

MOODY'S RATINGS

US Public Finance

Rating Agency Update - TGFOA

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2025 year in review

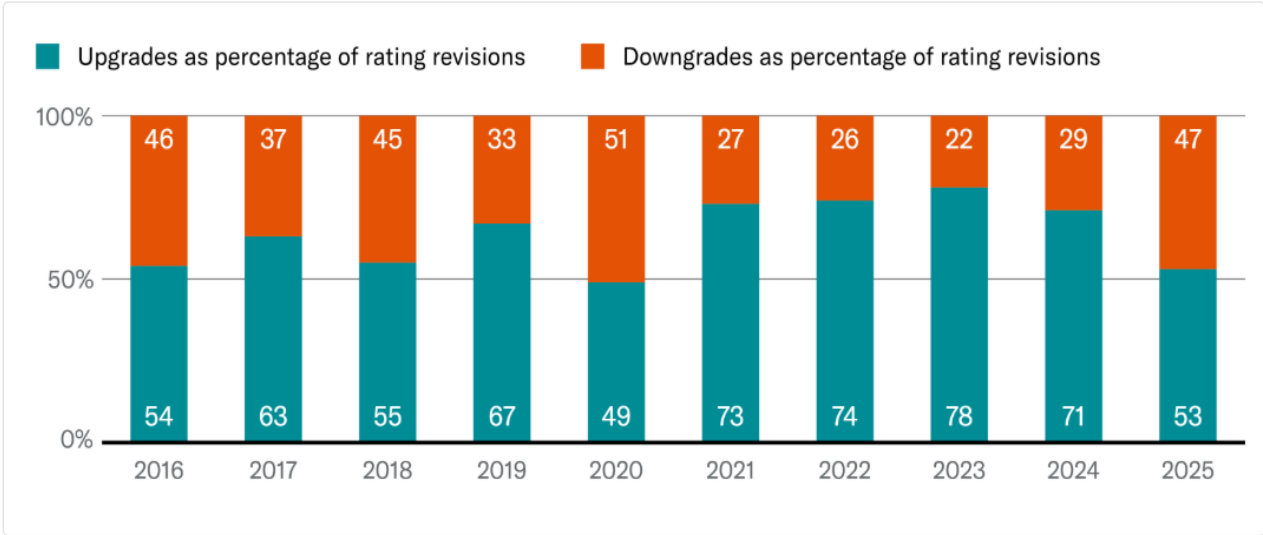
Upgrades > downgrades for 5th consecutive year

EXHIBIT 1
Rating change summary for full-year 2025

Publicly rated obligors: 10,506		
Rating changes 663	YoY rating changes -21%	Total debt \$432.9B
↑ 351 Upgrades	-41% YoY change in upgrades	\$292.5B Total debt for upgraded obligors
↓ 312 Downgrades	+29% YoY change in downgrades	\$140.4B Total debt for downgraded obligors

The rating change count includes rating changes to individual obligors and not to individual securities. Total debt refers to the total debt outstanding for all issuers with a rating change.
Source: Moody's Ratings
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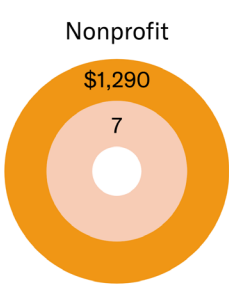
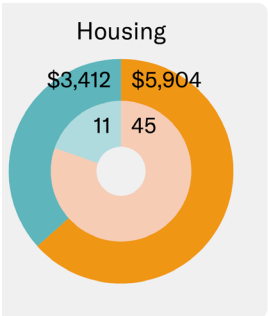
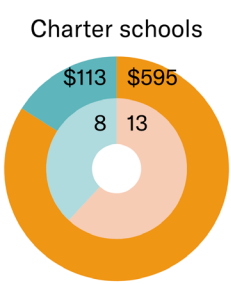
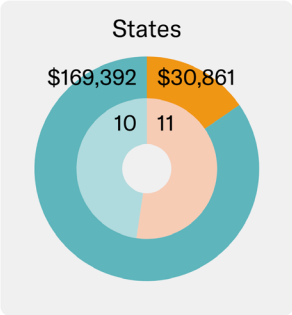
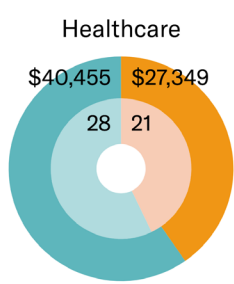
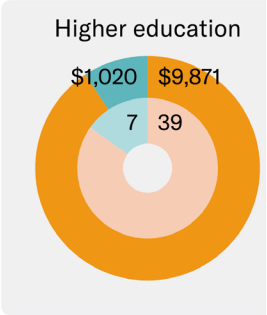
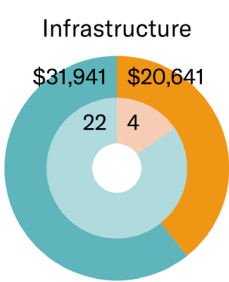
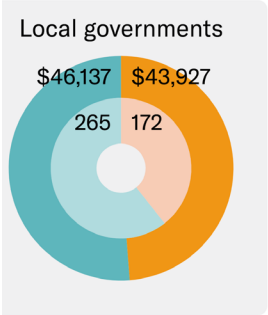
EXHIBIT 2
Upgrades exceeded downgrades for the fifth straight year in 2025
Yearly trend in rating changes



Source: Moody's Ratings
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Upgrades/downgrades by sector – risks & opportunities differ

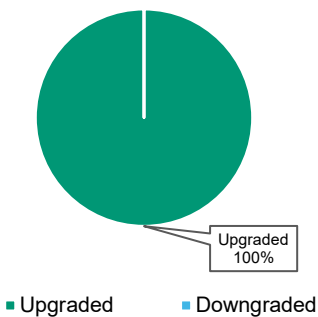
Upgrades count Debt outstanding for upgraded obligors (millions)
Downgrades count Debt outstanding for downgraded obligors (millions)



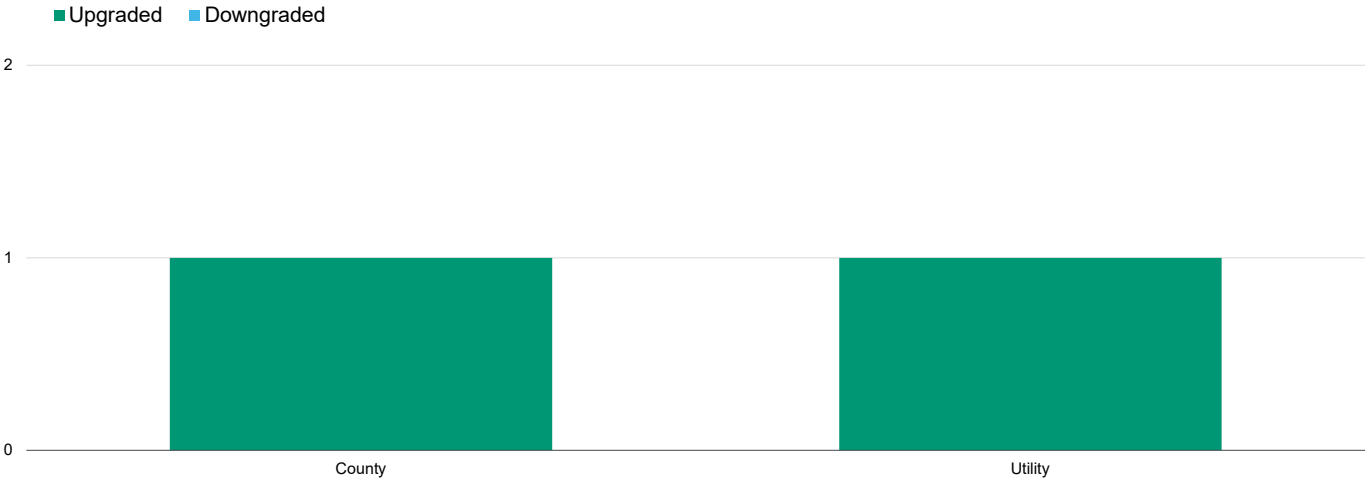
Source: Moody's Ratings

Upgrades far outpaced downgrades in NY rating changes

2025 NY Local Government Rating Changes



2025 TN Local Government Rating Changes by Sector



Source: Moody's Ratings

Themes from 2025

Common threads across sectors...

- The gap between upgrades and downgrades narrowed significantly from years past as credit conditions became more uneven
- Economic conditions remained generally supportive, however sectors such as higher education and K-12 schools face mounting pressures
- The US sovereign downgrade did trigger a number of housing downgrades especially those with higher federal counterparty exposure



Federal Policy Updates

A sustained capital market decline would have uneven credit effects

Low Moderate Higher



Capital market shock

- Sustained capital markets decline-up to 40%



Primary public finance risk channels

- Weaker income tax revenue
- Lower investment income
- Reduced liquidity growth
- Pension asset losses



Sector exposure

- Wealthy income tax-reliant states
 - Higher education institutions
 - Wealthy not-for-profit foundations
 - High pension exposure issuers
-
- States more reliant on sales taxes
 - Large local governments
 - Not-for-profit healthcare healthcare
-
- Housing finance agencies, utilities



Credit outcomes

- Revenue under-performance
- Constrained liquidity and reserves
- Slower capital investment
- Higher pension funding needs

Source: Moody's Ratings

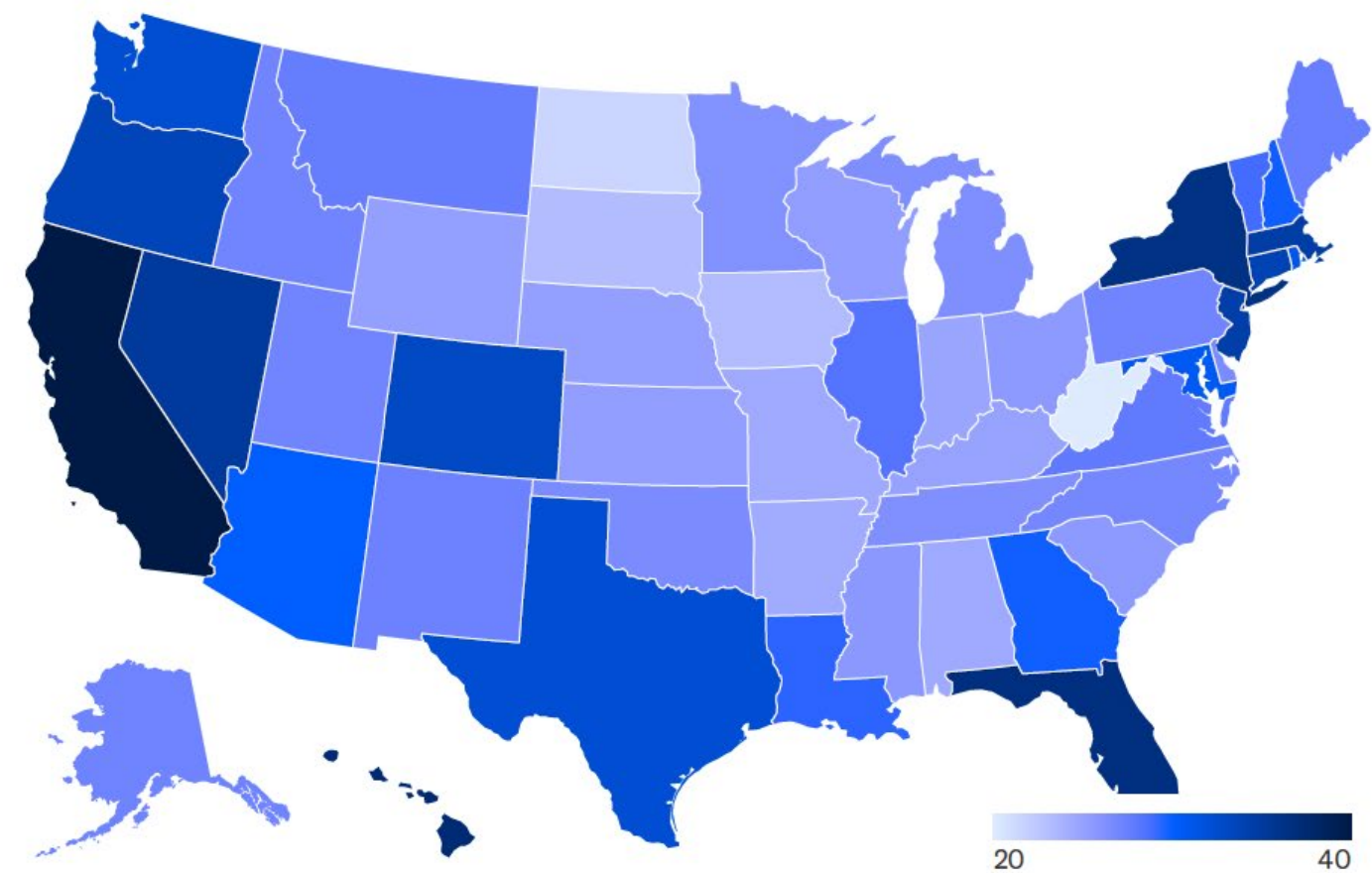
The federal policy environment is mostly negative for US public finance

Credit impact	Negative	Neutral	Positive	Severity	High	Medium	Low
Policy risk	Sectors most affected			Credit impact	Severity		
Medicaid	States, Healthcare, Local Governments						
Disaster aid	All						
Loss of tax exemption	All						
Immigration	States, Local governments, Higher Ed, Healthcare						
Affordable housing	Housing, Local Governments						
Federal workforce & office space	Local Governments						
Tariffs	States, Local Governments, Housing						
Clean energy	States, Local Governments						
Tax cuts & deregulation	States, Local Governments						
Oil, gas & data centers	States, Local Governments, Utilities						
Federal research grants	All						
Education funding	K-12						

Source: Moody's Ratings

All in...California, Hawaii, Florida and New York have the greatest share of households that are housing cost burdened

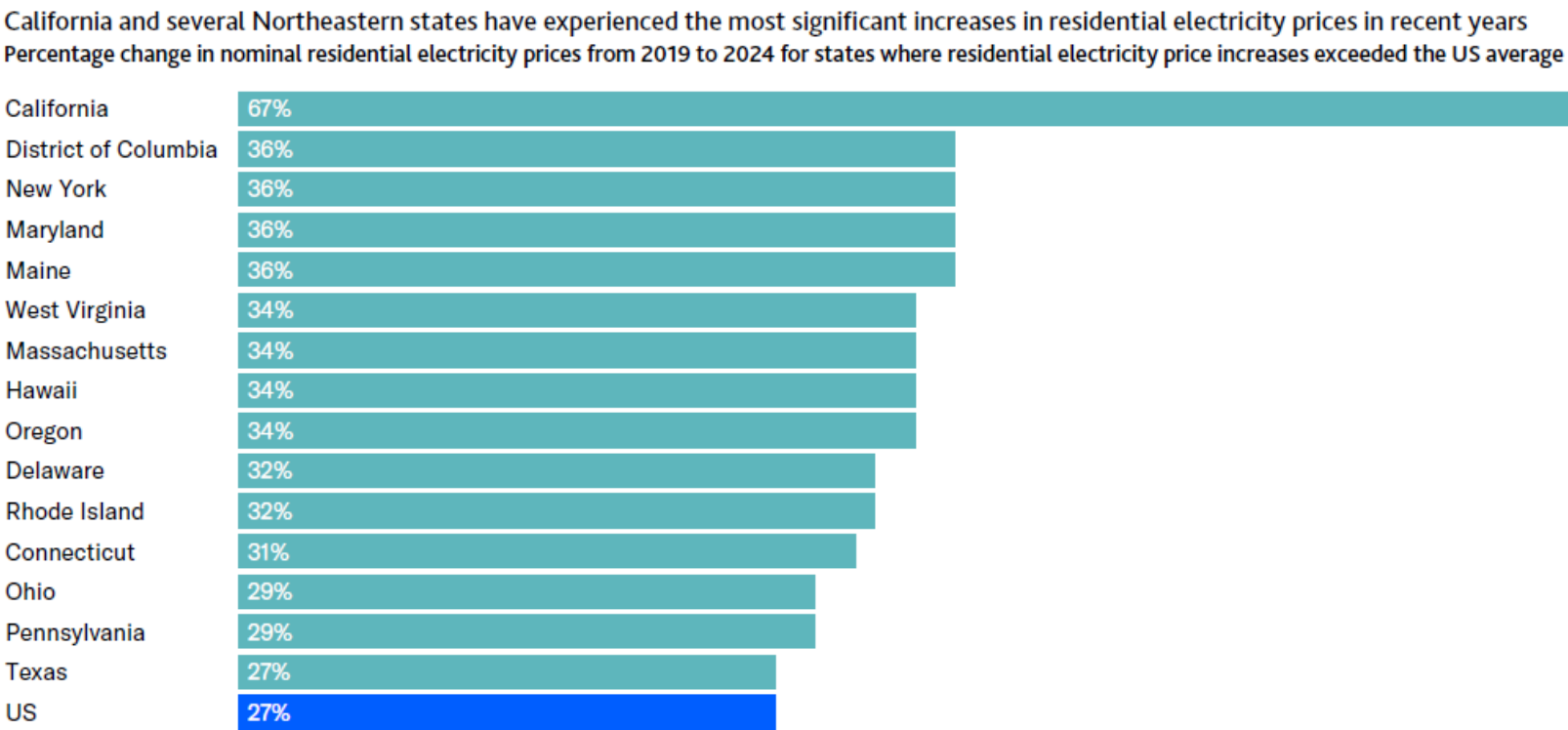
% of households paying >30% of income on housing expenses
(mortgage/ rent, real estate taxes, insurance, HOAs, utilities)



County	% of household housing cost burdened
Bronx County, NY	50%
Miami-Dade County, FL	45%
Nantucket County, MA	44%
Los Angeles County, CA	44%
Kings County, NY	43%
Broward County, FL	43%
Essex County, NJ	42%
Queens County, NY	42%
Passaic County, NJ	41%
Rockland County, NY	41%
Monroe County, FL	41%
San Diego County, CA	41%
Presidio County, TX	40%
Clarke County, GA	40%
Portsmouth City, VA	40%

Rising insurance and power prices also fuel regulatory and credit pressures

Percentage change in nominal residential electricity prices from 2019 to 2024 for states where residential electricity price increases exceeded the US average



Residential electricity price data reflects combined information for all utility ownership types, including publicly owned utilities and investor-owned utilities.
Source: US Energy Information Administration



US Cities and Counties Outlook

C&C Outlook: Negative

Rationale

The outlook for US cities and counties is negative in 2026 reflecting expectations that inflationary cost pressures will continue to outpace revenue growth through 2027. Rising costs for healthcare, labor and capital investment will drive expenditures higher while many local governments grapple with a more restrictive revenue environment, making it more difficult for them to maintain balanced operations in the absence of spending cuts. At the same time, weakening consumer and taxpayer capacity will likely slow tax growth, limiting revenue gains.

- **Inflation will exceed tax revenue gains:** We expect aggregate tax revenue growth for cities and counties to slow to about 2.6% in 2026 and 2.0% in 2027, below inflation of 3.0% and 2.5%.
- **Weaker US growth will constrain local government finances:** We expect US GDP growth will slow to 1.9% in 2026 and 2027, down from 2.8% in 2024 and 2.1% in 2025. Slower economic growth will likely increase demand for city and county services while reducing growth in economically sensitive revenue, such as sales tax.
- **Revenue growth faces increasing constraints:** As household budgets become more constrained due to affordability pressures, cities and counties will face greater limits on their ability to increase taxes, fees and other own-source revenue.

What could move the outlook to negative

Credit conditions trending toward Great Recession drivers

- **Revenue miss coupled with inflation outpacing revenue growth**
 - Greater expenditure restraint to balance operations will be necessary if inflation exceeds revenue growth
- **Trend of foreclosure activity exceeding 1%**
 - Note, even material economic contraction is unlikely to result in foreclosure rates approaching Great Recession as more than 20% of mortgages are below 3% and 92% are fixed rate
 - Unlocking of housing market would likely drive positive financial scenario for cities and counties
- **Material decline in labor force participation and/or unemployment approaching 6%**
 - Unemployment during Great Recession peaked at 9.9% in Q4 2009
 - COVID peak to trough (3.6% in Q4 2019 to 13% in Q2 2020 to 3.6% in Q2 2022) demonstrates resiliency of US labor market
- **Loss of autonomy through targeted federal/state policies that weaken general credit characteristics**
- **Increased contagion risk from “pocket of weakness” sectors exposed to more acute credit challenges of federal policy**
 - Higher education, healthcare, non-military federal employment, and cross-border trade (Federal Bucketing Project)

What could move the outlook to positive

Revenue growth that materially outpaces inflation and wage growth

- **Revenue growth that materially outpaces inflation and wage growth**
 - Greater than forecasted revenue growth would add operational flexibility
- **Unlocking of US housing market resulting in improved home affordability**
 - Interest rate cuts, even if cut another 50bp through end of 2025 unlikely to greatly improve affordability
 - <https://www.washingtonpost.com/business/2025/09/18/mortgage-rates-fed-zillow/>

A large, stylized, blue letter 'M' graphic that serves as a background element for the title. It is composed of several rectangular blocks, giving it a modern, architectural feel. The 'M' is positioned in the upper half of the slide, with its right side extending towards the right edge.

City and County Methodology Overview

Issuer and instrument ratings



Issuer Rating

Fundamental credit quality



**Instrument
Considerations**

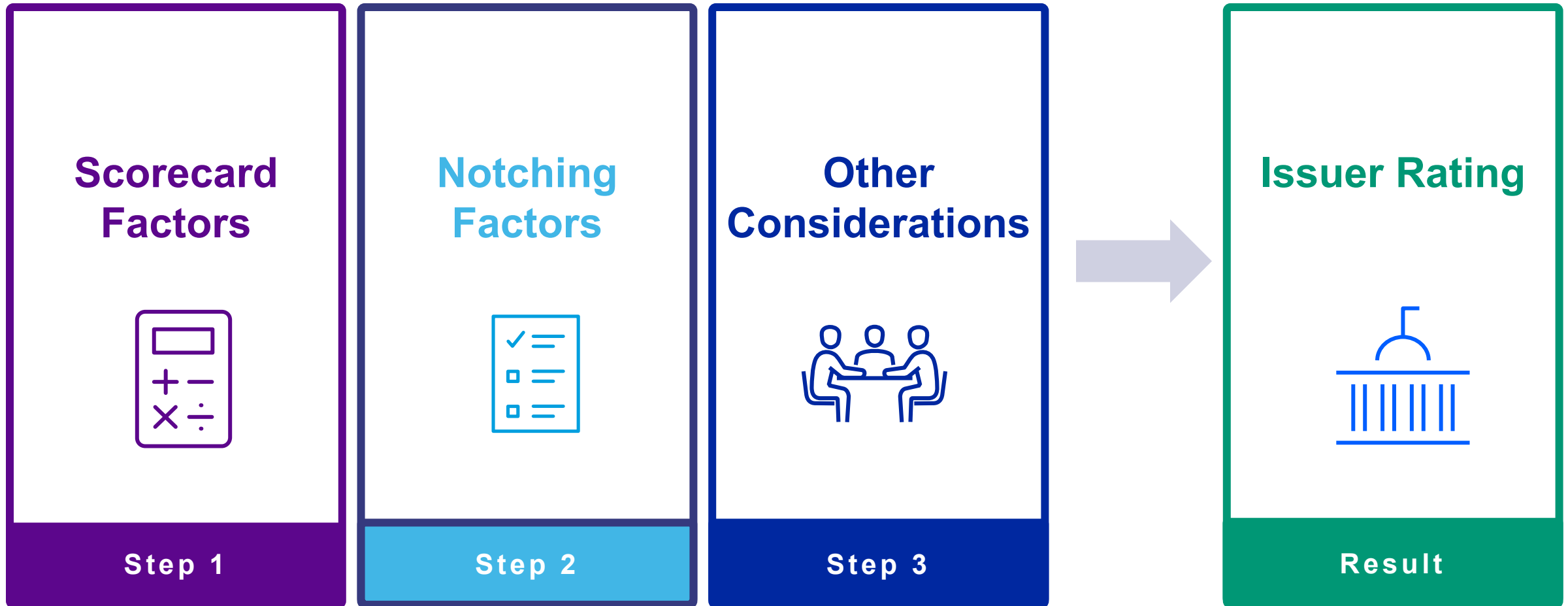
Evaluation of debt
instrument characteristics



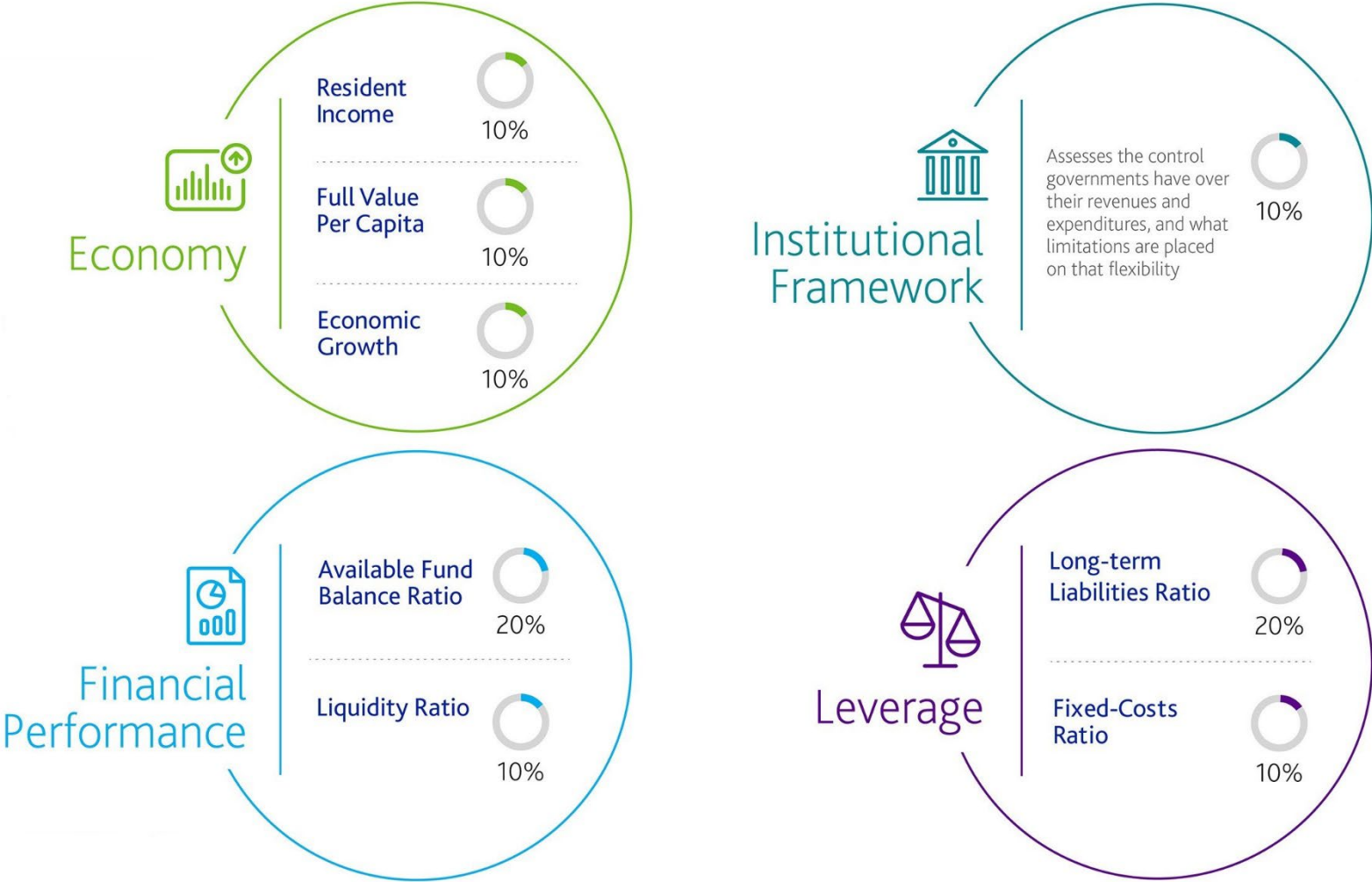
Instrument Rating

Placed in relation to the
issuer rating

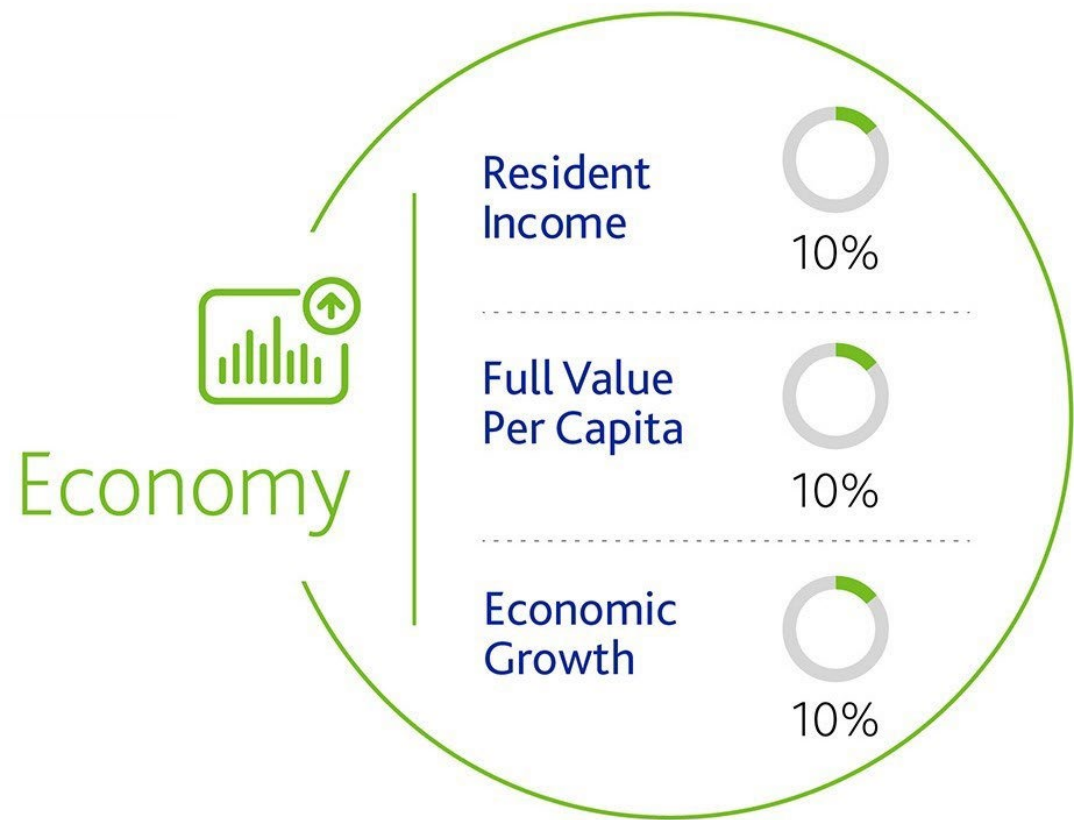
Arriving at the issuer rating



Arriving at the issuer rating – Step 1

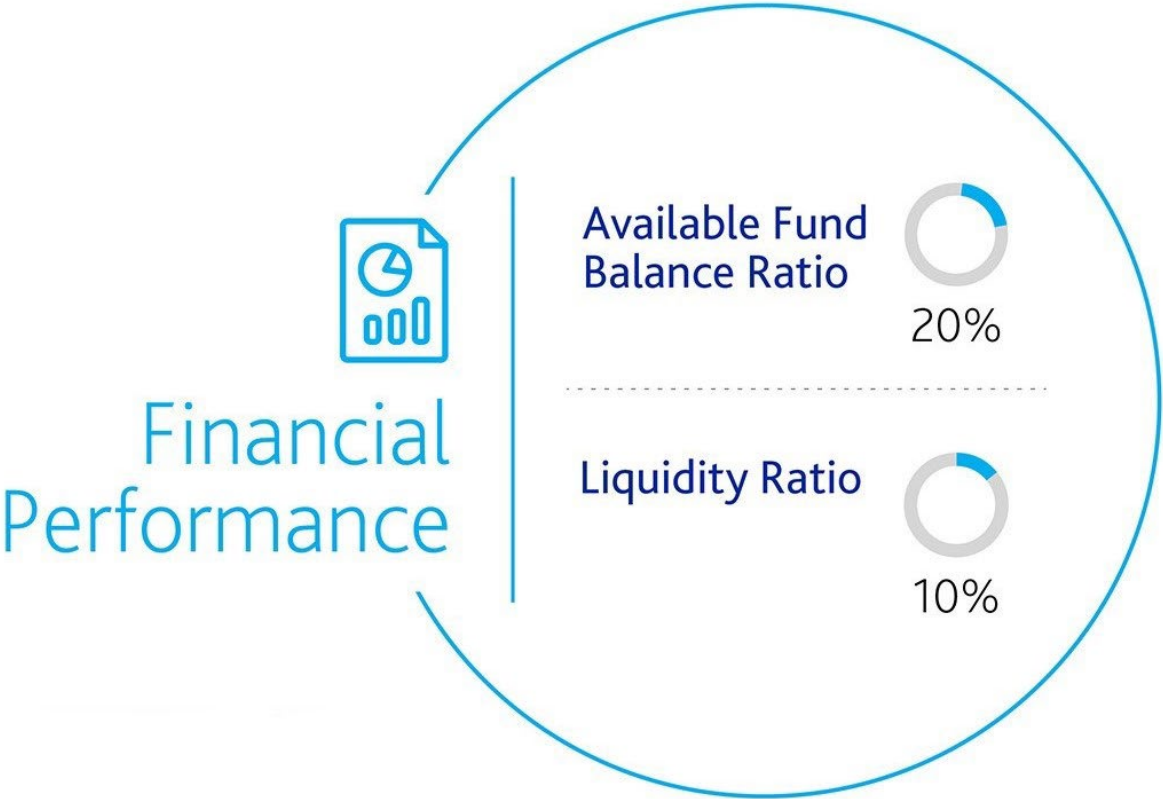


Scorecard Factor 1: Economy



Sub-factor	Sub-factor calculation
Resident Income (10%)	MHI adjusted for RPP / US MHI
Full Value Per Capita (10%)	Full valuation of tax base / population
Economic Growth (10%)	Difference between 5-year CAGR in real GDP and 5-year CAGR in real US GDP

Scorecard Factor 2: Financial Performance



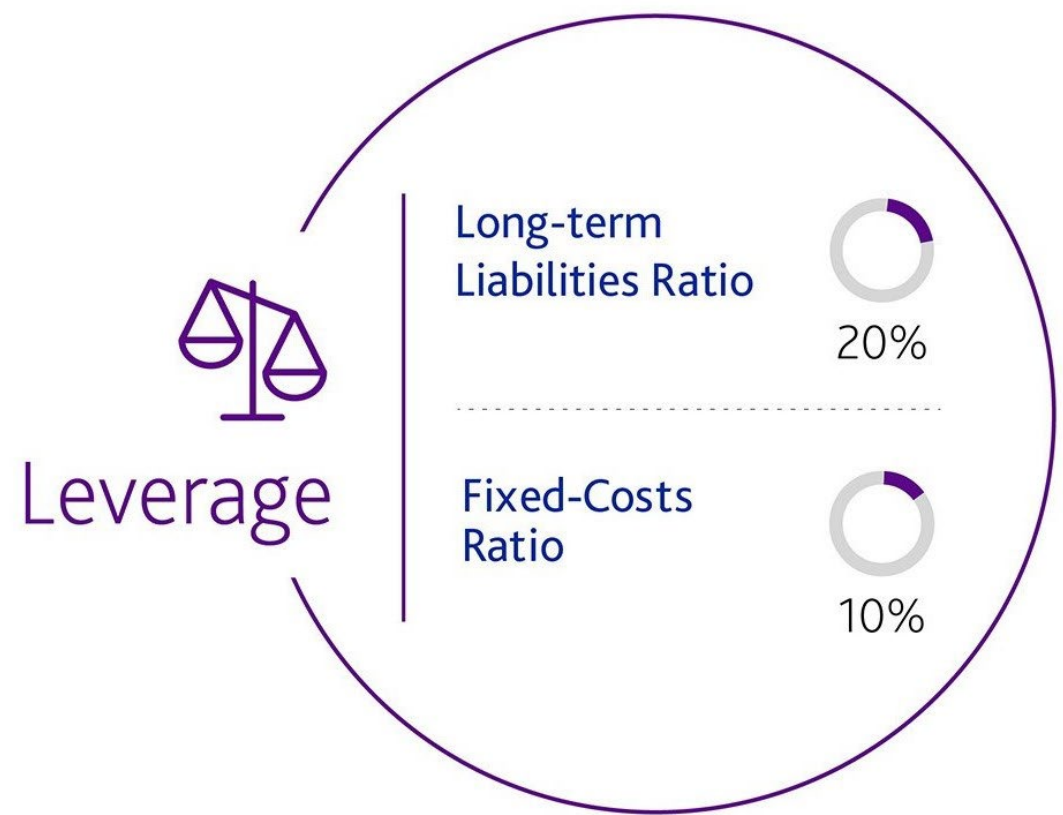
Sub-factor	Sub-factor calculation
Available Fund Balance Ratio (20%)	(Available fund balance + net current assets) / revenue
Liquidity Ratio (10%)	Unrestricted cash / revenue

Scorecard Factor 3: Institutional Framework



Aaa	Aa	A	Baa	Ba	B
The majority of revenue is not subject to externally imposed caps and the governing body can increase revenue meaningfully without limitation or without approval of voters or other governments.	The majority of revenue is subject to externally imposed caps but the governing body can increase revenue meaningfully without the approval of voters or other governments. Or: The ability to meaningfully reduce expenditures is mildly constrained by externally imposed mandates or restrictions.	The majority of revenue is subject to externally imposed caps but the governing body can increase revenue moderately without the approval of voters or other governments. Or: The ability to meaningfully reduce expenditures is moderately constrained by externally imposed mandates or restrictions.	The majority of revenue is subject to externally imposed caps and the governing body can increase revenue only minimally without the approval of voters or other governments. Or: The ability to meaningfully reduce expenditures is heavily constrained by externally imposed mandates or restrictions.	The majority of revenue is subject to externally imposed caps and the governing body cannot increase revenue without the approval of voters or other governments. Or: The ability to meaningfully reduce expenditures is very heavily constrained by externally imposed mandates or restrictions.	The majority of revenue is subject to externally imposed caps and the governing body cannot increase revenue. Or: The ability to meaningfully reduce expenditures is extremely constrained by externally imposed mandates or restrictions.

Scorecard Factor 4: Leverage



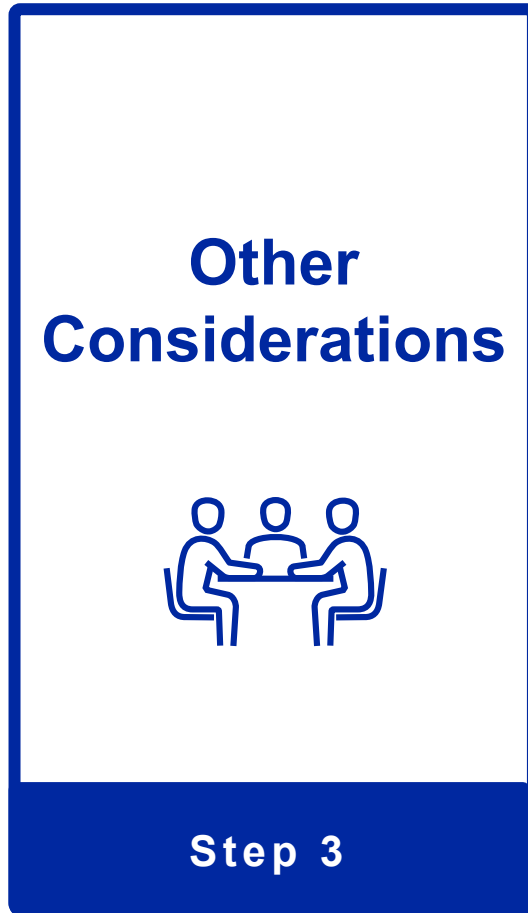
Sub-factor	Sub-factor calculation
Long-term Liabilities Ratio (20%)	(Debt + ANPL + adjusted net OPEB + other long-term liabilities) / revenue
Fixed Costs Ratio (10%)	Adjusted fixed costs / revenue

Arriving at the issuer rating – Step 2



1. Additional strength in local resources
2. Limited scale of operations
3. Financial disclosures
4. Potential cost shift to or from the state
5. Potential for significant change in leverage

Arriving at the issuer rating – Step 3



Examples of qualitative other considerations (not an exhaustive list):

- Fund-specific financial considerations
- Competitive enterprise risk in governmental or business-type activities
- Likelihood of receiving extraordinary or ongoing support
- Strengths or weaknesses related to economic concentration
- Unusual risk or benefit posed by long-term liabilities

Issuer and instrument ratings



Issuer Rating

Fundamental credit quality



**Instrument
Considerations**

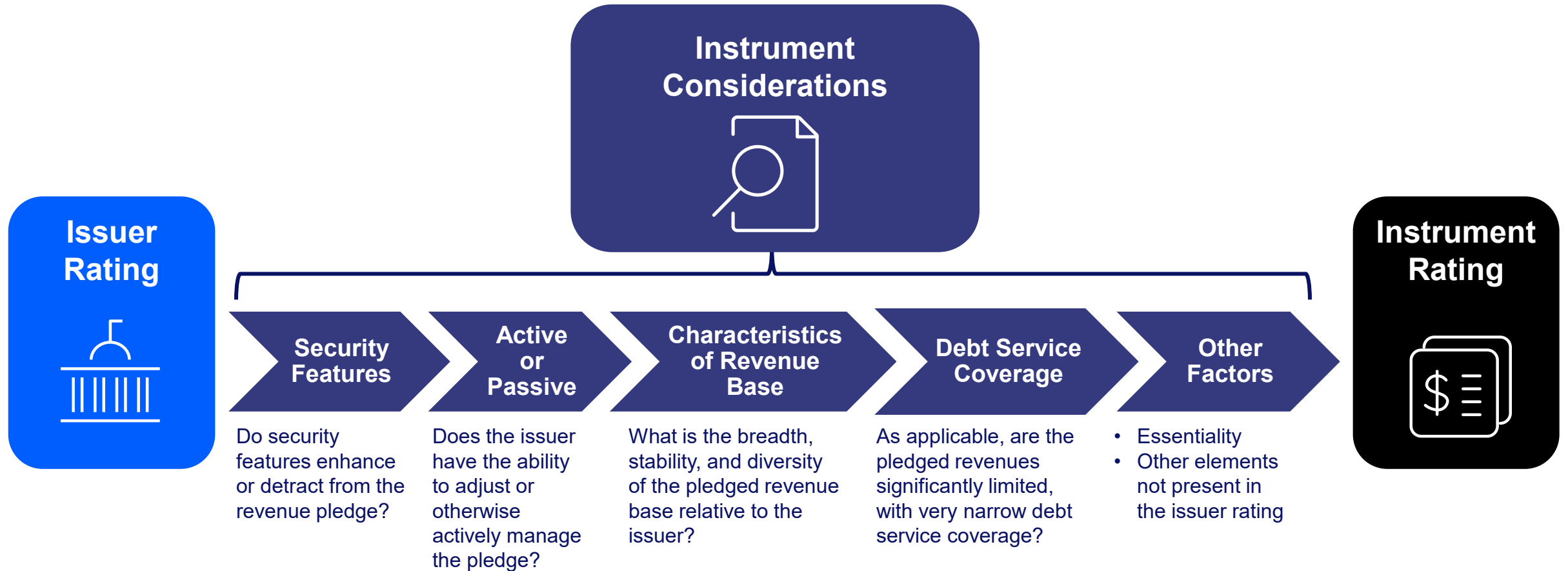
Evaluation of debt
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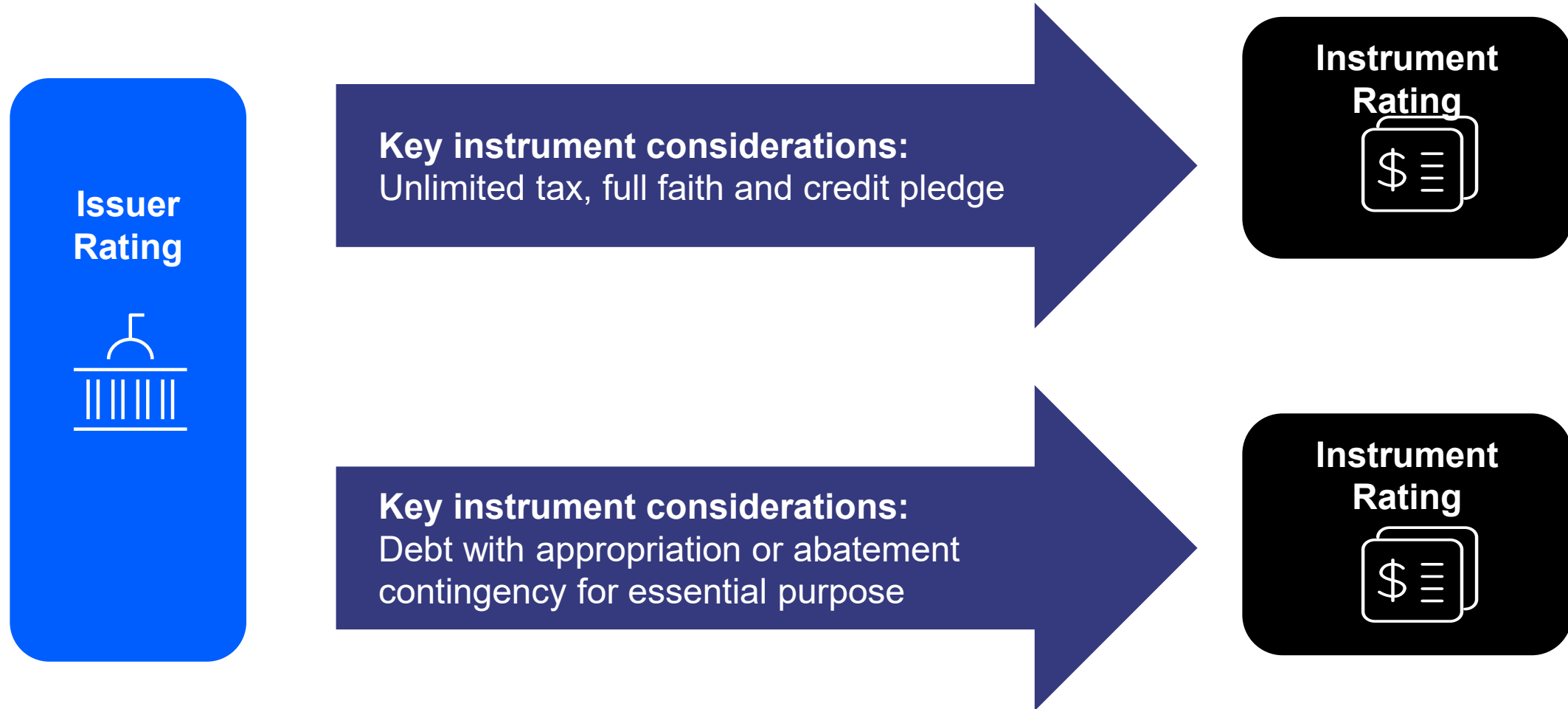
Instrument Rating

Placed in relation to the
issuer rating

Arriving at the instrument rating



Instrument rating examples



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City and County Metrics and Medians

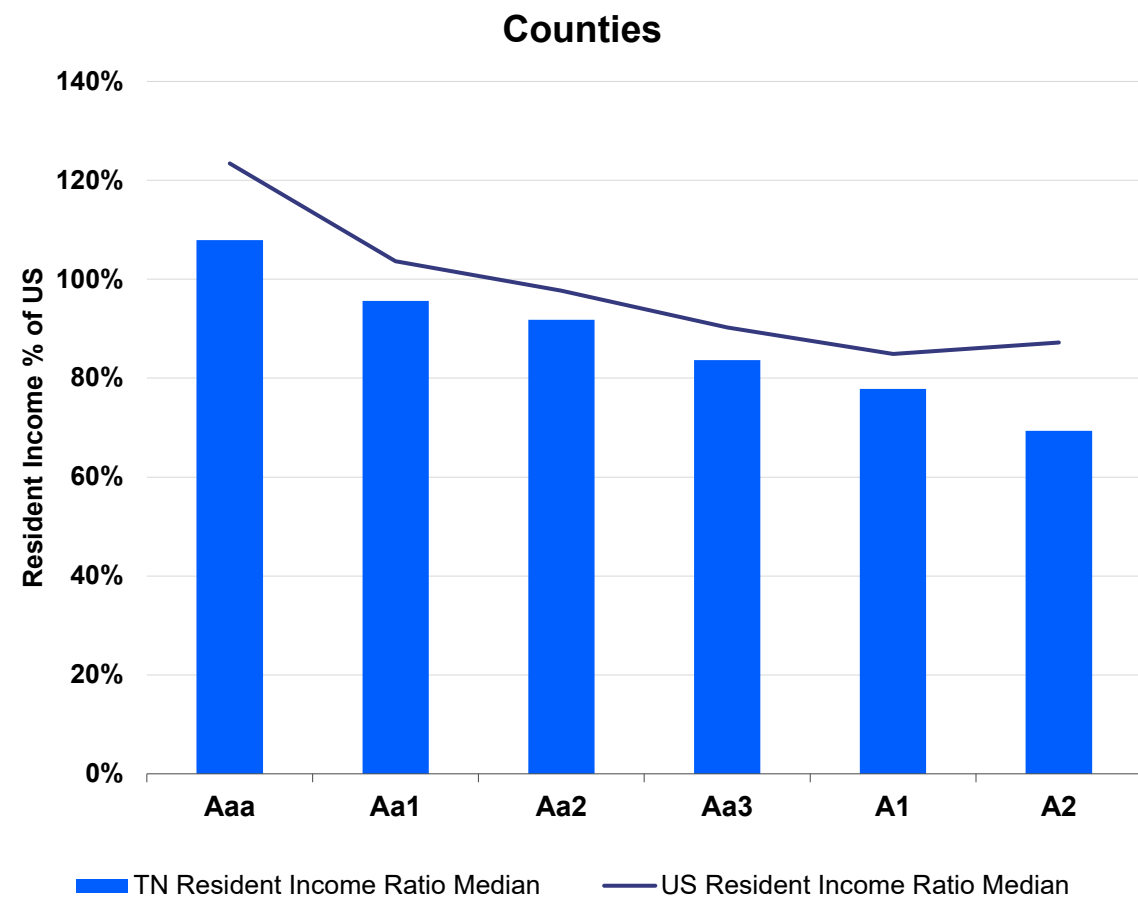
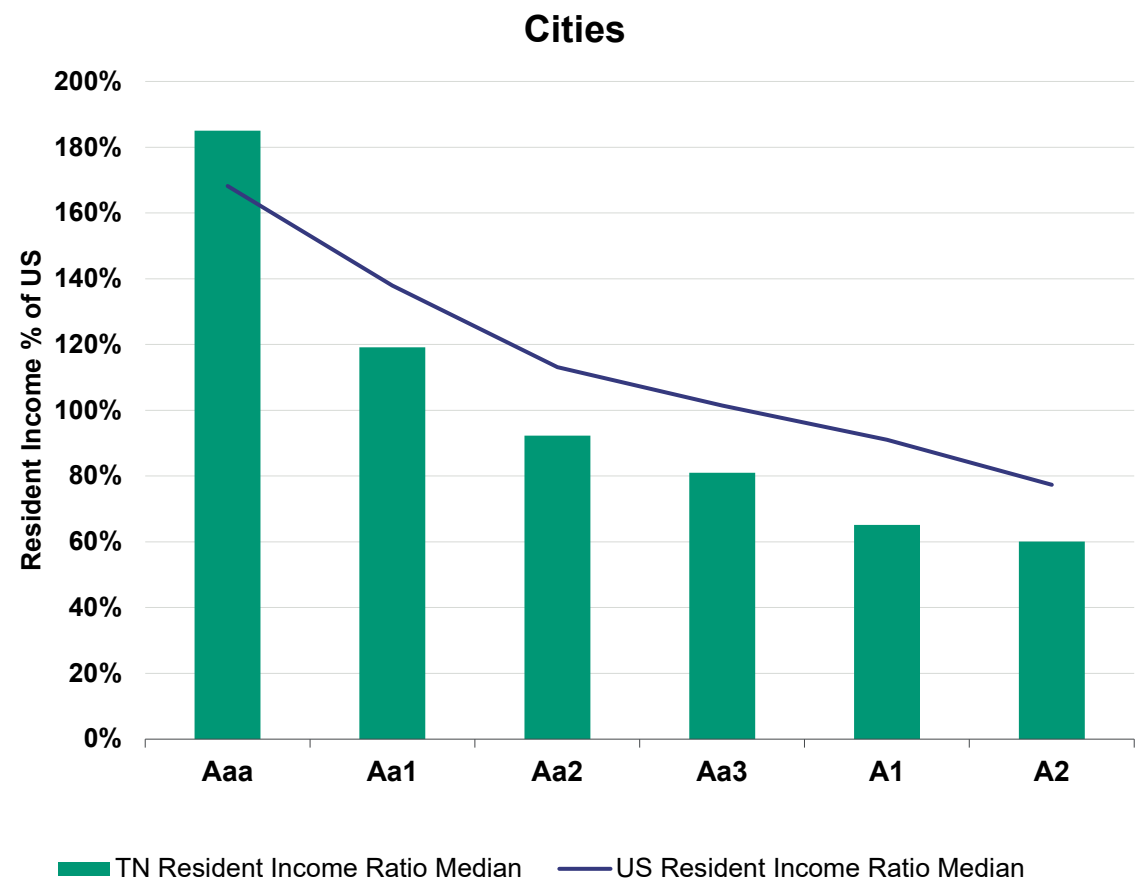
Tennessee local government rating breakdown

TN local governments are highly rated



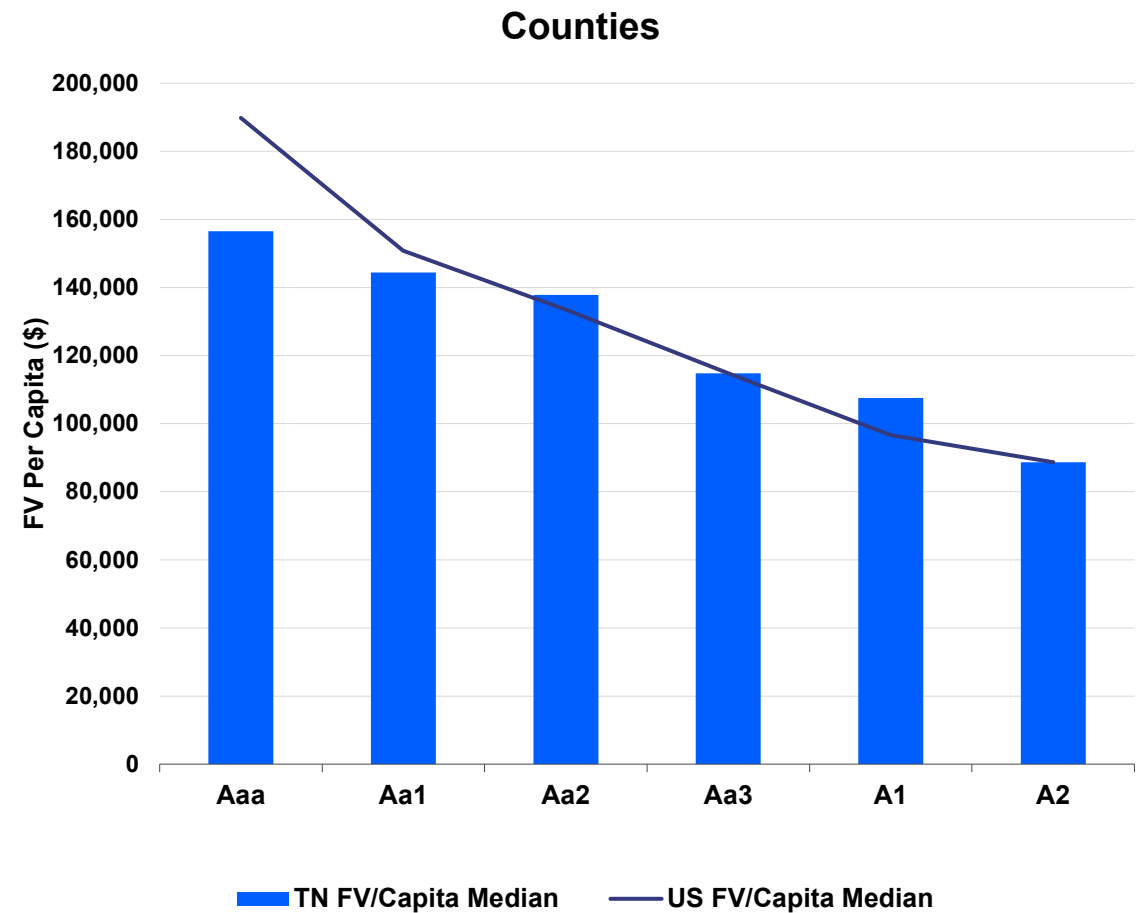
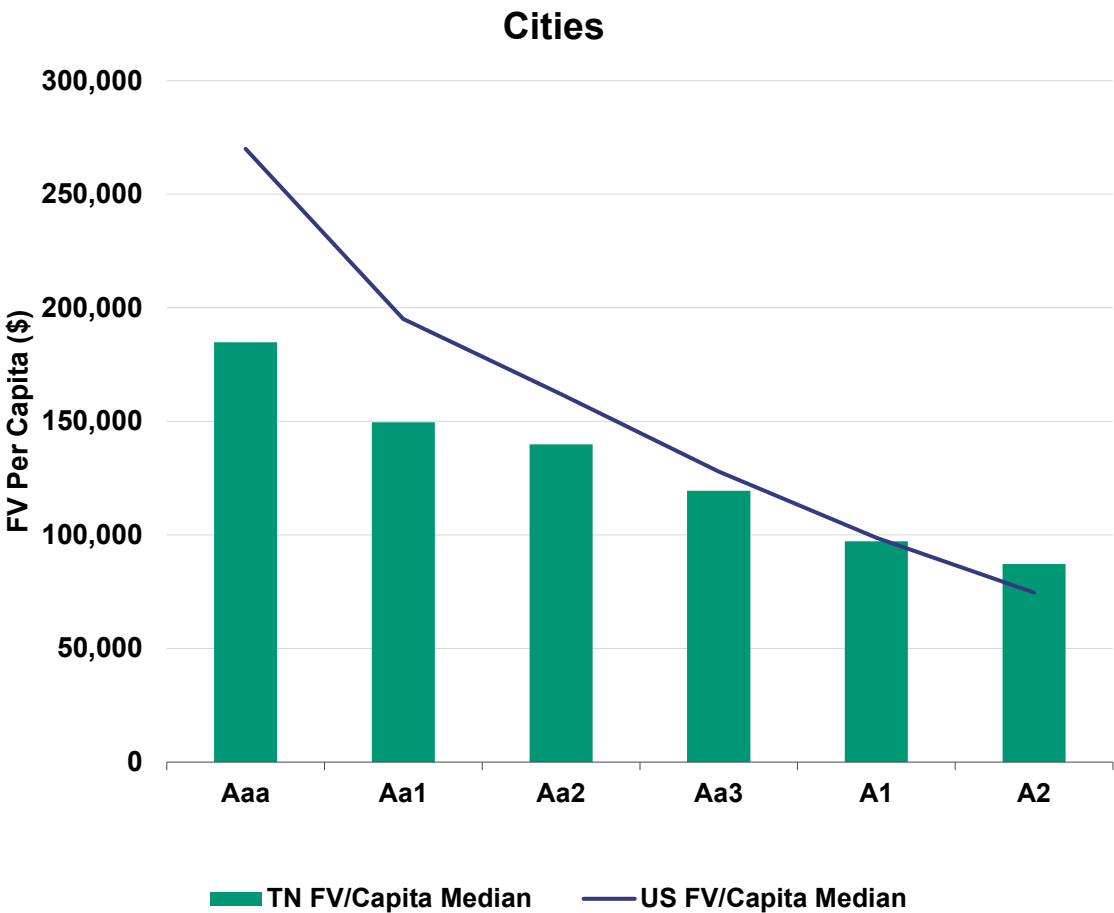
Source: Moody's Ratings

Resident income a key driver of rating



Source: Moody's Ratings

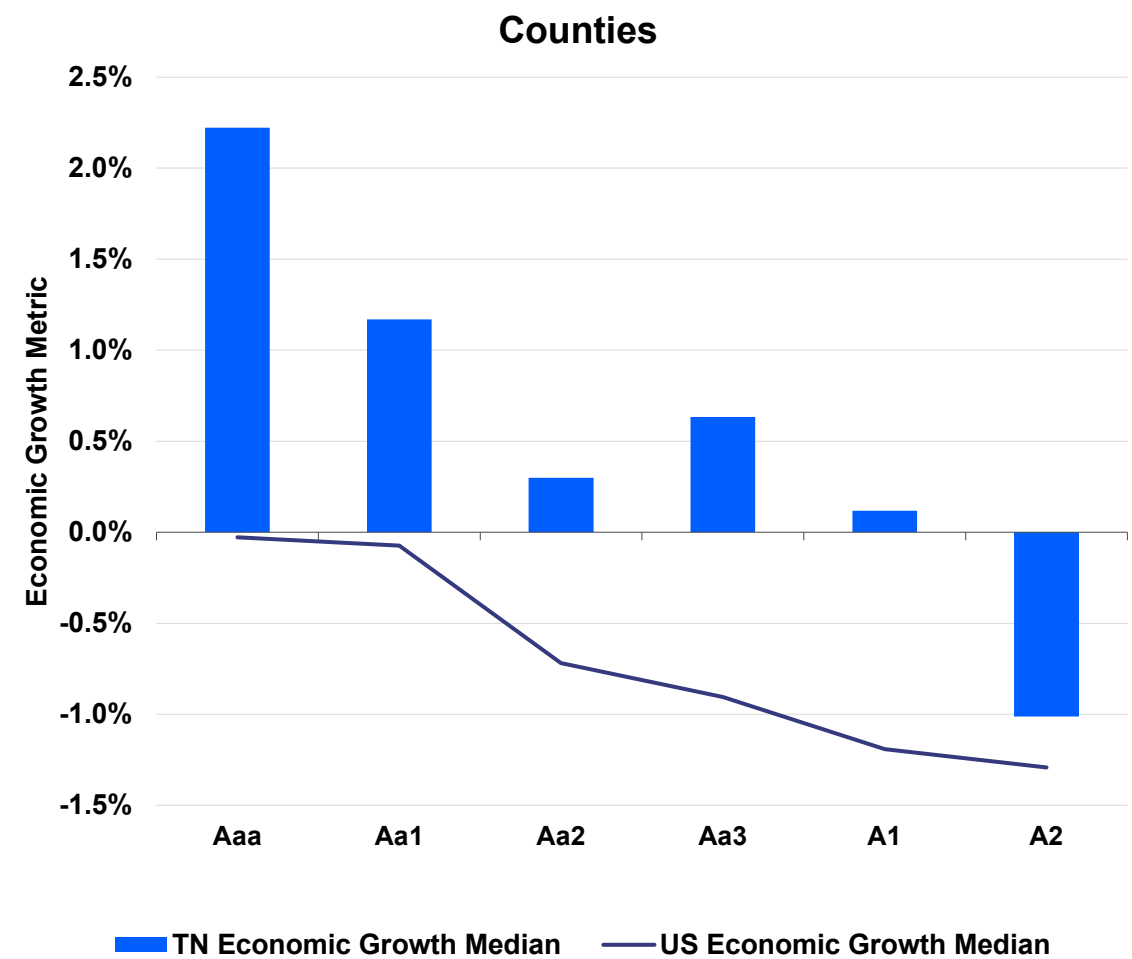
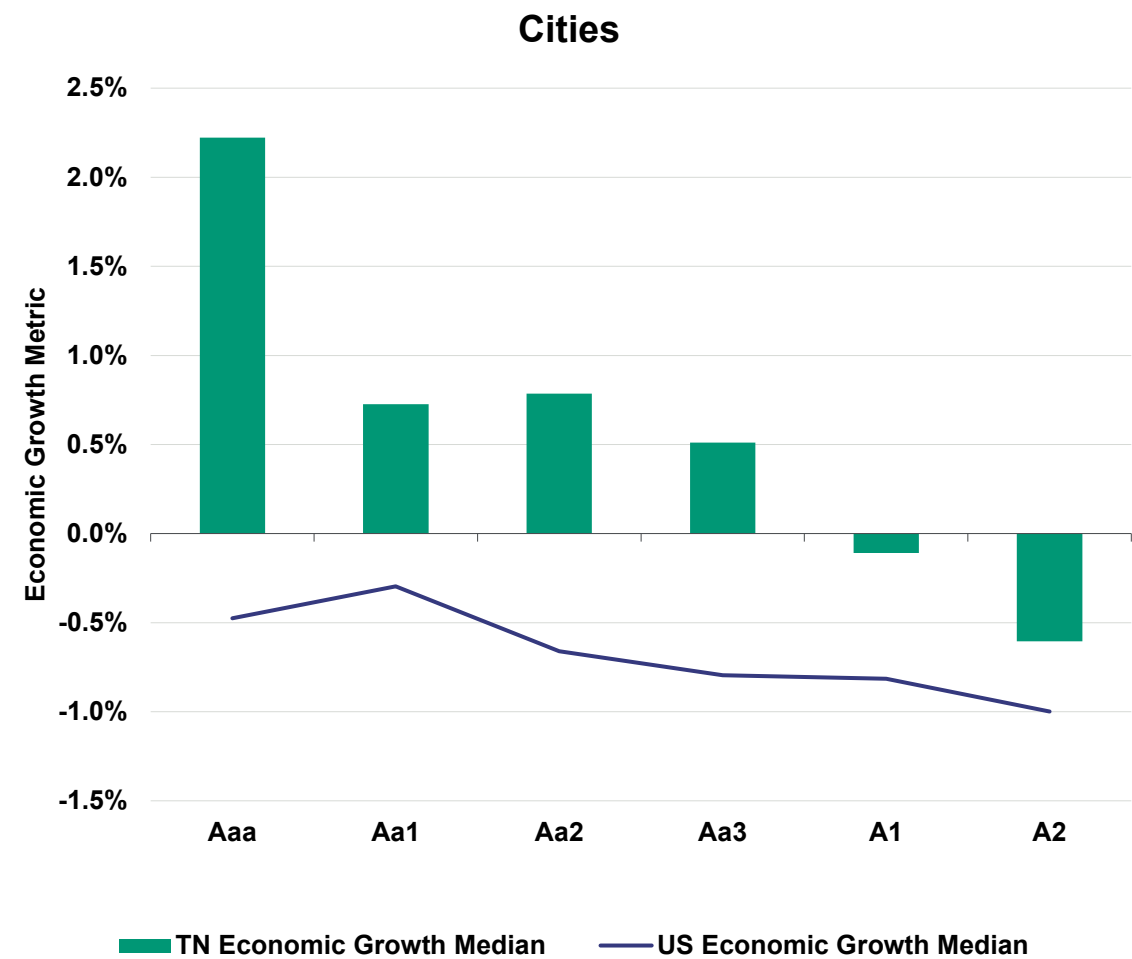
Full value per capita another key rating consideration



Source: Moody's Ratings

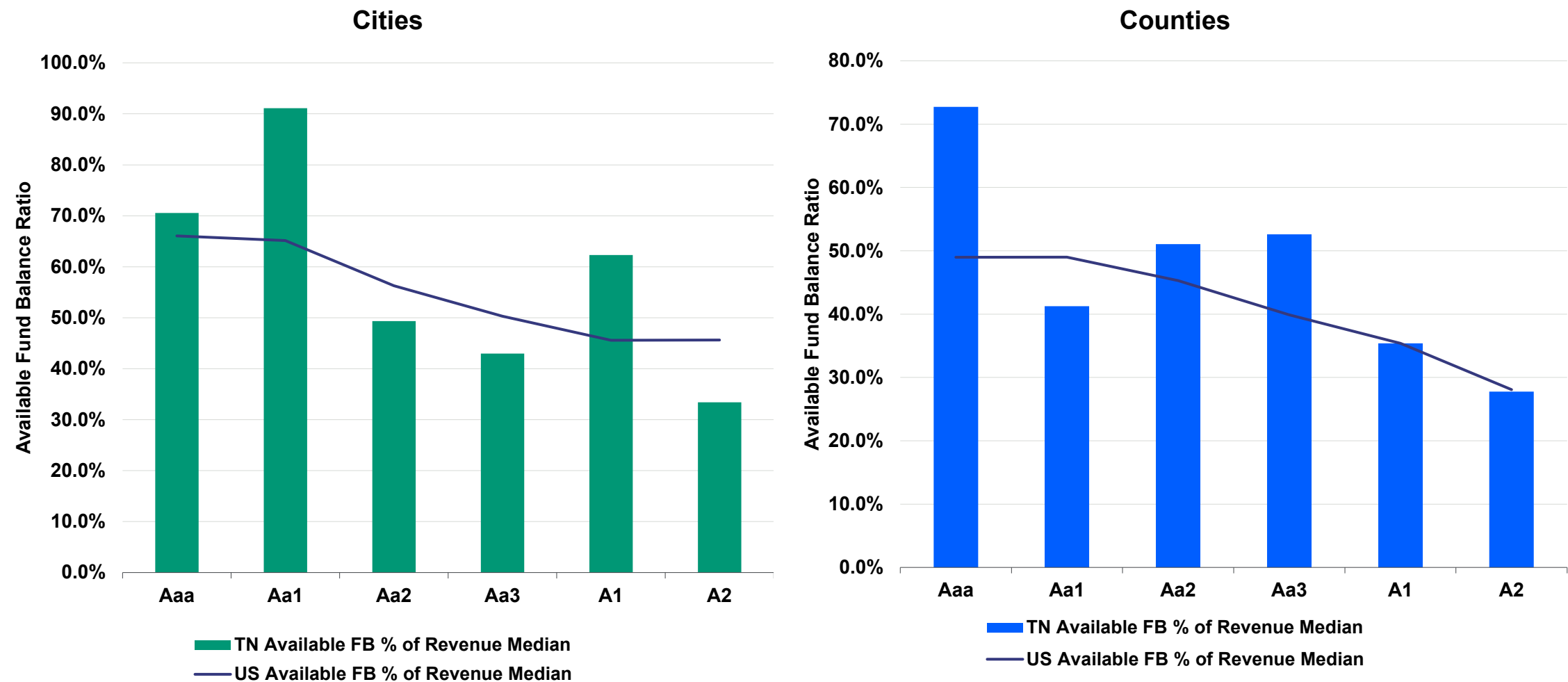
Positive economic growth a material rating driver

TN local governments generally outpace national economic growth



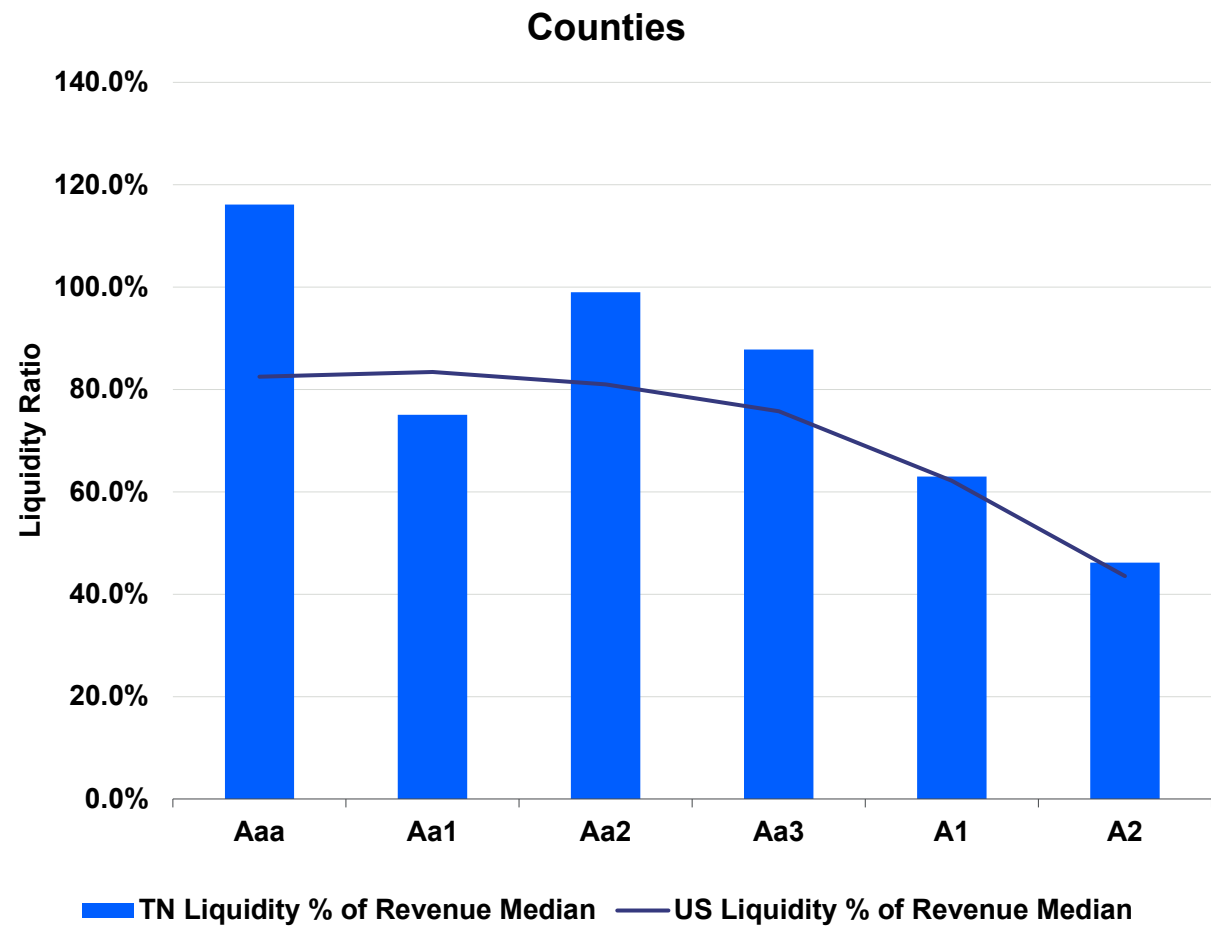
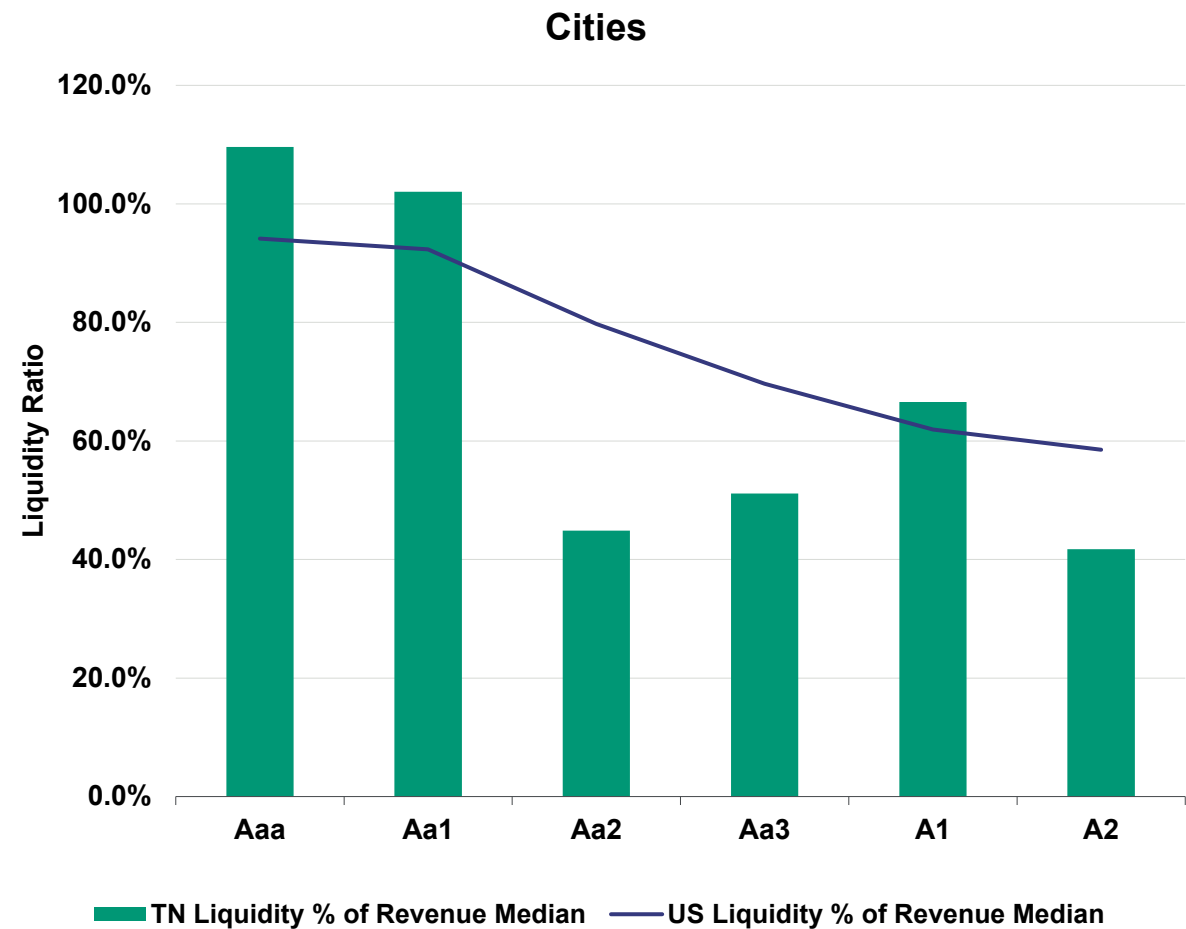
Available fund balance throughout Aaa, Aa & A ratings are strong

TN local governments generally have 40% or greater if they are Aa or Aaa



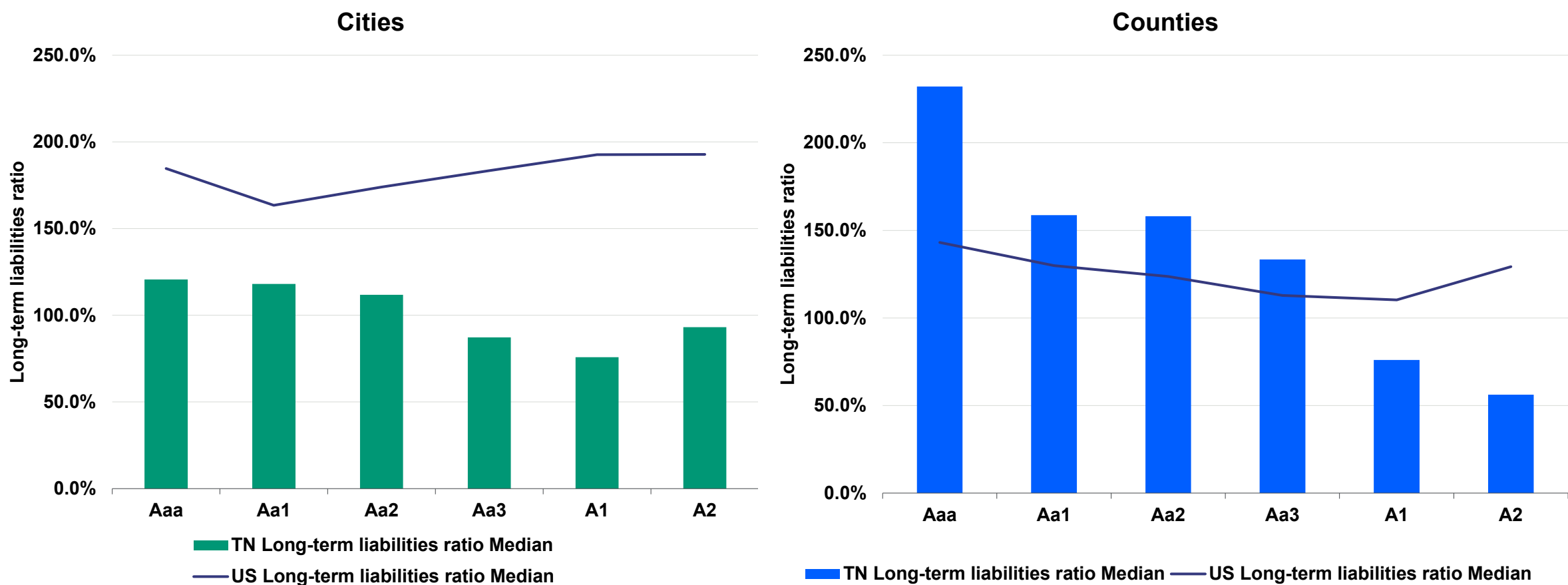
Tennessee liquidity ratio on par with national medians

Similar to fund balance, TN local governments generally have 40% or greater in liquidity if they are Aa or Aaa



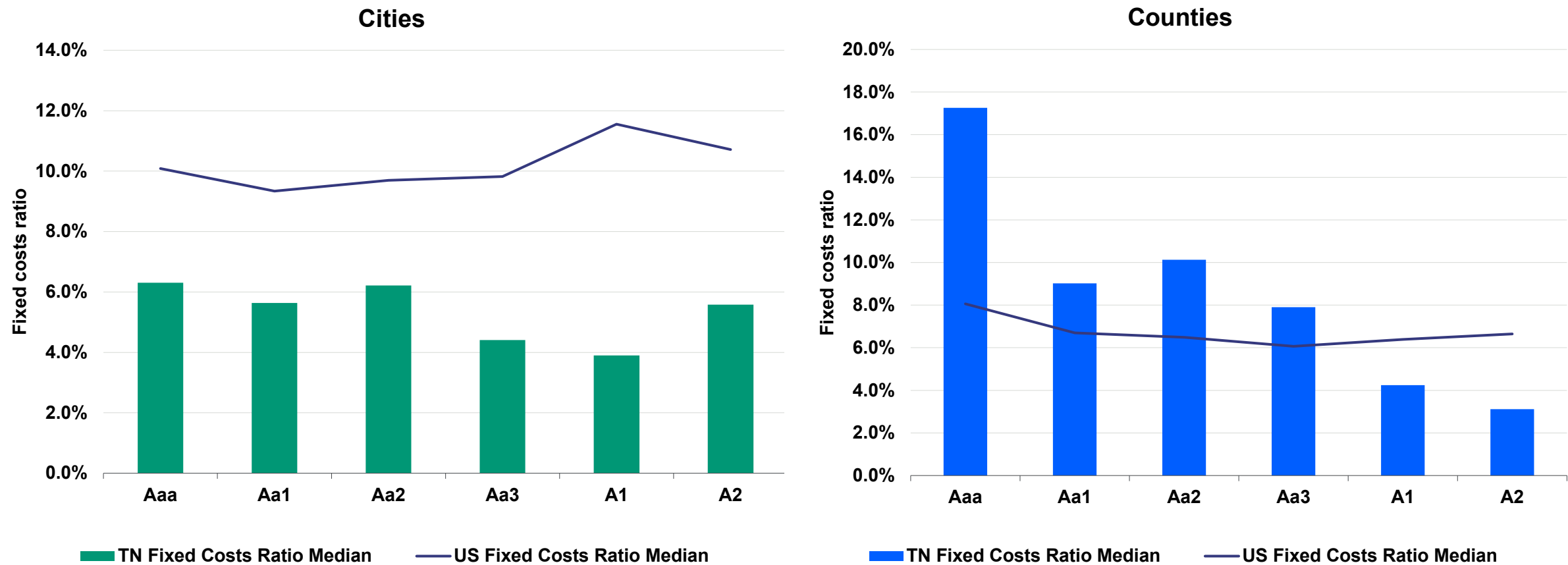
Tennessee long-term liabilities are low for cities and above-average for counties

TN counties have more leverage due to issuing debt for schools



Fixed costs remain low and manageable

Generally fixed costs are not a material rating driver in TN



Source: Moody's Ratings

Thank you

MOODY'S
RATINGS

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