

# RatingsDirect®

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## Summary:

# Murfreesboro, Tennessee; General Obligation

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## Summary:

# Murfreesboro, Tennessee; General Obligation

### Credit Profile

US\$65.385 mil GO bnds ser 2021 due 06/01/2036

<i>Long Term Rating</i>	AA/Stable	New
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Murfreesboro GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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## Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to Murfreesboro, Tenn.'s expected \$65.382 million series 2021 general obligation (GO) bonds. At the same time, we affirmed our 'AA' long-term rating on the city's debt outstanding. The outlook is stable.

The series 2021 GO bonds proceeds will be used for a number of capital projects including, but not limited to, improvements to the city's roads, parks, recreation equipment, public safety equipment, and public works equipment.

The bonds are secured by the city's full-faith-and-credit pledge, payable from unlimited ad valorem taxes to be levied on all taxable property within the municipality.

### Credit overview

Murfreesboro, located southeast of Nashville and within the metropolitan statistical area (MSA), is growing rapidly--the city's population has doubled in the past 20 years--resulting in steady economic development and rapid tax base growth. The city's finances are strong, with stable general fund performance and very strong reserves and liquidity. Officials raised property taxes in fiscal 2020 for the first time in two decades, increases general fund revenue by over \$17 million and further stabilizing finances. Murfreesboro recently sold its electric department, which will net the city over \$300 million over the next 15 years and should provide additional financial stability. Furthermore, the city's proactive management team is supported by good financial policies and practices. However, credit risks remains, as the city is reliant on sales taxes for general fund revenue and budgetary pressure may arise as a result of the city's increasing debt burden, as the city anticipates nearly \$250 million in capital needs for infrastructure and other capital projects over the next half decade.

The stable outlook reflects our expectation that Murfreesboro will maintain balanced general fund performance and very strong reserves and liquidity, despite the city's rapid growth and the pressures from COVID-19. Due to the city's growing economy and participation in the broad and diverse Nashville MSA, we anticipate the city's population will continue to increase, resulting in rapid economic and tax base growth. The city's strong financial management practices and policies provide further credit stability. Our outlook is generally for two years, but we see some downside risks due to the pandemic and lagging effects of the recent recession over the next 12 months.

The ratings reflect our assessment of the city's following factors:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment methodology;
- Adequate budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 64% of operating expenditures;
- Very strong liquidity, with total government available cash at 82.1% of total governmental fund expenditures and 5.5x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 14.9% of expenditures and net direct debt that is 125.7% of total governmental fund revenue, as well as rapid amortization, with 79.9% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

### **Environmental, social, and governance factors**

We analyzed the city's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard. In our view, oversight provided by the Tennessee comptroller's offices provides basis for strong governance across the state.

## **Stable Outlook**

### **Downside scenario**

We could lower the rating if the city's debt burden were to increase significantly or if its finances were to deteriorate, possibly due to increasing fixed costs, resulting in a substantial decline in reserves.

### **Upside scenario**

We could raise the rating if the city's economic conditions, including wealth and income metrics, improve to levels that we consider commensurate with those of higher-rated peers, coupled with moderation of its debt profile.

## **Credit Opinion**

### **Strong economy**

We consider Murfreesboro's economy strong. The city, with an estimated population of 142,056, is located in Rutherford County in the Nashville-Davidson--Murfreesboro--Franklin, TN MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 94.9% of the national level and per capita market value of \$109,043. Overall, the city's market value grew by 6.4% over the past year to \$15.5 billion in 2020.

Murfreesboro is 35 miles southeast of Nashville and is the seat of Rutherford County. The city's economy and population continue to experience significant growth, spurred by residential and commercial development. The estimated population grew 31% since the 2010 census and management expects to add roughly 2,000 housing units annually over the next half decade. Since 2016, taxable values have increased by \$1.7 billion or 54%, to \$4.8 billion in

fiscal 2021.

City officials report several commercial and industrial developments are underway, including a Costco and Mahle, an auto parts manufacturer, is adding capacity to its facility. Residents benefit from a strong and diverse regional economic base and serves as the center for retail, manufacturing, particularly automotive, medical services, and higher education as Middle Tennessee State University is in the city. While classes are currently virtual, the university employees over 2,200 and enrollment was nearly 22,000 in the fall of 2019. S&P Global Economics indicates that the recovery from the COVID-19-induced recession could be uneven (see "Staying Home For The Holidays," published Dec. 2, 2020, on RatingsDirect), which we expect will continue to cause a near-term economic slowdown at the local level. The county's unemployment rate reached 16.7% in April 2020, before falling to 3.9% in November.

### **Strong management**

We view the city's management as strong, with good financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Management's budget assumptions are strong, in our opinion, using three to five years of historical information, using a line-by-line budgeting approach, and consulting with outside sources. Management provides the council with monthly budget-to-actual reports, and the budget can be amended and is throughout the year. Officials have recently created and maintain a five-year financial forecast, which projects top-line revenue and expenditure over said timespan. The city has a formalized investment policy and reports investments on annual basis in its financial statement. Officials maintain a five-year capital improvement plan, which is reviewed annually and identifies projects and funding sources. City officials have a formalized reserve policy of maintaining 15%-30% of operating revenues in reserve, with which it is in compliance. Finally, the city has a debt management policy that outlines specific debt limitations.

The city has taken steps to mitigate exposure to cyber-related risks including acquiring cyber insurance, offsite backups, and continuing cyber education for employees.

### **Adequate budgetary performance**

Murfreesboro's budgetary performance is adequate in our opinion. The city had surplus operating results in the general fund of 8.4% of expenditures, but a deficit result across all governmental funds of negative 4.8% in fiscal 2020 (June 30). Our view of the city's budgetary performance reflects adjustments made to include recurring transfers from the electric department fund and transfer out to the general purpose school fund, debt service fund, and nonmajor governmental funds, and excludes one-time expenditures funded with bond proceeds or reserves and refunded bonds. Our assessment also incorporates heightened near-term uncertainty that exists due to the recessionary pressures related to the COVID-19 pandemic and lagging economic recovery.

Management attributes the positive general fund performance in fiscal 2020 to a number of factors, including increasing the property tax rate, stability in tax revenue despite the economic recession and expenditures being far below budgeted levels as a result of hiring and spending freezes implemented during the early stages of the pandemic. The city raised property taxes for the first time in 21 years by 35.8%, which brought in an additional \$17.8 million in revenue. The city also realized savings in salaries and benefits, reduction of programs, deferring some capital projects,

and utility costs being lower than expected.

The city derives more 72% of general fund revenue from local sources. The property tax is Murfreesboro's largest revenue source, accounting for 34% of total revenue in the fiscal 2020 budget, followed by sales taxes (29%), intergovernmental sources (14%), and charges for services (6%). While we view property tax revenue as less vulnerable to the lagging economic recovery, sales tax revenue could be adversely affected by the economic uncertainty surrounding the COVID-19 pandemic. However, sales tax revenue has increased in recent months, and officials are optimistic that revenue will remain stable.

Murfreesboro passed a \$180.4 million general fund budget with a deficit of \$5.5 million, or 3%. The budget anticipated declines from several revenue sources, including to the sales tax, but management informed us that revenue has outpaced budgeted levels thus far. Officials are hopeful that the city can achieve balanced general fund operations in fiscal 2021 as a result of the better than budgeted revenue performance and thus will not have to draw on reserves. The city also sold its electric distribution system for \$300 million, receiving \$40 million in fiscal 2021 and will receive \$17.3 million annually, with 3.3% interest, over the next 15 years. The city council is in the process of determining how to appropriate the funds; though a portion may be used for future capital projects.

At this time, the city does not have additional plans to raise property taxes, though it is exploring a rate increase for solid waste collection. We expect the city's management to be proactive in maintain balance general fund operations in the coming years despite Murfreesboro's infrastructure and services needs as a result of its rapid growth.

### **Very strong budgetary flexibility**

Murfreesboro's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 64% of operating expenditures, or \$72.5 million. The city's positive general fund performance and one-time sale of real estate has resulted in an increase in its fund balance. We expect the city to maintain at least balanced operations in fiscal years 2021, thus not drawing on reserves. Therefore, we expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

### **Very strong liquidity**

In our opinion, Murfreesboro's liquidity is very strong, with total government available cash at 82.1% of total governmental fund expenditures and 5.5x of governmental debt service in 2020. In our view, the city has strong access to external liquidity, if necessary. We have adjusted the city's cash-to-net unspent bond proceeds. In our view, the city has strong access to external liquidity if necessary, given its history of issuing GO debt over the past 20 years. Although the state allows for what we view as somewhat permissive investments, we don't consider the city's investments aggressive, with most investments held in bank accounts, municipal bonds, or U.S. government bonds and notes.

The city recently prepaid two variable rate loans and as a result, all its debt is fixed rate to maturity. Murfreesboro privately placed its series 2019 local government public improvement bonds with SunTrust Bank. The bond's interest rate is fixed at 2.84%. While there are no acceleration provisions that we consider to be permissive, in the event of default the interest on unpaid principal could increase up to 18%. Additionally, the city has the option to convert to variable rate upon certain dates in the future. At this time, we view it is unlikely that the city would trigger such an event. Furthermore, management does not anticipate any liquidity issues in the near term as a result of the COVID-19

pandemic due to reserves and cash on hand. Therefore, we expect the city's liquidity to remain very strong over the next two years.

### **Adequate debt and contingent liability profile**

In our view, Murfreesboro's debt and contingent liability profile is adequate. Total governmental fund debt service is 14.9% of total governmental fund expenditures, and net direct debt is 125.7% of total governmental fund revenue. Approximately 79.9% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor. Overall net debt is moderate at 3.5% of market value.

Murfreesboro has approximately \$414.5 million of total direct debt outstanding of which we consider approximately \$81.9 million, or 19.8%, to be self-supported mostly by the water and sewer utility system. Net utility revenues have provided more than 1.7x coverage of debt service in recent years. If coverage declines, it could push expenditures to the operating funds while also lifting debt ratios, though we view this as unlikely at this time.

Overall net debt totals \$539.7 million, of which, 38.4% is overlapping. The city requires a minimum of \$40 million in capital expenditures in the coming 18 months, however, it has yet to determine if it will issue debt for these projects or if it will use funds from the recent sale of the electrical system. However, the city's capital plan projects nearly \$250 million in capital spending for infrastructure needs over the next five years, which may result in additional debt being issued. Although we expect officials will plan and adjust debt issuances to correspond with population and tax base growth, we view it unlikely that the city's debt ratios will moderate over the next two years. Furthermore, as additional debt is issued, if the city's debt amortization schedule were to slow, it could change our view of the city's debt profile.

### **Pension and other postemployment benefits liabilities**

- We do not view pension liabilities as an immediate credit risk for Murfreesboro, given our opinion of the city's very strong plan funding status and currently affordable contributions, although we see a small risk of cost escalation.
- The city's required pension contributions totaled 2.8% of total governmental fund expenditures in 2019, which we view as low.
- The city administers a single-employer defined-benefit health care plan, contributions are on a pay-as-you-go basis, and changes in assumptions or increases in the liability may result in increased costs.

Murfreesboro participates in the following plans as of June 30, 2019:

- City of Murfreesboro Employees' Pension Plan: a single-employer defined benefit pension plan, 80.3% funded, with a net liability of \$35.3 million.
- Murfreesboro Electric Department Employee Pension Plan: a single-employer defined benefit pension plan, 118% funded, with a net asset of \$4.3 million (as of June 30, 2020).
- Tennessee Consolidated Retirement System (TCRS): an agent, multiple-employer public retirement plan, 104% funded, with a proportionate share of the plan's net asset of \$1.3 million.
- City of Murfreesboro Defined Contribution Plan: a defined contribution plan with no liability to the city.

The city closed its defined benefit plan to employees hired beginning July 1, 2010, and all non-electric and school employees, are on a defined contribution plan since that date. The City of Murfreesboro Employees' Pension Plan

failed to make funding progress in the most recent year, with contributions falling short of both our minimum funding and static funding progress metrics. Over the past six fiscal years, the plan's fund ratio fell to 80.3% from 95.9% in fiscal 2014. The plan's 7% assumed discount rate leaves risk of rising pension costs due to market volatility. The city made its full annual required pension contribution of \$5.4 million to the plan in fiscal 2020. Both the defined benefit and defined contribution rates are actuarially determined, while the TCRS is statutorily determined.

The city also participates in three defined benefit OPEB plans that provides health insurance benefits on a pay-as-you-go basis to all full-time employees and eligible retirees of the primary government, electric department, and school employees. The city's OPEBs are paid on a pay-as-you-go basis and the OPEB liability was \$160.7 million across the three plans. We do not anticipate that costs associated with the city's pension and OPEB will increase substantially in the near term.

### Very strong institutional framework

The institutional framework score for Tennessee counties is very strong.

## Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

### Ratings Detail (As Of January 29, 2021)

Murfreesboro wtr & swr sys rev & tax rfdg bnds ser 2009 dtd 09/30/2009 due 06/01/2010-2026

Long Term Rating

NR

Murfreesboro GO

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.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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