

# MOODY'S

## RATINGS

### **Rating Action: Moody's Ratings assigns Aa2 to Metro Gov't of Nashville & Davidson County, TN's \$764.33M GO Improvement Bonds, Series 2024A,B&C; outlook is stable**

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26 Sep 2024

New York, September 26, 2024 -- Moody's Ratings (Moody's) has assigned a Aa2 rating to the Metropolitan Government of Nashville and Davidson County's (TN) proposed \$254.875 million General Obligation Improvement Bonds Series 2024A, \$198.15 million General Obligation Improvement Bonds Series 2024B and \$311.305 million General Obligation Improvement Bonds Series 2024C. We maintain the Aa2 issuer rating and a Aa2 general obligation unlimited tax (GOULT) rating on Metro's outstanding debt. Post-sale, Metro will have approximately \$3.8 billion in general obligation debt outstanding. The outlook is stable.

#### RATINGS RATIONALE

The Aa2 issuer rating reflects Metro's favorable economic profile and role as the state capital, as well as being the regional economic driver for northern Tennessee and the surrounding areas. Resident income levels for Nashville & Davidson County are average at 99.9% of the national average and full value per capita is a strong \$213,619. The rating also reflects Metro's solid financial position which has continued to strengthen over the last five years due to prudent fiscal and budgetary management. Their available fund balance and liquidity ratios were healthy at the end of fiscal 2023, at 36.6% of annual revenues and 42.1% of annual revenues, respectively. The rating further takes into consideration an elevated debt profile for the rating category, with long-term liabilities at 227% of annual revenues at fiscal year-end 2023. Metro's liabilities are expected to remain elevated over the medium term given extensive future capital needs resulting from a rapidly expanding tax base.

The absence of distinction between the issuer and GOULT ratings reflects Metro's general obligation full faith and credit pledge.

#### RATING OUTLOOK

The stable outlook reflects the expectation that Metro's regional economic base will continue to grow and provide the necessary revenues to support ongoing capital needs and governmental operations, including annual financial support to Metro's Hospital Authority.

#### FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Decrease in long-term liabilities to around 175% of annual revenues
- Improved resident income levels
- Maintenance of available fund balance and liquidity ratios of approximately 30% of annual revenues

#### FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Significant increase in long-term liabilities above 300% of annual revenues
- Deterioration of financial ratios to around 20% of annual revenues which reduces overall financial flexibility

#### LEGAL SECURITY

The Series 2024 A,B&C bonds are direct obligations of the Metro Government of Nashville and Davidson County, TN payable from unlimited ad valorem taxes levied on all taxable property within the Metro Government. For the timely payment of principal of and interest on the Series 2024 bonds, the full faith and credit of Metro are irrevocably pledged.

#### USE OF PROCEEDS

Proceeds from the 2024 bonds will be used to finance various capital improvement projects as well as retire all or a portion of Metro's \$650 million in outstanding commercial paper.

#### PROFILE

Metro is located in the central northern portion of Tennessee (Aaa stable) and has a population of approximately 709,786 (2022 American Community Survey). Metro Nashville is the state capital and also a major education, finance, and health care center for the entire state.

#### METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties published in July 2024 and available at <https://ratings.moodys.com/rmc-documents/425429>. Alternatively, please see the Rating Methodologies page on

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**CREDIT OPINION**

26 September 2024



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# Metro Govt Of Nashville & Davidson County, TN

Update to credit analysis

## Summary

Metro Nashville (Aa2 GOULT) benefits from its position as the state capital and regional economic center for the northern portion of Tennessee (Aaa stable). Long-term liabilities for the Metro Government are above-average and expected to remain at higher levels given the rapid economic growth and therefore sizeable capital and debt needs. Nashville's financial position continued to remain strong through fiscal 2023 due in large part to management's conservative budgeting as well as improving revenue collections. Projections for how fiscal 2024 ended, show Metro using approximately \$60 million in unassigned General Fund balance for various projects and to fund a restricted Legal Fund. It is anticipated that Metro will further reduce its General Fund balance over the next couple of years to be closer to their 17% formalized fund balance policy. All major revenues streams continued to show strength throughout fiscal 2024 and are anticipated to remain strong over the medium term.

## Credit strengths

- » Metro's role as state capital and regional economic center
- » Prudent fiscal management and ability to raise revenues to support reserves

## Credit challenges

- » Above-average long-term liabilities
- » Ongoing but decreasing annual financial support of Metro General Hospital
- » Property tax referendum requiring public vote in order to raise property tax rate above theoretical cap

## Rating outlook

The stable outlook reflects the expectation that Metro's regional economic base will continue to grow and provide the necessary revenues to support ongoing capital needs and governmental operations, including annual financial support to Metro's Hospital Authority.

## Factors that could lead to an upgrade

- » Decrease in long-term liabilities to around 175% of annual revenues
- » Improved resident income levels
- » Maintenance of available fund balance and liquidity ratios of approximately 30% of annual revenues



## Factors that could lead to a downgrade

- » Significant increase in long-term liabilities above 300% of annual revenues
- » Deterioration of financial ratios to around 20% of annual revenues which reduces overall financial flexibility

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## Key indicators

Exhibit 1

### Metro.Govt. of Nashville & Davidson Cnty.,TN

	2020	2021	2022	2023	Aa Medians
<b>Economy</b>					
Resident income ratio (%)	100.1%	100.4%	99.0%	N/A	97.8%
Full Value (\$000)	\$123,954,384	\$128,201,489	\$147,996,606	\$151,623,900	\$8,736,359
Population	690,540	708,490	709,786	N/A	90,964
Full value per capita (\$)	\$179,504	\$180,950	\$208,509	N/A	N/A
Annual Growth in Real GDP	-0.8%	10.6%	6.3%	N/A	4.9%
<b>Financial Performance</b>					
Revenue (\$000)	\$2,900,995	\$3,543,659	\$3,998,105	\$4,304,701	\$97,580
Available fund balance (\$000)	\$519,882	\$790,956	\$1,278,068	\$1,575,567	\$43,698
Net unrestricted cash (\$000)	\$725,624	\$906,201	\$1,385,297	\$1,813,931	\$68,628
Available fund balance ratio (%)	17.9%	22.3%	32.0%	36.6%	43.0%
Liquidity ratio (%)	25.0%	25.6%	34.6%	42.1%	74.4%
<b>Leverage</b>					
Debt (\$000)	\$5,030,147	\$5,107,596	\$5,447,028	\$5,584,936	\$46,820
Adjusted net pension liabilities (\$000)	\$3,799,535	\$3,116,872	\$3,306,222	\$2,023,545	\$103,575
Adjusted net OPEB liabilities (\$000)	\$4,231,787	\$3,826,879	\$2,284,863	\$2,003,888	\$7,091
Other long-term liabilities (\$000)	\$152,424	\$147,956	\$161,816	\$166,848	\$3,981
Long-term liabilities ratio (%)	455.5%	344.3%	280.1%	227.2%	190.3%
<b>Fixed costs</b>					
Implied debt service (\$000)	\$327,200	\$360,222	\$358,245	\$380,419	\$3,257
Pension tread water contribution (\$000)	\$73,485	\$94,894	\$26,437	\$65,407	\$2,211
OPEB contributions (\$000)	\$100,387	\$104,305	\$87,331	\$93,387	\$186
Implied cost of other long-term liabilities (\$000)	\$10,813	\$10,916	\$10,378	\$11,301	\$282
Fixed-costs ratio (%)	17.6%	16.1%	12.1%	12.8%	7.1%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the Nashville-Davidson--Murfreesboro--Franklin, TN Metropolitan Statistical Area Metropolitan Statistical Area.

Sources: US Census Bureau, Metro.Govt. of Nashville & Davidson Cnty.,TN's financial statements and Moody's Ratings, US Bureau of Economic Analysis

## Profile

Metro is located in the central northern portion of Tennessee (Aaa stable) and has a population of approximately 709,786 (2022 American Community Survey). Metro Nashville is the state capital and also a major education, finance, and health care center for the entire state.

## Detailed credit considerations

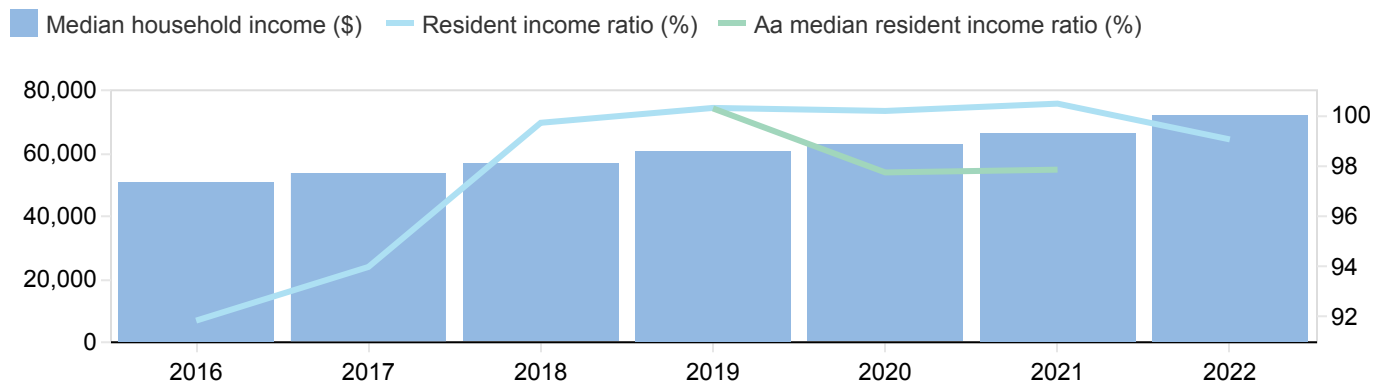
### Economy: strong Metro economy continues to expand

Metro Nashville & Davidson County is located in the northern central portion of Tennessee (Aaa stable) and is one of the primary economic engines in the state. Metro is the state capital and benefits from a diverse economy including services, trade, auto manufacturing, health care and government. The economy is stabilized by such large institutions and employers as the State of Tennessee, Vanderbilt University (Aa1 stable) and Vanderbilt University Medical Center, and various U.S. Government offices. The diversity of the economy is underscored by the fact that the largest employers, Vanderbilt University and the state of Tennessee, account for only 2% to 3% of the total Metro MSA employment base. Metro's economic growth has been extremely rapid over the last five years, underscored by assessed value growth of 9.1% (average annual growth 2019-2023). Nashville's economy continues to grow at faster pace than the US, with a 5 year CAGR real GDP to 5 year CAGR US real GDP of 2.3%. While there was a short pause in the early months of the pandemic, the economy bounced back quickly. The tourism industry within Nashville was hit as a result of the coronavirus but recovered at a rapid pace. Hotel occupancy levels dropped significantly in April 2020 to 16.8%, down from 62% in January 2020, 70.1% in February 2020 and 43% in March 2020. However these levels began to slowly recover throughout the summer of 2020 and continued to improve rapidly throughout 2021, 2022, 2023 and 2024. Metro's unemployment rate, at 2.9%, as of July 2024, remains below state (3.6%) and national (4.5%) rates. Metro's income and housing values also reflect the long-term strengths

of the economy. As the economy has grown and diversified, Metro's (Davidson County) adjusted resident income (MHI adjusted for regional price parity/US MHI) remains solid at 99% of the US. Full value per capita is very strong at \$213,619.

Exhibit 2

### Resident Income



Source: Moody's Ratings

### Financial operations: finances remain healthy through fiscal 2023

Metro's financial position continued to strengthen in fiscal 2023 through conservative budgeting and strong revenue performance. After rapid improvement in Metro's reserve and liquidity levels in fiscal 2021 (due to a significant 34% property tax rate increase in August 2020), management continued its pandemic style budgeting through fiscal 2022 given lingering economic uncertainties. As a result of conservative budgeting and strong revenue collections across all major revenue sources in fiscal 2022 and 2023, Metro's financial position continued to improve with available fund balance and liquidity levels that are more in line with the rating category.

Metro finished fiscal 2023 with an increase in total General Fund balance of \$77.6 million, to \$503.8 million or 32.4% of annual revenues. Metro also has a General Fund 4% Reserve which is a special revenue fund, the balance of which can be used for General Fund purposes during emergency situations. At fiscal year-end the General Fund 4% Reserve had an unrestricted balance of \$10.7 million. The government's available fund balance (available fund balance plus net current assets / revenues) was a solid 36.6% of annual revenue. Property taxes remained the largest of Metro's revenues, providing a stable revenue source for the government. Collections totaled \$815.2 million or approximately 53% of annual General Fund revenues. Tourism related revenues also came in very strong throughout fiscal 2023 as consumer and business travel remained healthy. Local option sales taxes make up the largest portion of tourism related revenues and collections amounted to \$240.8 million or 16% of General Fund revenues.

Metro's business activities which are made up predominantly of the Water and Sewer Fund, also performed well through fiscal 2023 and had an increase in net position of approximately \$129 million. The Water and Sewer enterprise's reserves and cash levels have been stable over the last several years and customer accounts continue to grow moderately with no major concentration. Management of the Water and Sewer enterprise continues to implement necessary rate increases while maintaining solid debt service coverage ratios, a trend which is expected to continue going forward.

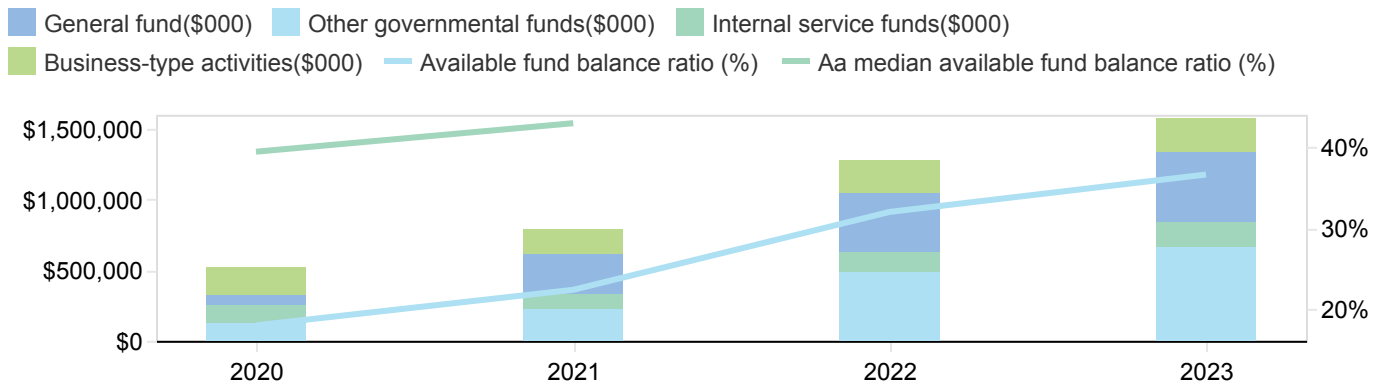
Metro's projections for fiscal 2024 (unaudited) show ongoing revenue strength, especially from property taxes and local option sales taxes. Tourism remained strong throughout Nashville and continues to benefit the government in the form of hotel taxes and sales taxes, among other tourism related revenue streams. Management projects that General Fund unassigned fund balance will decline by approximately \$60 million as Metro financed various capital projects and funded a new reserve fund.

The fiscal 2025 General Fund budget remains conservative and includes \$874.4 million in property taxes, \$263.8 million in local option sales taxes, \$23.2 million in hotel/motel taxes, \$64.8 million in state sales taxes, \$59.3 million in business taxes and \$17.5 million in building permit fees. Property tax collections have historically been strong and are expected to perform similarly this fiscal year. Local option sales taxes and state sales taxes are performing well year-to-date. Management anticipates unassigned General Fund balance will decrease again in fiscal 2025 (by approximately \$32 million) as the city continues to finance capital projects with cash on hand.

Metro also received substantial pandemic related aid throughout fiscal 2020, 2021 and 2022. In April 2020, \$121 million in CARES Act funding was received - these funds were spent as required by 12/31/2021. In addition, Metro was allocated approximately \$259.8 million in ARPA funds, the first half of which was received in June 2021 and the second half was received in July of 2022. Currently, all allocations have been recommended/obligated for specific, allowable projects to Metro's Covid-19 Financial Oversight Committee. All pandemic related aid/monies were kept in funds outside of the General Fund.

On January 17, 2023, Metro updated their financial policies which now requires management to maintain a minimum of 17% of annual operating expenditures in unassigned General Fund balance.

Exhibit 3  
Fund Balance

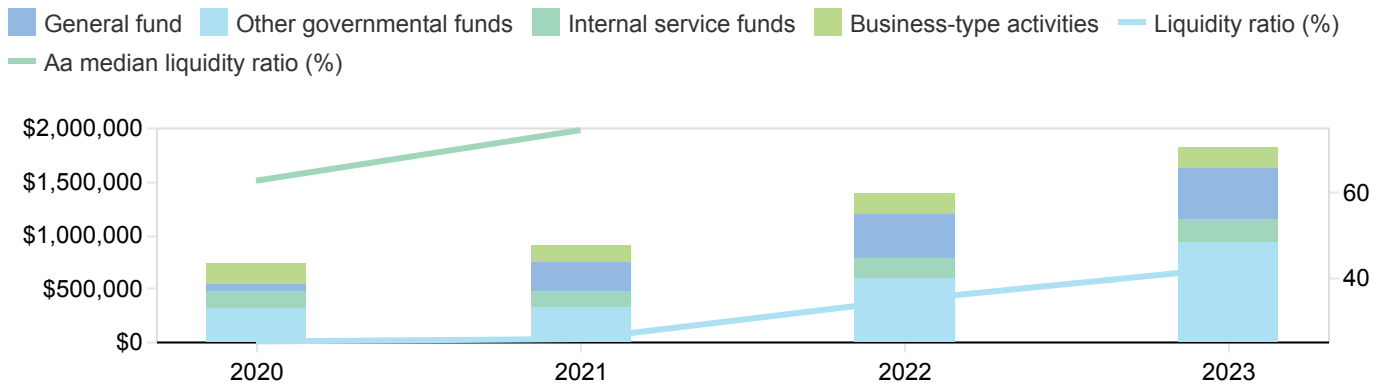


Source: Moody's Ratings

**Liquidity**

Metro's fiscal 2023 liquidity ratio (unrestricted cash / revenues) was a solid 42.1% of annual revenues (42.1% Governmental Funds and 42.6% Business Type Activities). General Fund net cash was \$479.2 million (30.8% of annual revenues).

Exhibit 4  
Cash



Source: Moody's Ratings

**Leverage: long-term liabilities are above-average but manageable given ongoing economic growth**

Metro's debt profile will remain manageable, despite an extensive capital improvement program. Metro's elevated capital needs are, in part, due to the fact that Tennessee cities and counties fund capital requirements for primary and secondary education. Nevertheless, debt issuance levels will be partially mitigated by ongoing economic growth, as well as the extensive use of water, sewer and electric enterprise revenue bonds. Over the more near term, Metro will utilize (as they have historically) its commercial paper programs to

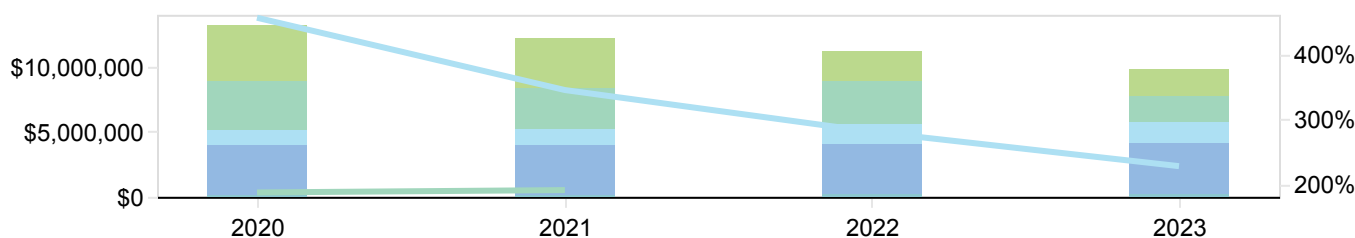
finance general government projects. In addition, Metro has presented an extensive \$3.2 billion Transit Improvement Plan (TIP) which would address a variety of much needed transit improvement projects. As a result, Metro is proposing a 0.5% local sales tax surcharge which will be on the voter ballot in November. If approved, the increase would finance an estimated 46% of the TIP, with another 30% coming from potential bond issues. The other funding mechanisms available to finance the remainder of the TIP include Federal New Starts and Small Starts funds, Federal and State funds and fare revenue.

Metro's long-term liabilities are elevated for the rating category at 227.2% of revenue. Long-term liabilities are made up of debt, pension and other post employment benefit (OPEB) obligations. Debt obligations make up approximately 49% of total long-term liabilities and include substantial non-ad valorem tax backed debt associated with the Convention Center Authority (approximately \$400 million) and Sports Authority (approximately \$395 million). The above-average debt levels are expected to stay elevated given ongoing capital needs but should remain affordable given rapid economic expansion and the correlating growth in generated revenues.

Exhibit 5

**Total Primary Government - Long Term Liabilities**

- Governmental Debt(\$000)
- Business-Type Activity Debt(\$000)
- Adjusted net pension liabilities(\$000)
- Adjusted net other post-employment liabilities(\$000)
- Other long-term liabilities(\$000)
- Long-term liabilities ratio (%)
- Aa median long-term liabilities ratio (%)



Source: Moody's Ratings

**Legal security**

The Series 2024 A,B&C bonds are direct obligations of the Metro Government of Nashville and Davidson County, TN payable from unlimited ad valorem taxes levied on all taxable property within the Metro Government. For the timely payment of principal of and interest on the Series 2024 bonds, the full faith and credit of Metro are irrevocably pledged.

**Debt structure**

Metro Nashville currently has authorized \$375 million of General Obligation Commercial Paper (CP; rated P-1) that the city uses to finance various capital projects. The traditional CP is a general obligation of Metro, payable from proceeds of rollover CP, general obligation bonds, or unlimited property taxes. Metro also has authorized \$325 million General Obligation Extendable Commercial Paper notes which are payable from proceeds of roll over extendable commercial paper, general obligation bonds, or unlimited property taxes. Taking into consideration the full authorizations of both CP programs, Metro's variable rate debt exposure is approximately 15% of total GO debt.

**Debt-related derivatives**

Metro is not currently party to any derivative agreements.

**Pensions and OPEB**

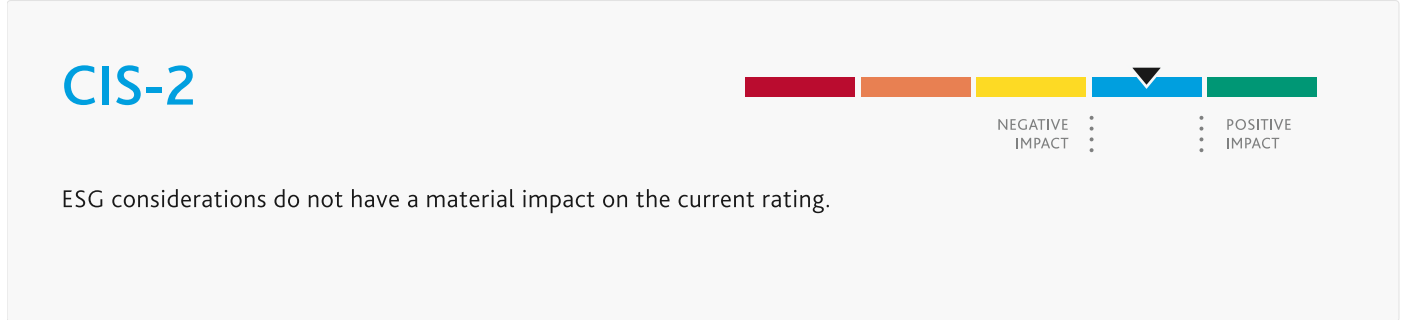
Metro employees are members of the Metro Active Plan Division B, a non-contributory, defined benefit pension plan. This plan covers all employees of the Metro Government other than teachers. Metro contributed 100% of its annual contribution of \$159 million in fiscal 2023. Metro's adjusted net pension liability, under Moody's methodology for adjusting reported pension data, is \$1.9 billion. Other post-employment benefits are funded on a pay-as-you-go basis. As of fiscal 2023, Metro's Moody's adjusted net OPEB liability was \$2.0 billion and the government made a contribution of \$93,387. Metro's fixed cost ratio (adjusted fixed costs / revenues) was an average 12.8%.

## ESG considerations

Metro.Govt. of Nashville & Davidson Cnty.,TN's ESG credit impact score is CIS-2

Exhibit 6

### ESG credit impact score

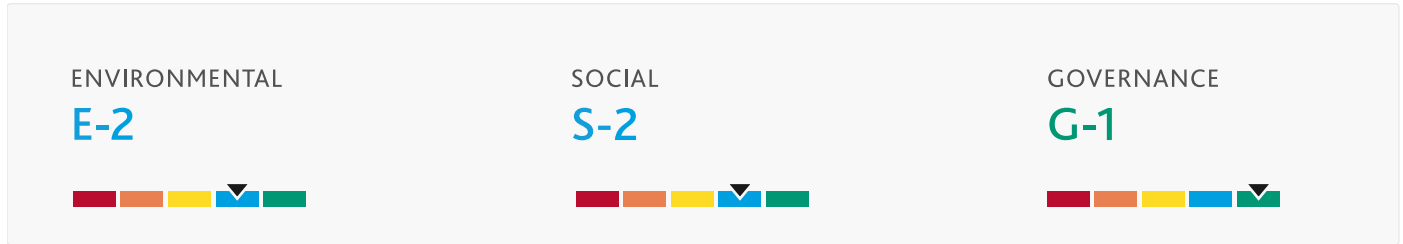


Source: Moody's Ratings

Metro Nashville's **CIS-2** indicates that ESG considerations are not material to the county's rating.

Exhibit 7

### ESG issuer profile scores



Source: Moody's Ratings

### Environmental

Metro Nashville has relatively low exposure to environmental risks across all categories, including physical climate risk, carbon transition, water management, natural capital and pollution risks. While Metro is exposed to flooding of the Cumberland River during heavy storms, management continues to engage in projects and activities which minimize this risk.

### Social

Metro Nashville's social risk is low given it benefits from its position as the state capitol and a major economic engine for north/central Tennessee. Additionally, the surrounding areas are some of the wealthiest in the state. Health and safety considerations pose moderate risk, however overall demographics, labor and income, educational attainment and housing are strengths. Additionally, residents have easy access to basic services.

### Governance

Metro Nashville's strong governance reflects long established policies and in depth disclosures which provide a high level of transparency. This along with a strong state-wide institutional framework, allow Metro Nashville to maintain and provide necessary services which continues to promote sizeable tax base expansion, despite it's satisfactory financial position.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Rating methodology and scorecard factors

The US Cities and Counties Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 8

### Metro.Govt. of Nashville & Davidson Cnty.,TN

	Measure	Weight	Score
<b>Economy</b>			
Resident income ratio	99.0%	10.0%	A
Full value per capita	213,619	10.0%	Aaa
Economic growth metric	2.3%	10.0%	Aaa
<b>Financial Performance</b>			
Available fund balance ratio	36.6%	20.0%	Aaa
Liquidity ratio	42.1%	10.0%	Aaa
<b>Institutional Framework</b>			
Institutional Framework	Aaa	10.0%	Aaa
<b>Leverage</b>			
Long-term liabilities ratio	227.2%	20.0%	A
Fixed-costs ratio	12.8%	10.0%	Aa
<b>Notching factors</b>			
No notchings applied			
Scorecard-Indicated Outcome			Aa1
<b>Assigned Rating</b>			<b>Aa2</b>

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Nashville-Davidson--Murfreesboro--Franklin, TN Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Metro. Govt. of Nashville & Davidson Cnty.,TN's financial statements and Moody's Ratings

## Appendix

Exhibit 9

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
<b>Financial performance</b>		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
<b>Leverage</b>		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Ratings
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
<b>Fixed costs</b>		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Ratings
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Ratings
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Ratings
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

\*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US Cities and Counties Methodology](#).

Source: Moody's Ratings



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