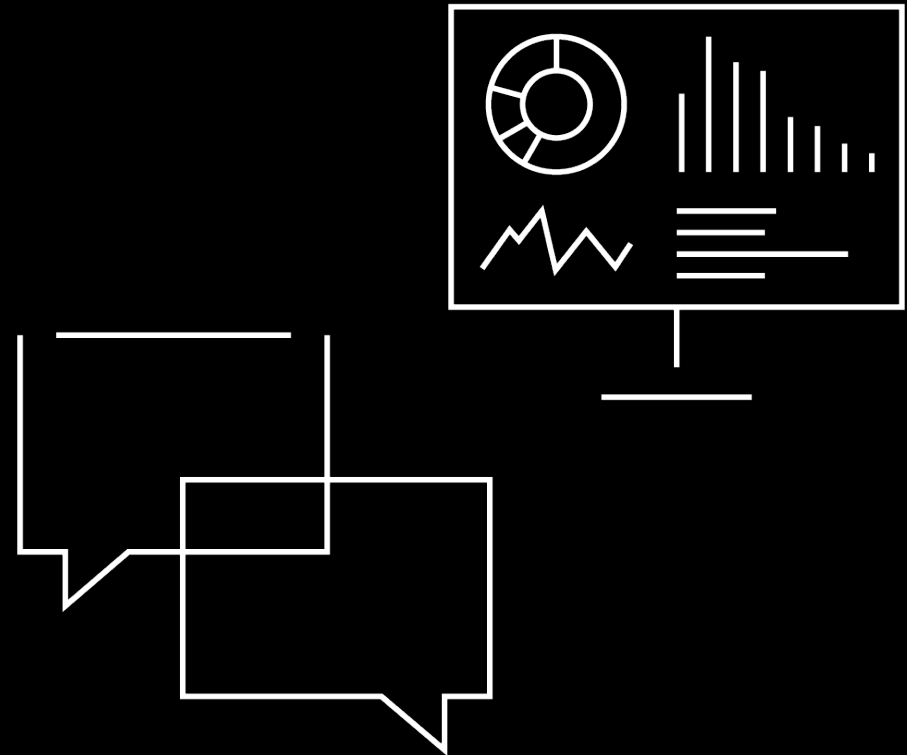


2025 TGFOA Fall Conference

Rating Agency Updates

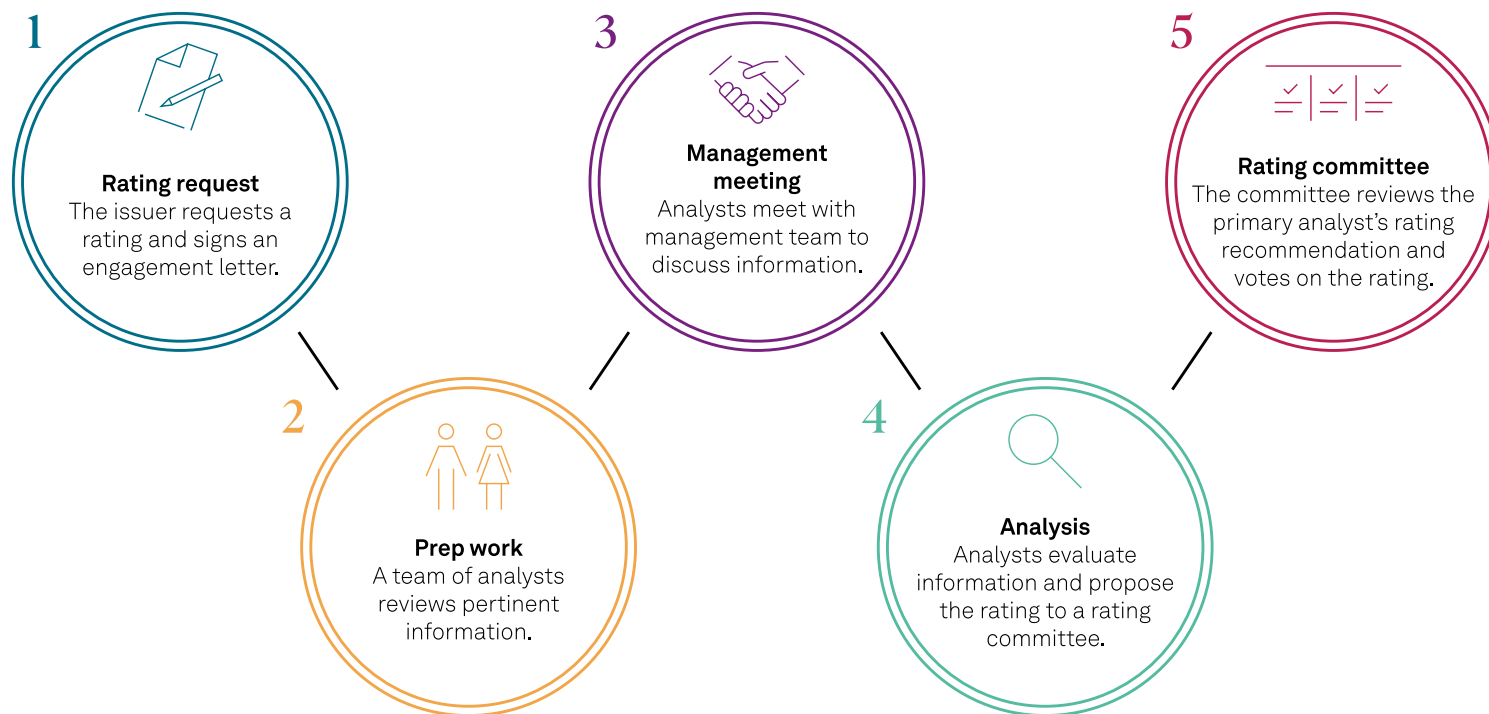
Steven Waldeck
Senior Analyst
U.S. Local Governments

October 2025



The Ratings Process – Steps 1-2

S&P Global Ratings' process to committee (steps 1-5)



Rating Request

1. Best practice (but not required) is to send along the following information during the initial Rating Request:
 - i. Transaction Documents:
 - Preliminary Official Statement, Legal Documents, Cash Flows, etc.
 - ii. Issuer Specific Information:
 - 3 Years of Audited Financials, Latest Budget, Links to Financial Policies and Practices, etc.

We need sufficient documentation 10-15 days prior to rating release

Prep Work

1. Our preparation leading up to the Management Meeting is guided by the documents submitted upon request.
2. If the analyst has specific questions or is searching for additional documentation, they provide those requests prior to the management meeting through an agenda or questionnaire.

Source: S&P Global Ratings.
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The Ratings Process – Steps 3-5

S&P Global Ratings' process to committee (steps 1-5)



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Management Meeting

1. The meeting provides valuable forward-looking qualitative information and supplements the quantitative portion of our criteria.
2. This is great time to send all the exciting news surrounding your government! Please share economic development announcements, strategic plans, or whatever else you find pertinent to the credit rating.

Analysis

1. After the management meeting, the analysts prepare to present to a rating committee. This may require additional follow up items or documentation requests.

Rating Committee

1. By this stage, all relevant information provided is presented to the rating committee.
2. The committee, using the appropriate sector and security criteria, discusses the attributes of the issuer's credit quality, and determines the rating and outlook

The Ratings Process – Steps 6-7

Notification

1. After notification of the rating outcome, the primary analyst will send a draft rating report to the issuer to review before publication.
2. This review is not for editorial purposes, but to give the issuer the opportunity to identify anything included in the report that it considers to be a factual error, misleading statement, or an inadvertent disclosure of confidential information.

Publication

1. After we receive and evaluate the issuer's feedback, and incorporate it as we see fit, we release the rating and publish the report. We typically prefer to publish the report within the same business day as we provide the draft, so that confidential information is not outstanding overnight.

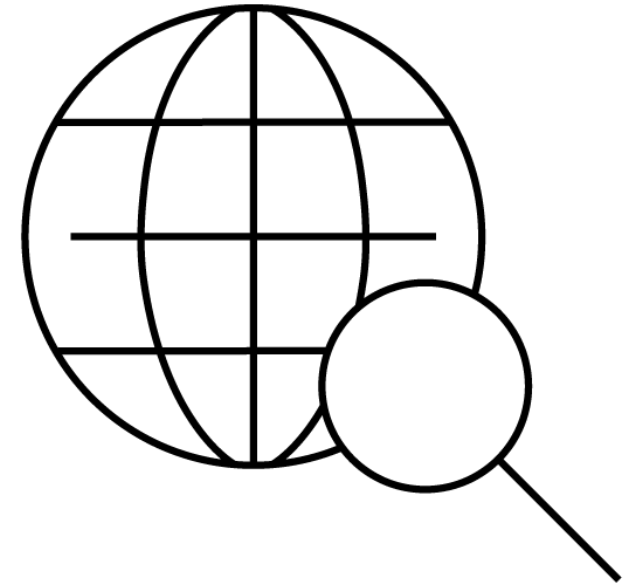
S&P Global Ratings' process post-committee (steps 5-9)



Source: S&P Global Ratings,
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Surveillance

- The rating relationship continues after the credit report is published and the rating is shared with the market. S&P Global Ratings has an obligation to the market to maintain a current rating. In order to do this, the issuer is required to provide updated information through the life of the bonds.
- The S&P Global Ratings' team will review all provided info and from time to time might contact the issuer with questions or to schedule a surveillance update focused management meeting.
- Our data teams use Electronic Municipal Market Access (EMMA) and your websites to find the latest financial information. You can also provide documents electronically to pubfin_statelocalgovt@spglobal.com
- When applicable, please submit direct placement or privately purchased debt obligations to the last analytical team.

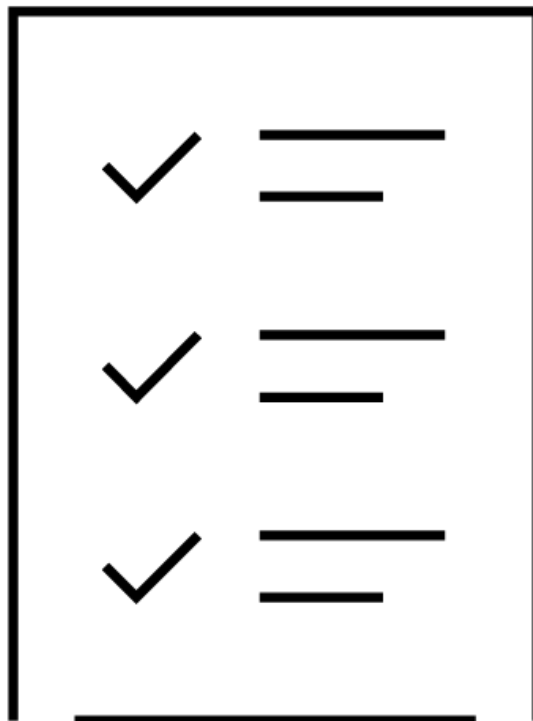


Information Quality

S&P Global Ratings monitors and updates public credit ratings on an ongoing basis. We require sufficient information in both quality (received from a reliable source on a timely basis) and quantity to maintain our ratings.

How do S&P Global Ratings' information sufficiency standards relate to material changes to information previously provided?

In U.S. Public Finance, we expect issuers and their agents and advisors to provide us with notice of material changes to financial and operational information as soon as such information is available. For example, we expect to receive notice of new or updated disclosure from management related to financial and operational performance, whether or not disclosure of such information would be required under SEC Rule 15c2-12.



If information is not received on a timely basis, can the rating be affected?

S&P Global Ratings may raise, lower, suspend, place on CreditWatch, or withdraw a credit rating, and assign or revise an outlook, at any time, in S&P Global Ratings' sole discretion. In reviewing a credit, we will consider, among other things, whether we have received sufficient information on a timely basis to maintain the rating. If the timeliness or reliability of the information we possess is deteriorating, we would generally communicate this to the market. One avenue we could use and have used in the past to communicate this is through a CreditWatch.

2025 TGFOA Fall Conference

Criteria | Governments |
Methodology For Rating U.S.
Governments

*On September 9, 2024, S&P Global
Ratings released new criteria for
rating U.S. Governments*

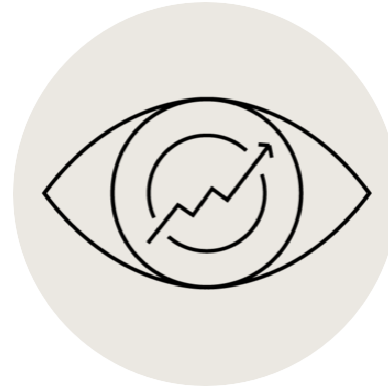


Criteria Objectives



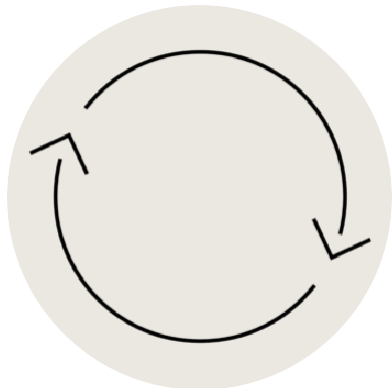
Consolidate criteria

by providing a single scored framework for U.S. governments including states, counties, municipalities, school districts, and special purpose districts



Increase transparency

of our methodology and assumptions to the marketplace



Improve consistency and alignment

of ratings across different U.S. governments

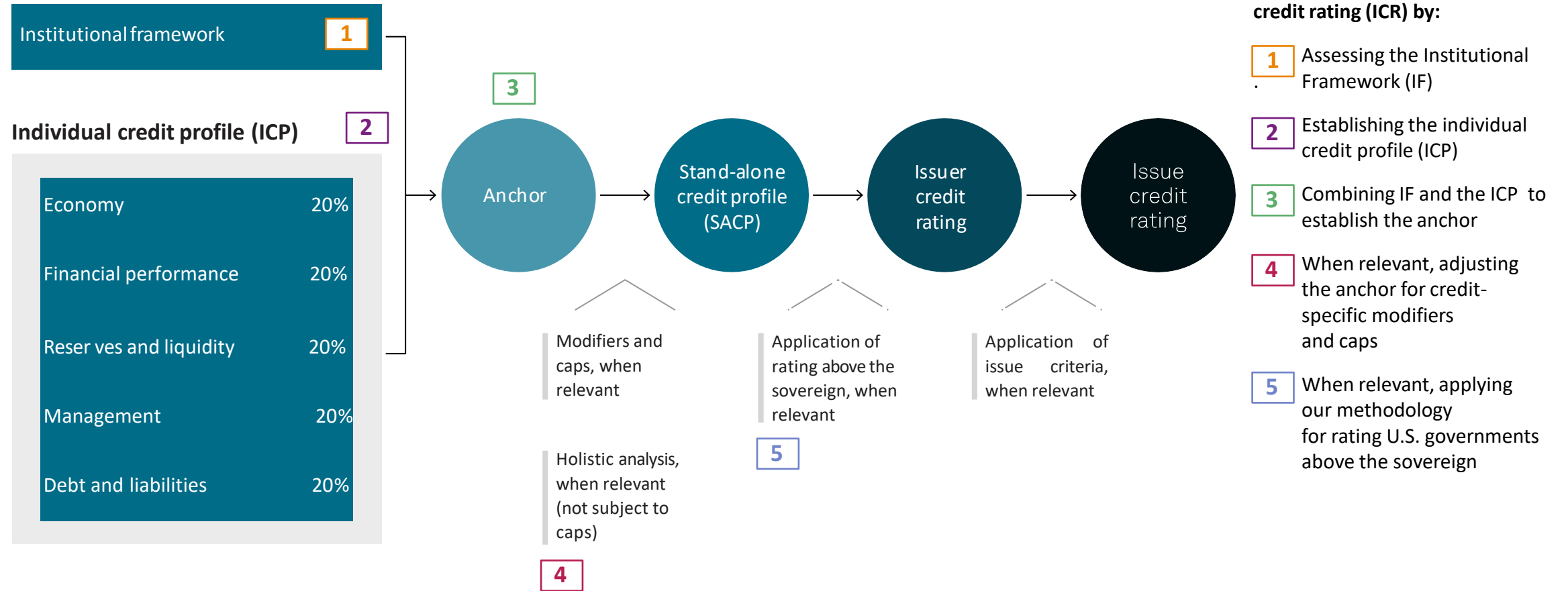


Enhance global comparability

across state, local, and regional governments globally

The Analytical Framework

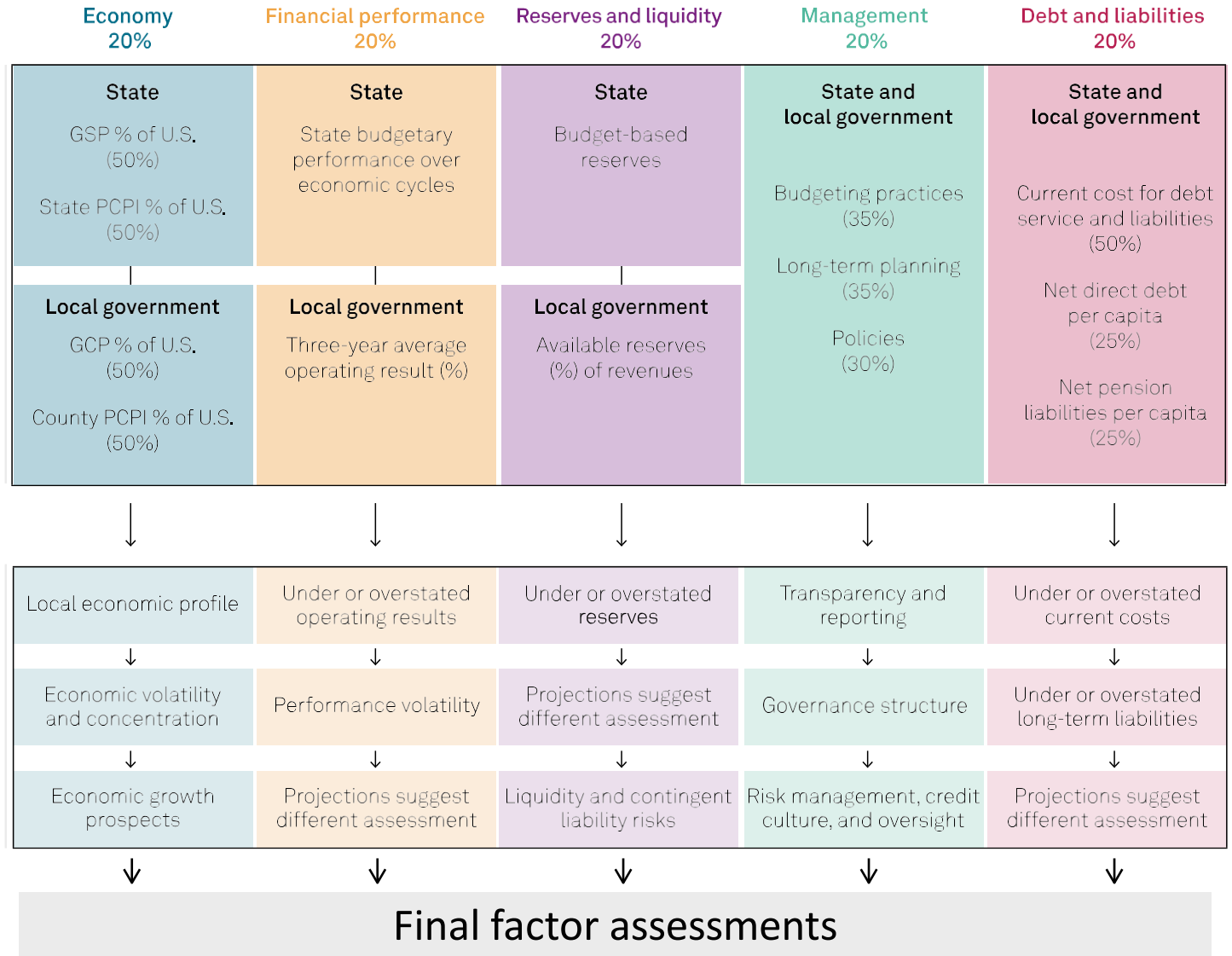
Framework for ratings U.S. governments



Framework For Establishing The Individual Credit Profile (ICP)

Step 1: Establish initial assessment

Step 2: Apply qualitative adjustments



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

Determining The Anchor

- Both the IF and ICP are scored on a '1' to '6' scale.
- The final assessment of the IF is rounded, while the final assessment of the ICP remains unrounded.
- The IF and the ICP are combined to determine the anchor. For instance, if a government is operating with an IF of '2' and an ICP of '2.2', the table outcome would be 'aa/aa-'.

		--Individual credit profile--										
		1	1.5	2	2.5	3	3.5	4	4.5	5	5.5	6
--Institutional framework assessment--	1	aaa	aaa	aa+	aa	aa-	a+	a	a-	bbb	bb+	bb-
	2	aaa	aa+	aa	aa-	a+	a	a-	bbb+	bbb-	bb	b+
	3	aa+	aa	aa-	a+	a	a-	bbb	bbb-	bb+	bb-	b
	4	aa-	a+	a	a-	bbb+	bbb	bb+	bb	bb-	b	b-
	5	a	a-	bbb+	bbb	bbb-	bb+	bb-	b+	b	b-	b-
	6	bbb+	bbb	bbb-	bb+	bb	bb-	b+	b	b-	b-	b-

If the table indicates multiple ratings, we determine the anchor by considering:

- The position within the range (closer to one versus another); and
- The expected future performance of one or several of the five ICP credit factors; or
- Any credit characteristics that may be over or understated in our analysis; or
- A peer comparison.

Institutional Framework

- The IF is the set of formal rules and laws, practices, customs, and precedents that shape the environment in which governments operate.
- We assess the IF by state and government type (i.e. states, counties, municipalities, schools).
- When the legal or practical environment for a specific local government differs from the norm in its state (portfolio assessment), we will assess accordingly.

Predictability (25%)

The ability of a government to forecast its revenues and expenditures

Revenue/expenditure balance and system support (50%)

The ability of a government to finance the services it provides, and the degree of ongoing and exceptional support from a higher-level government

Transparency and accountability (25%)

The comparability of a government's relevant financial information

Institutional Framework Assessment - Tennessee Local Governments

Overall assessment (100%)

MUNICIPALITY

1

COUNTY

1

SCHOOL DISTRICT

2

Assessment broken down by weighted subfactors

Predictability (25%)	1	Transparency/ accountability (25%)	1
Revenue and expenditure balance, system support (50%)		1	

Predictability (25%)	1	Transparency/ accountability (25%)	1
Revenue and expenditure balance, system support (50%)		1	

Predictability (25%)	1	Transparency/ accountability (25%)	1
Revenue and expenditure balance, system support (50%)		3	

Economy

Step 1: Establish initial assessment

	1	2	3	4	5	6
State						
GSP per capita as a % of U.S. GDP per capita	>110	110-95	95-85	85-75	75-65	<65
State PCPI as a % of U.S. PCPI	>100	100-90	90-80	80-75	75-70	<70
Local government						
GCP per capita as a % of U.S. GDP per capita	>110	110-95	95-85	85-75	75-65	<65
County PCPI as a % of U.S. PCPI	>100	100-90	90-80	80-75	75-70	<70

Step 2: Qualitative adjustments

Local economic profile

Considers local government demographics, wealth, and income characteristics influencing revenue-generating capacity or expenditure demands

Economic volatility and concentration adjustment

Considers the concentration and volatility of state or local government economies over cycles

Economic growth prospects adjustment

Considers the projected economic growth patterns and other economic circumstances that could affect future revenue-generating capacity

Initial assessment:

'1' to '6' scale

- Local governments within the same county receive the same initial score.

See Table 6

Qualitative adjustments:

- Reflect other economic factors not in the initial assessment.
- For municipalities, schools, and special districts, the qualitative adjustments differentiate local economic characteristics that are not represented in the county-level metrics.

See Tables 7-9

Financial Performance

Step 1: Establish initial assessment

	1	2	3	4
State				
State budgetary performance over economic cycles	Surplus performance achieved during Economic expansion and budget balance during economic decline will be less than 50% reliant on one-time measures	Balanced operating results achieved during economic expansion and budget balance during economic decline may be more than 50% reliant on one-time measures	Balanced operating results may be achieved during economic expansion and budget balance during economic decline may be more than 75% reliant on one-time measures	Limited focus on Structural budget balance, regular deficits carried through into future fiscal years
Local government				
Three-year average operating result (%)	>3	3-0	0-(3)	(3)

Step 2: Qualitative adjustments

Adjustment for under or overstated operating results

Considers if financial performance is over or understated and would align with a different initial assessment

Performance volatility adjustment

Considers if financial performance is subject to unpredictability and would align with a worse initial assessment

Adjustment for projections that suggest different assessment

Considers whether prospective changes to current financial performance would result in a better or worse initial assessment

Initial assessment:

'1' to '4' scale

- The states' initial assessment focuses on budgetary performance over economic cycles.
- Local governments' initial assessment focuses on the three- year average operating result as reported in financial statements.

See Table 10

Qualitative adjustments:

- Final assessments of '5' or '6' are reached through the application of qualitative adjustments and typically reflect instances where governments exhibit structural imbalance.

See Tables 11-13

Reserves And Liquidity

Step 1: Establish initial assessment

State	1	2	3	4
Budget-based reserves	There is a formal budget-based reserve target relative to revenue or spending that is above 8%. In addition, there is a demonstrated track record of restoring the reserve following depletion	There is a formal budget-based reserve target relative to revenue or spending that is between 4% and 8%. In addition, there is a demonstrated track record of restoring the reserve following depletion	There is a formal budget-based reserve target relative to revenue or spending that is between 1% and 4%. In addition, there is a demonstrated track record of restoring the reserve following depletion	There is no formal budget reserve target, or reserves are funded at less than 1% over time, or there is no process for accumulating reserves. No additional reserve funds are identified or available

Local government	1	2	3	4	5
Available reserves % of revenues	>15	8-15	4-8	1-4	<1

Step 2: Qualitative adjustments

Adjustment for under or overstated reserves

Considers if reserves are over or understated and would align with a different initial assessment

Adjustment for projections that suggest a different assessment

Considers whether prospective changes to reserves would result in a better or worse initial assessment

Liquidity and contingent liability risks adjustment

Considers whether liquidity pressures could worsen initial assessment

Initial assessment:

- **States:** '1' to '4' scale based on a qualitative assessment of a state's budgetary reserve target and track record of replenishing reserves.
- **Local governments:** '1' to '5' scale based on available reserves as a percentage of revenue as reported in its most recent financial statements.

See Tables 14-15

Qualitative adjustments:

- For states, final assessments of '5' or '6,' and for local governments, final assessments of '6' are reached through the application of qualitative adjustments and typically reflect liquidity and contingent liability risks.

See Tables 16-18

Management

Step 1: Establish initial assessment

State and local government	1	2	3	4
Budgeting practices	Budgets are forward-looking with robust monitoring	Budgets are realistic with sufficient monitoring	Budgets are limited in scope with informal monitoring	Budgets are unrealistic and lack monitoring
Long-term planning	Robust culture of long-term planning	Some long-term planning	Informal long-term planning	No long-term planning
Policies	Robust, well-defined policies with thorough reporting	Basic policies with regular reporting	Informal policies exist with little or no reporting	No policies or policies not followed

Step 2: Qualitative adjustments

Transparency and reporting adjustment

Considers if issues with management's timely and effective disclosure of key information could worsen initial assessment

Governance structure adjustment

Considers whether the relationship between management and governing bodies or issues with the processes for making decisions or executing reforms could worsen initial assessment

Adjustment for risk management, credit culture, and oversight

Considers management's risk tolerance, oversight, or track record in adequately planning and monitoring the government's operations

Initial assessment:

'1' to '4' scale

- Each of the subfactors is scored and weighted to arrive at the initial assessment.

See Tables 19-21

Qualitative adjustments:

- A final assessment of '5' or '6' is reached through the application of qualitative adjustments.
- Adjustments may reflect:
 - A challenging management and governance environment,
 - A management team that is understaffed or lacks relevant skills or experience, or
 - Our view of issues related to leadership competency, knowledge, or credit culture.

See Tables 22-24

Debt And Liabilities

Step 1: Establish initial assessment

	1	2	3	4	5	6
State						
Current cost for debt and liabilities % of revenues	<3	3-6	6-9	9-12	12-15	>15
Net direct debt per capita	<500	500-1,500	1,500-2,500	2,500-3,500	3,000-4,500	>4,500
Net pension liabilities per capita	<500	500-1,500	1,500-2,500	2,500-3,500	3,000-4,500	>4,500
Local government						
Current cost for debt and liabilities % of revenues	<8	8-14	14-20	20-25	25-30	>30
Net direct debt per capita	<500	500-1,500	1,500-2,500	2,500-3,500	3,000-4,500	>4,500
Net pension liabilities per capita	<500	500-1,500	1,500-2,500	2,500-3,500	3,000-4,500	>4,500

Step 2: Qualitative adjustments

Adjustment for under or overstated current costs

Considers if initial assessment should be adjusted because current costs for debt and liabilities are over or understated and would align with a different initial assessment

Adjustment for under or overstated long-term debt and liabilities

Considers if initial assessment should be adjusted because long-term debt and liabilities are over or understated and would align with a different initial assessment

Adjustment for projections that suggest different assessment

Considers whether prospective changes to current costs and long-term debt and liabilities would result in a different initial assessment

Initial assessment:

'1' to '6' scale

- Current cost includes annual debt service, pension, and OPEB expenditures.
- We typically use pension information as reported under GASB standards. We do not adjust the data, but we may qualitatively adjust our assessment for plan assumptions that increase risk.

See Table 25

Qualitative adjustments:

- Consider whether the initial scores may be under or overstated for various reasons.

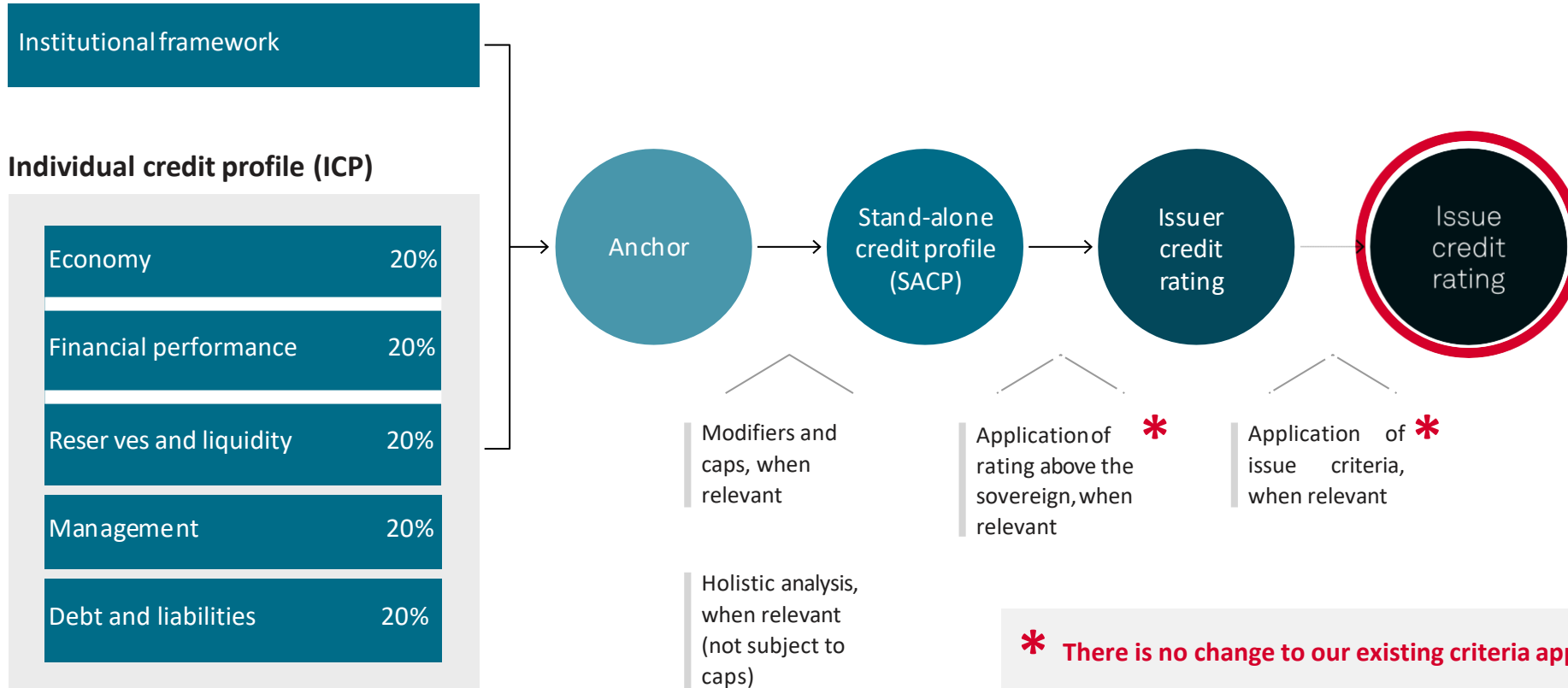
See Tables 26-28

Modifiers, Caps, And Holistic Analysis

Factors that generally worsen or improve the anchor	No. of notches
For local governments, effective buying income is greater than 150% of the U.S.	Improve by 1
For local governments, small population of less than 5,000 without an offsetting economic strength	Worsen by 1
A management assessment of '5' or worse	Worsen by 1 or more
An excessive debt or liability burden relative to its economic base or operations	Worsen by 1 or more
Risk of materialization of large contingent liabilities not reflected in financial information	Worsen by 1 or more
Rapidly rising or unexpected risks	Worsen by 1 or more
Factors that generally cap the SACP	Category capped at
Management assessment of '6'	'bbb'
Management demonstrates a current lack of willingness to pay annual appropriation debt, or support a moral obligation pledge in full or on a timely basis	'bbb'
Management and reserves and liquidity assessments of '6'	'bb'
There is a perceived change in the willingness to honor unconditional or guarantee debt in full or on a timely basis, or we believe the organization may be actively considering a bankruptcy or receivership filing	'b'

- Once we determine the anchor, the next step is to apply any relevant modifiers and caps.
- Individual modifiers typically improve or worsen the anchor by only one level, but for certain modifiers, analysts have more flexibility.
- The final step in the determination of the rating is consideration of a holistic adjustment. The holistic analysis is meant to capture credit nuances not already factored into the anchor.

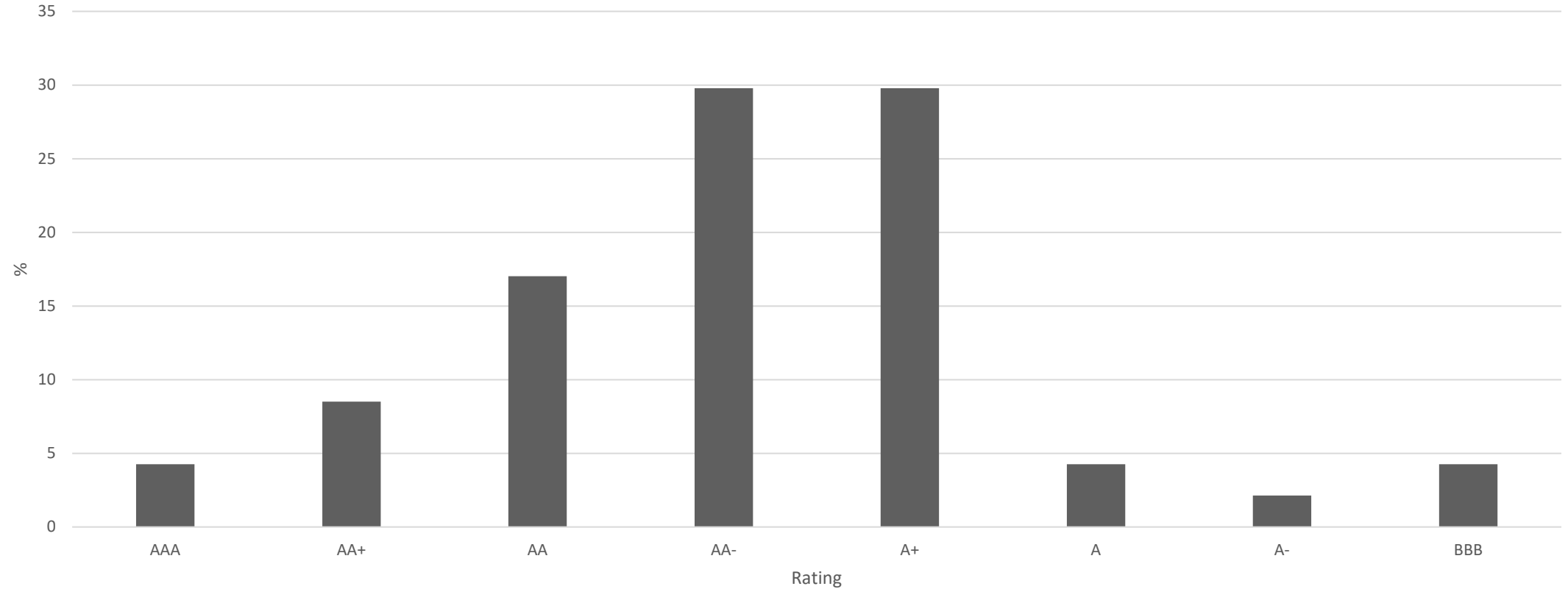
Arriving At An Issue Credit Rating



*** There is no change to our existing criteria approach to**

- “Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions,”
- “Issue Credit Ratings Linked To U.S. Public Finance Obligors’ Creditworthiness,” and
- “Priority-Lien Tax Revenue Debt,” which remain unchanged.

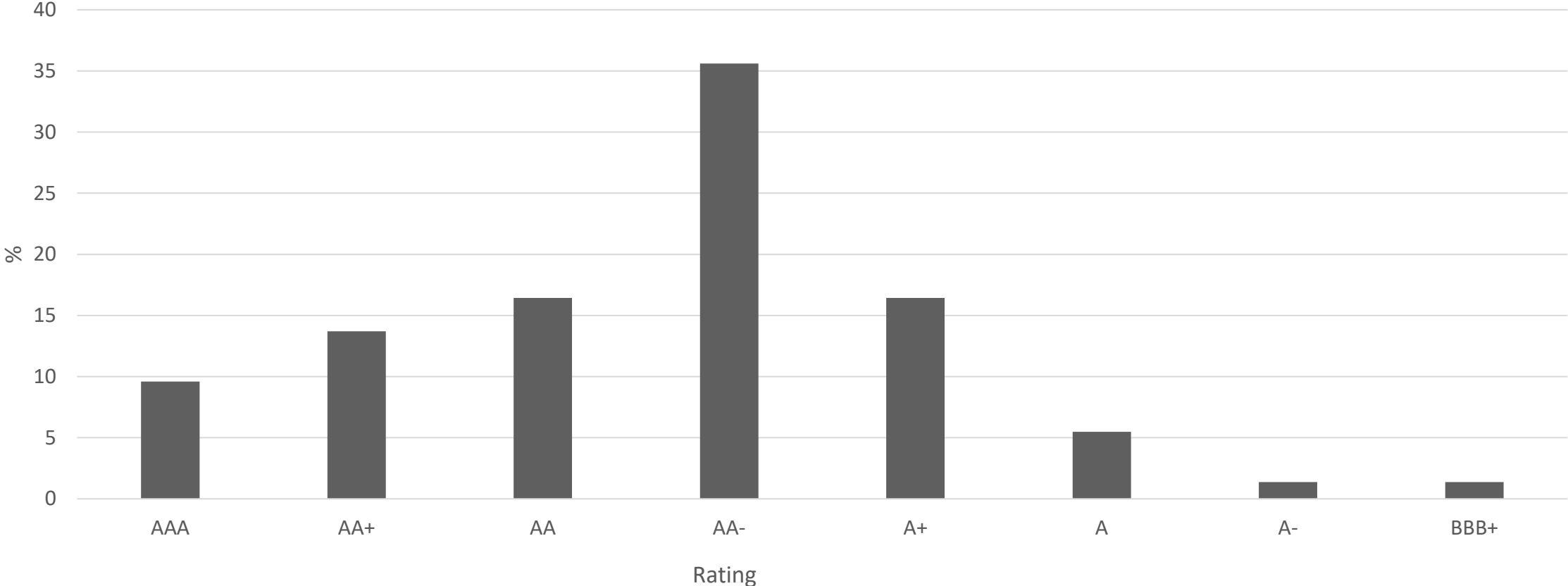
TN Counties Rating Distribution



Tennessee Counties: Medians

	AAA	AA+	AA	AA-	A+	A	A-	BBB	State Median
Median County GCP (%) of the U.S.	99.38	81.41	61.7	48.6	38.2	29.08	23.54	26.68	45.08
Median County PCPI (%) of the U.S.	86.04	97.14	77.84	69.21	62.91	54.28	47.81	49.43	68.65
Median Local HHEBI (%) of the U.S.	98.99	99.65	90.8	74.86	69.12	69.06	51.31	66.28	75.28
Median Local PCEBI (%) of the U.S.	93.35	98.43	86.89	72.76	69.6	60.25	70.18	62.93	72.82
Median 3-Year Performance Average (%) of Revenues	7.4	3.27	4.66	6.58	3.85	1.22	8.12	2.5	5.02
Median General Fund Balance (%) of Revenues	54.4	36.24	45.15	49.65	28.62	35.77	21.92	35.62	38.11
Median Fund Balance Plus Non-General Fund (%) of Revenues	54.4	36.24	45.15	49.65	28.62	35.77	21.92	35.62	38.11
Median Debt Service (%) of Revenues	15.48	17.48	13.28	10.21	9.45	15.88	14.33	7.17	11.21
Median Net Direct Debt Per Capita	1,528	1,463	1,174	723	572	878	1,662	1,040	906
Median Pension Contribution (%) of Revenues	4.38	5.01	3.27	2.62	3.15	3.23	1.02	2.94	3.13
Median Net Pension Liability Per Capita	52	238	34	-22	-35	-36	64	-21	1

TN Municipalities Rating Distribution



Tennessee Municipalities: Medians

	AAA	AA+	AA	AA-	A+	A	A-	BBB+	State Median
Median County GCP (%) of the U.S.	110.53	80.16	80.89	52.96	38.5	64.85	45.06	36.17	61.94
Median County PCPI (%) of the U.S.	96.81	90.86	80.21	70.76	63.18	69.63	71.2	53.35	76.69
Median Local HHEBI (%) of the U.S.	134.56	100.06	75.62	70.71	63.3	65.73	70.64	62.37	72.7
Median Local PCEBI (%) of the U.S.	111.76	95.19	77.45	70.45	65.22	69.77	75.44	64.34	74.78
Median 3-Year Performance Average (%) of Revenues	5.57	10.84	6.87	8.8	6.6	5.98	-0.7	35.89	6.96
Median General Fund Balance (%) of Revenues	70.2	53.24	60.88	70.48	59.62	53.67	51.85	195.52	65.26
Median Fund Balance Plus Non-General Fund (%) of Revenues	70.2	53.24	60.88	70.48	59.62	53.67	51.85	195.52	65.26
Median Debt Service (%) of Revenues	4.75	5.21	6.15	3.86	3.6	4.11	1.99	0	4.48
Median Net Direct Debt Per Capita	1,280	2,169	2,991	1,310	1,374	1,063	53	3,272	1498
Median Pension Contribution (%) of Revenues	5.88	4.63	4.05	2.86	5.11	6.88	0.7	3.45	4.09
Median Net Pension Liability Per Capita	630	51	137	55	115	79	-152	207	105

Tennessee County Rating Transitions

January 1st, 2024 through August 4th, 2025

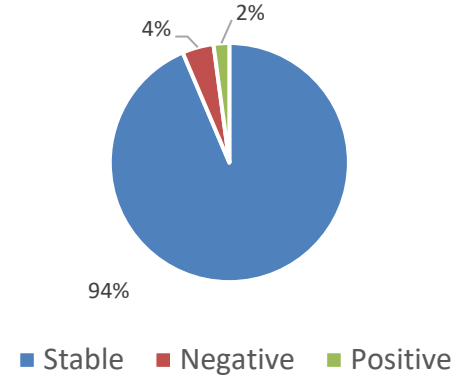
RATING_ACTION	TOTAL
DOWNGRADE+OUTLOOK CHANGE	1
OFF CREDITWATCH	2
ON CREDITWATCH	2
UPGRADE	3
UPGRADE+OUTLOOK CHANGE	1

Tennessee Municipality Rating Transitions

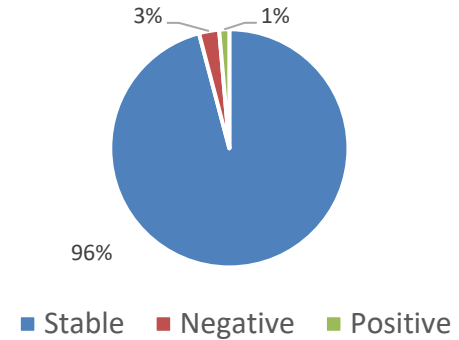
January 1st, 2024 through August 4th, 2025

RATING_ACTION	TOTAL
DOWNGRADE+OUTLOOK CHANGE	1
OFF CREDITWATCH	1
ON CREDITWATCH	2
OUTLOOK CHANGE	2
UPGRADE	4

County Outlooks



Municipality Outlooks



2025 TGFOA Fall Conference

Contact information:

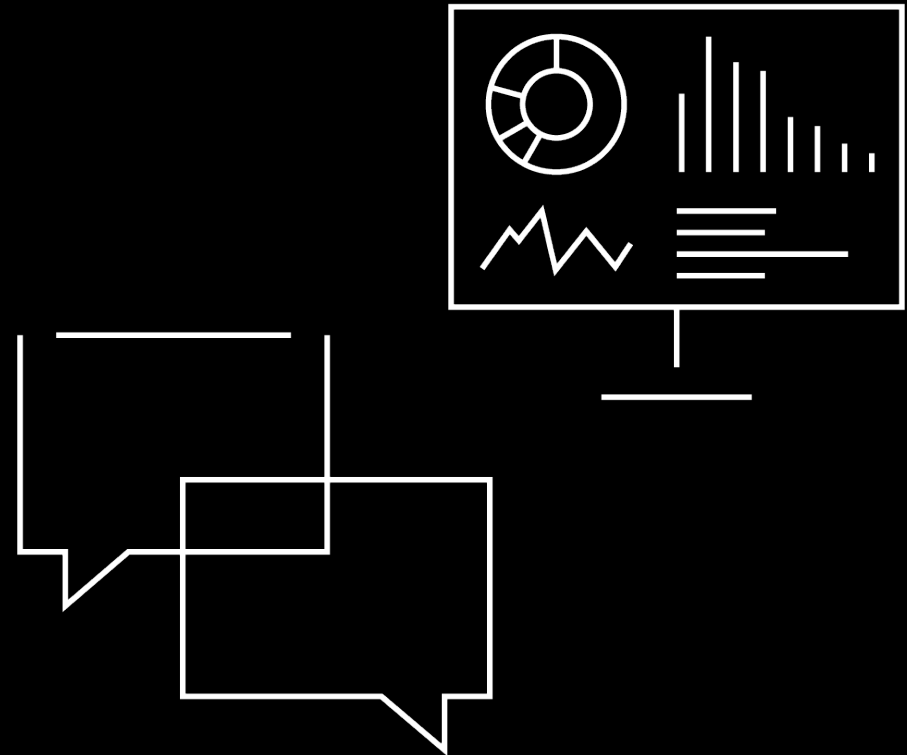
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