

CREDIT OPINION

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Contacts

James Murphy +1.212.553.1052
Analyst
james.murphy@moody's.com

Christopher Coviello +1.212.553.0575
VP-Senior Analyst
christopher.coviello@moody's.com

CLIENT SERVICES

Americas 1-212-553-1653
Asia Pacific 852-3551-3077
Japan 81-3-5408-4100
EMEA 44-20-7772-5454

City of Johnson City, TN

Update to credit analysis

Summary

Johnson City, TN (Aa2 negative) is expecting a significant near-term decline in governmental reserves related to a fiscal 2025 lawsuit settlement which will put a near term strain on the city's financial position. The city benefits from a moderately sized and growing tax base and the presence of East Tennessee State University. While debt levels are manageable in relation to similarly rated peers, the city plans to issue additional debt over the medium term given ongoing development.

Credit strengths

- » Stable economic base benefiting from institutional presence of East TN State University.
- » Manageable long-term liabilities

Credit challenges

- » Moderate Variable-rate exposure
- » Below-average resident income
- » Sharp decline in reserves

Rating outlook

The negative outlook reflects an expected decline in governmental reserves and liquidity in fiscal 2025 due to the payment of an outstanding lawsuit. Uncertainty surrounding the city's ability to rebuild fund balances to prior levels will remain over the near term and if reserves are not replenished, downward rating pressure could occur.

Factors that could lead to an upgrade

- » Increase in resident incomes above 100%
- » Full value per capita above \$180,000
- » Increases in available fund balance ratios above 35%

Factors that could lead to a downgrade

- » Failure to rebuild unassigned general fund balance following lawsuit payout.
- » Further significant lawsuits
- » Increase in long-term liabilities above 200% of revenue.

Key indicators

Exhibit 1

Johnson City (City of) TN

	2021	2022	2023	2024	Aa Medians
Economy					
Resident income ratio (%)	78.7%	80.9%	79.4%	N/A	114.1%
Full Value (\$000)	\$6,907,940	\$7,698,353	\$7,886,784	\$10,861,681	\$2,888,367
Population	69,521	70,720	71,455	N/A	22,430
Full value per capita (\$)	\$99,365	\$108,857	\$110,374	N/A	\$125,640
Annual Growth in Real GDP	8.6%	-0.4%	4.2%	N/A	2.0%
Financial Performance					
Revenue (\$000)	\$247,825	\$273,102	\$293,134	\$299,573	\$52,335
Available fund balance (\$000)	\$84,372	\$84,898	\$79,302	\$81,015	\$29,526
Net unrestricted cash (\$000)	\$116,256	\$130,373	\$114,903	\$113,370	\$41,432
Available fund balance ratio (%)	34.0%	31.1%	27.1%	27.0%	57.1%
Liquidity ratio (%)	46.9%	47.7%	39.2%	37.8%	79.6%
Leverage					
Debt (\$000)	\$207,126	\$275,396	\$264,585	\$246,541	\$37,305
Adjusted net pension liabilities (\$000)	\$338,599	\$256,365	\$167,375	\$143,614	\$45,496
Adjusted net OPEB liabilities (\$000)	\$38,403	\$35,203	\$30,507	\$26,929	\$4,376
Other long-term liabilities (\$000)	\$5,909	\$6,283	\$6,762	\$6,910	\$1,726
Long-term liabilities ratio (%)	238.1%	209.9%	160.1%	141.5%	210.2%
Fixed costs					
Implied debt service (\$000)	\$13,800	\$14,528	\$19,234	\$18,380	\$2,477
Pension tread water contribution (\$000)	\$3,349	-\$396	\$3,806	N/A	\$1,199
OPEB contributions (\$000)	\$2,646	\$2,460	\$2,347	\$2,161	\$179
Implied cost of other long-term liabilities (\$000)	\$412	\$414	\$439	\$470	\$115
Fixed-costs ratio (%)	8.2%	6.2%	8.8%	8.3%	9.6%

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 Johnson City, TN Metropolitan Statistical Area.

Sources: US Census Bureau, Johnson City (City of) TN's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

Johnson City is located in Washington County in the northeastern corner of Tennessee, approximately 90 miles northeast of Knoxville.

Detailed credit considerations

Economy: moderate economy continues to expand.

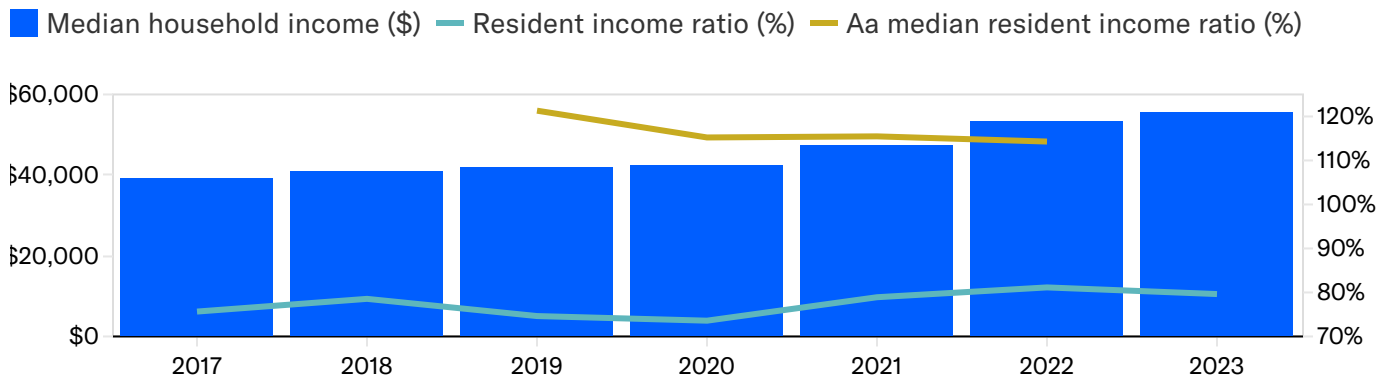
Johnson City's \$10.9 billion tax base will remain stable in part, given the presence of East Tennessee State University (ETSU) and Ballard Health, both of which provide strong institutional presence. Ballard Health (created through the merger of Mountain States Health and Wellmont Health in early 2018) is the city's largest employer. Enrollment at the university in the fall 2024 was approximately 13,700.

Management notes that there is a significant amount of new development, both residential and commercial, that is currently underway. Over the last five years, full valuation has increased 57% from \$6.9 billion to \$10.9 billion. Taxpayer concentration is modest with the top ten taxpayers accounting for 5.7% of assessed value and management reports that all top taxpayers have been stable in their operations.

Wealth levels are below-average, with median household income equal to 79.4% of national levels. Additionally, poverty is somewhat elevated at 21.1% relative to the national rate of 12.4%.

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Exhibit 2

Resident Income

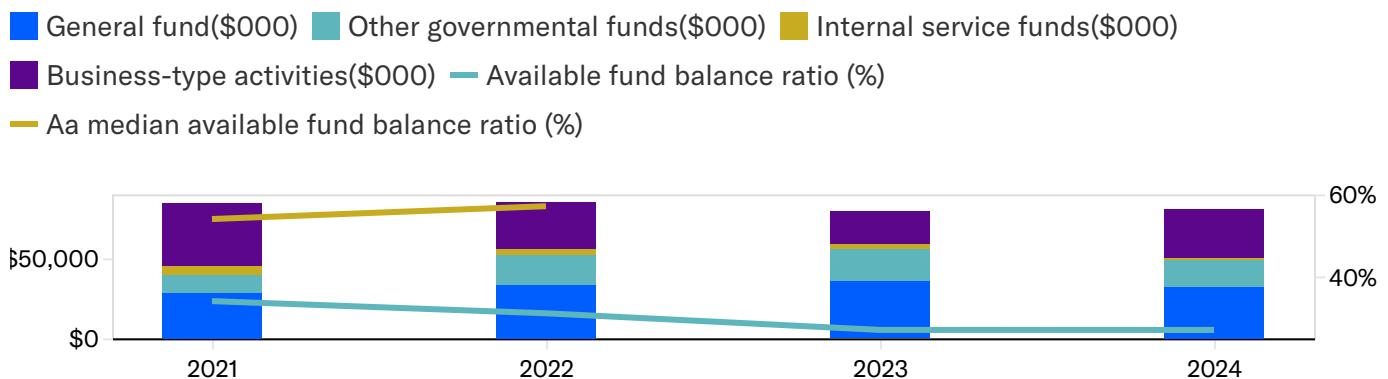
Source: Moody's Ratings

Financial operations: reserves to decline in fiscal 2025 after lawsuit settlement

As of fiscal 2024, the city's available fund balance ratio was 27% of annual revenues. Reserves and liquidity are expected to decline in fiscal 2025 given an outstanding lawsuit settlement. Available fund balance is projected to decline in fiscal 2025 by an estimated \$23 million after the lawsuit payment; the majority of which (\$19.3 million) will be drawn from unassigned General Fund balance. The remaining \$3.7 million will be paid out of the city's "rainy day" fund which has an outstanding restricted balance of \$21.8 million. Although the "rainy day" fund balance is reported as restricted in the audit, management retains discretion over its use, providing additional financial flexibility. Inclusive of the lawsuit payment, fiscal 2025 available fund balance is projected to be around 20.5% of annual revenues. Officials anticipate rebuilding unassigned General Fund balance in fiscal 2026 and beyond. The city is also exploring the sale of certain properties and a 5% budget cut for each department in fiscal 2026 in order to expedite the rebuilding of fund balance. Business type activities (majority of which are related to the water/sewer), made up approximately 23% of fiscal 2024 revenues and account for around \$30.6 million in unrestricted current assets. All business type activities/funds remain stable.

In the past year, the city has seen revenue increase by 2.2% with the main driver being an 8.7% increase in property taxes. The city is expecting moderate increases to its property taxes over the next two years due to new development and some increases to the sales taxes as well.

Exhibit 3

Fund Balance

Source: Moody's Ratings

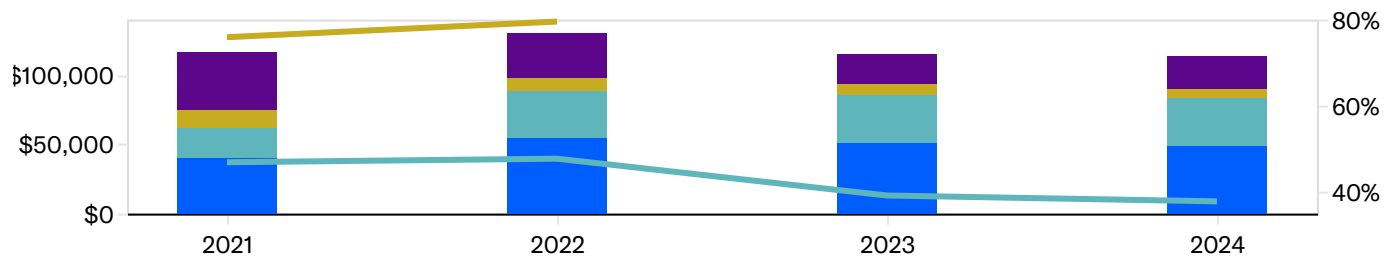
Liquidity

At the end of fiscal year-end 2024, the city's liquidity ratio was equal to 37.8% of annual revenues and the general fund net cash position was approximately \$49 million, up from \$29 million in 2020. The city has seen overall governmental funds decline since 2022 due to the spending down of American Rescue Plan funding. Given the lawsuit payout mentioned above, the city is expecting to see further declines in liquidity in the near-term.

Exhibit 4

Cash

■ General fund ■ Other governmental funds ■ Internal service funds ■ Business-type activities
— Liquidity ratio (%) — Aa median liquidity ratio (%)



Source: Moody's Ratings

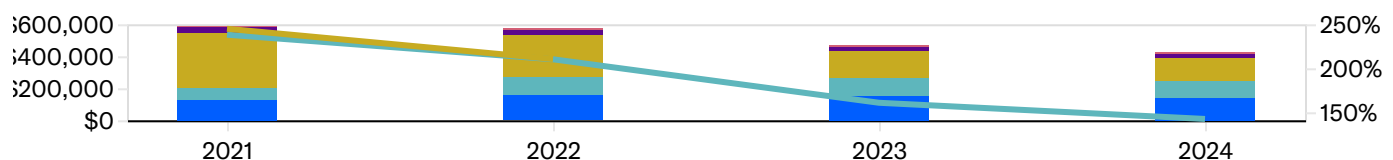
Leverage: long-term liabilities continue to remain manageable given ongoing economic growth

While the city's debt burden is currently manageable, the city is expecting to issue an additional \$45 million within the next three years however, long-term liabilities are not expected to rise above 200% of annual revenues. Following the issuance of the Series 2025 bonds, the city will have approximately \$266 million in debt outstanding and long-term liabilities will rise to approximately 160% of revenue.

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

Debt service on the Series 2025 bonds is payable from the city's ability to levy ad valorem property taxes without limitation as to rate or amount and is further supported by the city's full faith and credit pledge

Debt structure

The city has exposure to variable rate debt, with approximately \$25 million in variable rate mode. The variable rate debt is comprised of loans from the Tennessee Local Government Alternative Loan Program (TN-LOANS) and the Tennessee Municipal Bond Fund (TMBF). The TMBF program provides liquidity facilities through Bank of America (LOC in place until 7/6/2026) and has reasonable term-out provisions which are no less than five years.

Debt-related derivatives

The city is not subject to any swaps or other derivative agreements

Pensions and OPEB

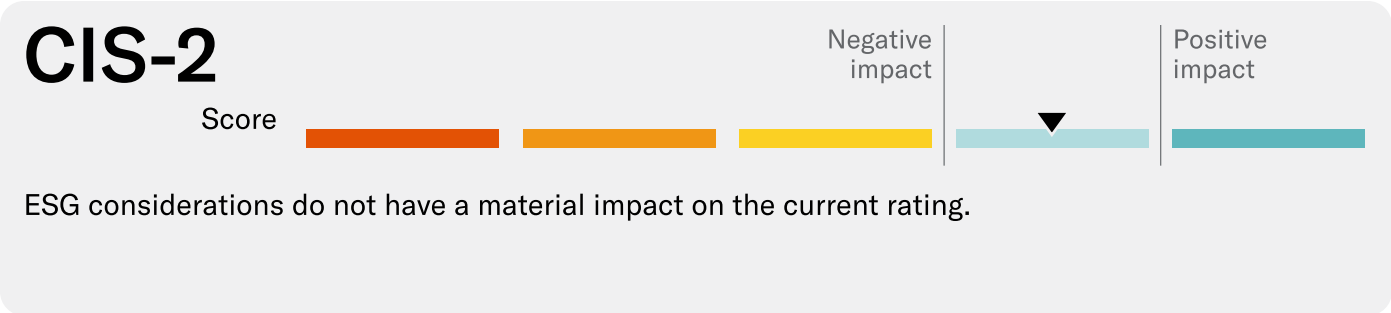
Retiree benefits are provided through two different pension plans. In 2011, the city withdrew from the Tennessee Consolidated Retirement System (TCRS) defined benefit plan in fiscal 2011, and established a defined contribution plan for new employees. While the city remains responsible to TCRS for the benefits of old employees, its total pension liability is likely to be reduced over time due to new employees whose benefits vest in the defined contribution plan. In fiscal 2024, the city's pension contributions totaled \$6 million which is well above Moody's "tread water" indicator, the amount required to prevent reported net pension liabilities from growing given an entity's actuarial assumptions.

The city provides other post employment benefits (OPEB) and covers those associated costs on a pay-as-you-go basis. As of fiscal 2024, the city's adjusted net OPEB liability stood at \$26.9 million.

ESG considerations

Johnson City (City of) TN's ESG credit impact score is CIS-2

Exhibit 6
ESG credit impact score



Source: Moody's Ratings

Exposure to social risk is **S-2**. The city has a moderately growing population with solid labor force participation, average wealth and income levels and an affordable cost of living compared to the rest of the nation. Educational attainment, health and safety and housing affordability are strengths. Additionally, residents have easy access to basic services.

Exhibit 7
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Johnson City's overall environmental issuer profile score is **E-2**, reflecting relatively low exposure to environmental risks across all categories, including physical climate risk, carbon transition, water management, natural capital and pollution risks. While Johnson City does have higher exposure to heat stress and extreme rainfall, to date these risks have had a minimal impact. The risks are also partially mitigated by solid management and a historically healthy fiscal position.

Social

Exposure to social risk is **S-2**. The city has a moderately growing population with solid labor force participation, average wealth and income levels and an affordable cost of living compared to the rest of the nation. Educational attainment, health and safety and housing affordability are strengths. Additionally, residents have easy access to basic services.

Governance

Johnson City's strong governance is reflected in a score of **G-2**. The city has solid operational and fiscal policies and maintains good transparency with its annual disclosures. This, plus a combination of a strong state-wide institutional framework and conservative budgeting, has allowed the city to maintain strong financial operations. Timely annual financial statements and disclosures are also available to the general public.

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

Johnson City (City of) TN

	Measure	Weight	Score
Economy			
Resident income ratio	79.4%	10.0%	Baa
Full value per capita	152,007	10.0%	Aa
Economic growth metric	0.7%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	27.0%	20.0%	Aa
Liquidity ratio	37.8%	10.0%	Aa
Institutional Framework			
Institutional Framework	Aaa	10.0%	Aaa
Leverage			
Long-term liabilities ratio	141.5%	20.0%	Aa
Fixed-costs ratio	8.3%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa2
Assigned Rating			Aa2

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

Sources: US Census Bureau, Johnson City (City of) TN's financial statements and Moody's Ratings

Appendix

Exhibit 9

Key Indicators Glossary

	Definition	Typical Source*
Economy		
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
Financial performance		
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	
Leverage		
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	
Fixed costs		
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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