S&P Global Ratings

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Summary:

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

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Credit Profile		
US$311.3 mil GO imp bnds ser 2024C due 06/30/2045		
Long Term Rating	AA+/Stable	New
US$254.9 mil GO imp bnds ser 2024A due 06/30/2034		
Long Term Rating	AA+/Stable	New
US$198.2 mil GO imp bnds ser 2024B due 06/30/2039		
Long Term Rating	AA+/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA+' rating to the Nashville and Davidson County Metropolitan Government (Metro), Tenn.'s $254.9 million series 2024A general obligation (GO) improvement bonds, $198.2 million series 2024B GO improvement bonds, and $311.3 million series 2024C GO improvement bonds based on the application of its "Methodology for Rating U.S. Governments," criteria, published Sept. 9, 2024, on RatingsDirect.
- At the same time, we affirmed our 'AA+' rating on Metro's GO and nontax revenue debt outstanding.
- Finally, we affirmed our 'AA+' long-term rating on the Nashville & Davidson County Metropolitan Government Sports Authority's (the Sports Authority) outstanding stadium project revenue bonds.
- The outlook is stable.

Security

The series 2024A, 2024B, and 2024C GO improvement bonds are backed by Metro's full faith and credit and ability to levy ad valorem property taxes without limitation as to rate or amount.

Proceeds from the series 2024A, 2024B, and 2024C GO improvement bonds will be used for various capital improvements across the Metro and to retire a portion of its outstanding GO commercial paper bond anticipation notes.

Some of the Metro's outstanding debt is secured by nontax revenues; we view the pledge as equivalent to Metro's general creditworthiness as such revenues are central to general operations and reflective of the fungibility of general resources.

The stadium project revenue bonds for the construction of a National Football League (NFL) stadium for the league's Tennessee Titans franchise are partly secured by pledged revenue pursuant to an intergovernmental agreement between Nashville and the Sports Authority, for more information please see our report published July 10, 2023, on

RatingsDirect.

Credit overview

The 'AA+' long-term rating reflects our view of Nashville's growing economy, strong financial position, proactive management team with a commitment to structural balance and credit supportive available reserves and liquidity. Offsetting the credit strengths are Nashville's high debt burden, particularly on a per capita basis--though we recognize that Metro's debt burden is partly a result of its obligation to issue debt for Metro Nashville Public Schools--and we view it as manageable.

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 in the metro area 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 revenue in fiscal 2023 from less than 7% in fiscal 2020, though we expect reserves to decline in fiscal 2024 due to planned drawdown for debt service and one-time capital projects. The fiscal 2025 budget is structurally balanced, but once again will utilizes approximately $60 million in surplus reserves for one-time use. 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.

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

- Growing, diverse economy with significant tax base growth in recent years;
- Strong financial position, with robust reserves and expectation for ongoing budgetary balance;
- Proactive management with oversight policies and practices; and
- Elevated debt burden, which likely will not improve in the near term due to its average amortization and continued capital needs due to its continued growth, though recently enacted other postemployment benefit (OPEB) changes reduced its retirement liability and annual costs.

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, as well as social factors, 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 officials will make the necessary budgetary adjustments to maintain at least balanced operations during the outlook period.

Downside scenario

We could lower the rating if the Metro's financial performance deteriorates, leading to materially weaker reserves and liquidity. Although unlikely at this time, we could also take a negative rating action if debt metrics worsen significantly.

Upside scenario

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

Credit Opinion

Economy

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.

Nashville continues to be one of the top destinations for expansions or relocations across a variety of industries. Oracle announced earlier this year that it would be moving its world headquarters to Nashville; the company was already in the process of developing a sprawling corporate center in the city's East Bank neighborhood. The 65-acre development is anticipated to generate 8,500 jobs and $1.2 billion in investments. Furthermore, Southwest Airlines recently chose the city as a new crew base, likely bringing 1,300 jobs. And 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. 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 for the Titans and the area around it, are likely to add to the tax base.

Nashville's robust leisure, hospitality, and tourism sector is relatively concentrated (12% of gross county product or GCP) which could result in economic volatility, but we note that employment in this sector has largely recovered from the COVID-19 pandemic. S&P Global Ratings forecasts that Nashville's labor market, real personal incomes, and real gross metro product will rise faster than national averages in the medium term.

Finances

Metro reported another surplus in fiscal 2023 (June 30), its third consecutive. 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, 2022, and 2023. This has corresponded with an increase in reserves to more than $500 million, or 32.8% of general fund revenue, across the unassigned and assigned fund balance and stabilizing the Metro's finances. Prior to fiscal 2021, reserves had fallen to

6.8%. Furthermore, though we don't consider it explicitly in our calculation of general fund reserves, the 50% reserve balances ($208.1 million for fiscal 2025) in the debt service fund provide significant additional budgetary flexibility.

Management expects to report a general fund surplus once the 2024 audit is completed, as expenditures were below budgeted levels. However, there was a one-time spend down of reserves of about $70 million to the debt service fund and about $60 million for one-time capital costs bringing the Metro's fund balance to 17%, as required in the reserve policy. Despite this drawdown, we believe that improved controls and targets surrounding reserves strengthen Metro's financial position as we believe its reserve position still provides sufficient flexibility. In addition, the use of surplus funds for capital may help limit future borrowings and debt service costs.

The fiscal 2025 budget is balanced, an 1.8% increase from the prior year. Officials expect revenue to grow at a slower pace than in prior years and held expenditures flat as a result. The budget, once again, projects a use of fund balance of about $60 million to the debt service fund and one-time capital costs as per Metro's reserve policy. Furthermore, the general fund will continue subsidizing the Nashville General Hospital, accounting for approximately 4.1% of budgeted 2025 general fund expenditures as well as $7.3 million for capital. Management is hopeful it will beat the budget and report another surplus. Metro's largest revenue source is property taxes (53% of total general fund revenue in fiscal 2023), followed by sales taxes (16%), other taxes including licenses and permits (13%), and intergovernmental revenue (12%).

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. In fiscal 2025, the TAN, approved by the state, is for $149 million.

As Nashville grows, it will face both operating and capital expenditure pressures. Slower growth in consumer-activity-based revenue may challenge 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 its financial position during the two-year outlook period--if not longer.

Management

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. The 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;
- Maintenance of formal investment management and debt management policies; and
- A 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 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 targeted levels, they must be restored within 36 months.

Debt

After this issuance, Metro will have $5.6 billion in net direct debt, including $1.1 billion in guarantees of outstanding obligations incurred by the Metro Sports Authority and the Convention Center 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 influence 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.

Nashville draws around $30 million monthly under its commercial paper programs and has a practice of refinancing these draws with long-term GO debt biennially (as with this current issuance). 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.

Metro expects to issue roughly $500 million in the next two years for its capital needs, however, we do not expect this to pressure its debt burden as roughly the same amount will be rolling off during this time.

Pension and OPEB liabilities

Metro's overall pension position is fully funded with actuarial assumptions we consider reasonable when taken together. 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 liability of $78.4 million.

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. 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 $2.2 billion in fiscal 2023, down from $4.3 billion in fiscal 2021.

Table 1

Nashville & Davidson County Metropolitan Government, Tennessee--credit summary	
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Table 1

Nashville & Davidson County Metropolitan Government, Tennessee--credit summary (cont.)	
Reserves and liquidity	1
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Management	1.35

Table 2

Nashville & Davidson County Metropolitan Government, Tennessee--key credit metrics

	Most recent	2023	2022	2021
Economy				
GCP per capita % of U.S.	186	--	186	178
County PCPI % of U.S.	131	--	131	126
Market value ($000s)	216,692,222	151,623,900	147,996,606	128,201,489
Market value per capita ($)	303,539	212,392	210,538	182,804
Top 10 taxpayers % of taxable value	4	4	4	5
County unemployment rate (%)	2.6	2.7	2.8	4.4
Local median household EBI % of U.S.	100	104	105	105
Local per capita EBI % of U.S.	110	113	113	111
Local population	713,887	713,887	702,944	701,305
Financial performance				
Operating fund revenues ($000s)	--	1,529,672	1,393,517	1,317,697
Operating fund expenditures ($000s)	--	1,254,724	1,117,625	975,505
Net transfers and other adjustments ($000s)	--	(200,146)	(135,144)	(130,480)
Operating result ($000s)	--	74,802	140,748	211,712
Operating result % of revenues	--	4.9	10.1	16.1
Operating result three-year average %	--	10.4	8.2	5.3
Reserves and liquidity				
Available reserves % of operating revenues	--	32.8	30.5	21.6
Available reserves ($000s)	--	502,249	425,365	284,625
Debt and liabilities				
Debt service cost % of revenues	10.9	10.9	9.8	10.6
Net direct debt per capita ($)	7,866	6,612	6,571	6,275
Net direct debt ($000s)	5,615,364	4,720,486	4,619,379	4,400,699
Direct debt 10-year amortization (%)	47.0	--	--	--
Pension and OPEB cost % of revenues	7	7	7	8
Net pension liabilities per capita ($)	305	305	141	157
Combined net pension liabilities ($000s)	217,586	217,586	99,261	110,277

GCP--Gross county product. PCPI--Per capita personal income. 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

Ratings Detail (As Of October 2, 2024)		
Nashville & Davidson Cnty Metro Govt approp		
Long Term Rating	AA+/Stable	Affirmed
Nashville & Davidson Cnty Metro Govt GO		
Long Term Rating	AA+/Stable	Affirmed
Nashville & Davidson Cnty Metro Govt GO		
Long Term Rating	AA+/Stable	Affirmed
Nashville & Davidson Cnty Metro Govt GO		
Long Term Rating	AA+/Stable	Affirmed
Nashville & Davidson Cnty Metro Govt GO		
Long Term Rating	AA+/Stable	Affirmed
Nashville & Davidson Cnty Metro Govt GO		
Long Term Rating	AA+/Stable	Affirmed
Nashville & Davidson Cnty Metro Govt GO		
Long Term Rating	AA+/Stable	Affirmed
Nashville & Davidson Cnty Metro Govt GO		
Long Term Rating	AA+/Stable	Affirmed
Nashville & Davidson Cnty Metro Gov't Sports Auth federally taxable pub fac rev rfdg bnds (Arena Proj)		
Long Term Rating	AA+/Stable	Affirmed
Nashville & Davidson Cnty Metro Gov't Sports Auth federally taxable pub fac rev rfdg bnds (Ballpark Proj)		
Long Term Rating	AA+/Stable	Affirmed
Nashville & Davidson County Metropolitan Government Convention Center Authority, Tennessee		
Nashville & Davidson County Metropolitan Government, Tennessee		
Nashville & Davidson Cnty Metro Govt Convention Ctr Auth MISCTAX		
Long Term Rating	AA+/Stable	Affirmed
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)		
Long Term Rating	AA+/Stable	Affirmed
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	Affirmed
Nashville & Davidson County Metropolitan Government Sports Authority, Tennessee		
Nashville & Davidson County Metropolitan Government, Tennessee		
Nashville & Davidson County Metropolitan Government Sports Authority, Tennessee		

Ratings Detail (As Of October 2, 2024) (cont.)		
Nashville & Davidson County Metropolitan Government Sports Authority stad proj rev bnds (non-tax revs pledge)		
Long Term Rating	AA+/Stable	Affirmed
Nashville & Davidson County Metropolitan Government Sports Authority, Tennessee		
Nashville & Davidson County Metropolitan Government, Tennessee		
Nashville & Davidson County Metropolitan Government Sports Authority, Tennessee		
Nashville & Davidson County Metropolitan Government Sports Authority stad proj rev bnds (non-tax revs pledge)		
Long Term Rating	AA+/Stable	Affirmed

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.