 Oracle announced plans to develop a sprawling corporate center in Nashville's East Bank neighborhood. The 65-acre development is anticipated to generate 8,500 jobs and \$1.2 billion in investment. Oracle has started filling positions at developed sites. Amazon continues to hire for one of its largest corporate locations with its Nashville Yards development, consisting of two office buildings projected to house as many as 5,000 employees. We understand that it has delayed hiring certain positions as it evaluates remote work trends. In 2020, global asset management firm Alliance Bernstein announced that it would relocate its global headquarters to Nashville from New York City, bringing more than 1,000 jobs. S&P Global Market Intelligence notes that Nashville has become a hub for electric vehicle and related parts manufacturing, and recent expansion announcements by established auto manufacturers and newer firms highlight growth potential. Furthermore, development plans along Nashville's East Bank (downtown Nashville on the east side of the Cumberland River), including the new stadium development, are likely to add to the tax base.

Nashville's relative concentration in leisure and hospitality (with employment 7% more concentrated in this sector than the U.S. average) and its robust tourism sector contributed to a sharp downturn during the early stages of the pandemic, though employment in this sector has largely recovered. S&P Global Market Intelligence notes that inflation and slumping global demand are likely to pressure local manufacturing employment, though labor shortages in other sectors may benefit from potential labor supply capacity. S&P Global Ratings forecasts that Nashville's labor market, real personal incomes, and real gross metro product will rise faster than national averages over the medium term. Our baseline macroeconomic forecast published June 26, 2023, no longer includes a recession, though it does include risks for longer-term anemic real GDP growth amid the likelihood of persistent higher policy interest rates.

Supportive financial management practices

Key practices and policies include:

- Revenue assumptions based on historical trends and detailed economic forecasts with the Metro council receiving

quarterly financial reports on expense and revenue and amending the operating budget as needed;

- A formalized and extensive capital improvement planning process that is monitored and updated;
- Formalized revenue forecasting processes;
- Maintenance of formal investment management and debt management policies; and
- A recently updated reserve policy requiring that each governmental operating fund, including the general fund, maintain unassigned reserves at a minimum of 17% of budgeted operating expenditures and that each governmental debt service fund maintain available reserves at a minimum of 50% of budgeted debt service.

The reserve policy stipulates that the use of any surplus reserves may be used only for one-time or contingency purposes, and requires that if reserves fall below target levels they must be restored within 36 months.

In addition, Nashville's budget office developed a multiyear forecasting model providing projections for operating and debt service funds that is in the process of being integrated with budgetary and capital planning processes.

Proactive financial management and tax base growth support recently strengthened financial position

Following budgetary adjustments for fiscal 2021--including a 34% tax increase, the implementation of expenditure controls, and the prioritization of building and maintain healthy reserves--Nashville realized significant surpluses in fiscal years 2021 and 2022, building available general fund reserves to around 33.0% of expenditures, from 6.6% in 2020. With growth in property values, Nashville rolled back its tax rate in fiscal 2022 to among the lowest for large municipalities in the state, providing it with future revenue flexibility.

Projections for fiscal 2023 highlight balanced results and around a \$20 million increase in reserves. Positive variances throughout the year led to supplemental appropriations. The adopted 2024 operating budget represents a 6.2% increase over 2023, and includes staffing additions and the largest reported salary increases in Metro history. The operating budget is balanced, but includes the spend-down of reserves to the new 17% policy level. The general fund is budgeted to transfer approximately \$70 million in surplus funds to the debt service fund and utilize an additional \$59 million for one-time capital. Furthermore, the general fund will continue subsidizing the Nashville General Hospital, accounting for approximately 3.6% of budgeted 2024 general fund expenditures.

Despite the one-time spend-down in reserves, we consider 17% very strong under our budgetary flexibility assessment, as it is above 15%. We believe that improved controls and targets surrounding reserves strengthen the financial position. In addition, the use of surplus funds for capital may help limit future borrowings and debt service costs. Furthermore, though we don't consider it explicitly in our calculation of general fund reserves, the 50% reserve balances (\$207 million for fiscal 2024) in the debt service fund provide significant additional budgetary flexibility.

Metro maintains a practice of engaging in interfund borrowing for its operating funds (primarily from enterprise funds), established as tax anticipation notes (TANs), during low revenue periods--generally prior to the receipt of property taxes. Nashville has periodically supplemented this with external TANs. As Nashville's liquidity position has improved, no external TANs are planned.

As Nashville continues to grow, it will face both operating and capital expenditure pressures. Slower growth in

consumer-activity-based revenue may present challenges to its ability to maintain structural balance. However, we believe that ongoing, though slower, tax base growth, improved reserve and liquidity positions, and a willingness to make challenging budgetary adjustments will support the financial position over at least the medium term.

Elevated debt and contingent liability profile

Nashville draws around \$30 million per month under its commercial paper programs and has a practice of refinancing these draws with long-term GO debt biennially. Plans entail issuing \$650 million in GO debt in late 2024.

We do not believe Nashville carries significant liquidity risks associated with its commercial paper programs because of accompanying credit facilities, maturity extension provisions, and a demonstrated ability to tap the capital markets for takeout debt.

With the new stadium bonds, Nashville guarantees approximately \$1.1 billion in outstanding obligations incurred by the Metro Sports Authority, the Convention Center Authority, and the Public Finance Authority. The Convention Center maintains a significant cash position, reducing general fund liquidity risks. Nashville's general fund partly supported Sports Authority debt issued for its minor league baseball stadium during the pandemic, but this was nominal and did not affect operations. We understand that other Sports Authority guarantees are not likely to be triggered in the near term. As a result, we do not believe these obligations pose significant contingent liquidity risks to Nashville. However, if guarantees were likely across multiple obligations for several consecutive years, liquidity pressures could emerge.

Pension and OPEB liabilities

- Metro's overall pension position is fully funded with actuarial assumptions we consider reasonable when taken together.
- Metro recently implemented OPEB reforms that materially reduced its net liability and lowered annual costs, though the lack of an asset position fully expose Metro to long-term medical cost trends.
- Pension and OPEB contributions were 3.9% and 2.8% of governmental expenditures, respectively, in fiscal 2022.

Metro manages seven defined benefit single-employer pension plans: County, Metro Division A, Metro Division B, County Education, Metro Education, City, and City Education. All of the plans are closed to new members except for Metro Division B. The single-employer plans other than Metro Division A and B are legacy plans established prior to the consolidation of Nashville and Davidson County. Metro teachers participate in the Teachers Legacy Pension Plan (closed to new members) or the Teacher Retirement Plan, both cost-sharing, multiple-employer plans administered by the Tennessee Consolidated Retirement System.

Metro Division A and B are the government's largest plans in terms of participants, liability, and annual contributions. Metro A and B were 104.4% funded as of the latest valuation. Across all plans, Nashville carries a net pension asset of \$477 million.

Metro provides two single-employer OPEB plans, one for all eligible employees and the other for teachers. Under both plans, Metro offers full health care coverage and pays 75% of medical premiums. Dental and life insurance benefits vary by plan. Metro enacted plans to shift all eligible retirees to a Medicare Advantage plan, which adjusted benefits, eligibility requirements, and costs. Nashville's net OEPB liability was reduced to \$2.4 billion from \$4.3 billion as of

fiscal 2022.

Metropolitan Government of Nashville and Davidson County key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI as % of U.S.	113			
Market value per capita (\$)		211,030		
Population		715,491	701,305	700,931
County unemployment rate (%)		2.8	4.2	8.2
Market value (\$000s)		147,996,606	128,201,489	123,954,384
Ten largest taxpayers as % of taxable value	3.8			
Strong budgetary performance				
Operating fund result as % of expenditures		10.0	18.8	(1.6)
Total governmental funds result as % of expenditures		14.5	13.4	(1.7)
Very strong budgetary flexibility				
Available reserves as % of operating expenditures		32.8	25.3	6.6
Total available reserves (\$000s)		425,365	284,625	73,068
Very strong liquidity				
Total government cash % of governmental funds expenditures		44	32	27
Total government cash as % of governmental funds debt service		389	268	216
Strong management				
Financial management assessment	Good			
Weak debt and long-term liabilities				
Debt service as % of governmental funds expenditures		11.2	12.0	12.7
Net direct debt as % of governmental funds revenue	149			
Overall net debt as % of market value	3.6			
Direct debt 10-year amortization (%)	49			
Required pension contribution as % of governmental funds expenditures		3.9		
OPEB actual contribution as % of governmental funds expenditures		2.8		
Very strong institutional framework				

Note: Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Summary: Metropolitan Government of Nashville and Davidson County, Tennessee; Appropriations; General Obligation; Miscellaneous Tax

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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