

THE BOND BUYER

Chattanooga heads to market boosted by AAA ratings

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Chattanooga, Tennessee, fetched AAA ratings ahead of its planned general obligation bond sale.

Fitch Ratings and S&P Global Ratings both affirmed Chattanooga's AAA issuer rating while assigning the same to an upcoming competitive sale of \$40.2 million of general obligation bonds by the city expected on or around Oct. 31. The outlook is stable on all ratings.

The GO bonds carry the city's full faith and credit pledge and are payable from an unlimited ad valorem tax levied on all taxable property within the city. Proceeds will help finance new and ongoing capital projects associated with various economic development efforts across the city.



S&P , which upgraded Chattanooga, Tennessee, to AAA, expects the city to maintain strong financial resilience. *AdobeStock*

Fitch said in [its report](#) this week the AAA reflected Chattanooga's strong operating performance, expenditure flexibility, and a high level of unrestricted reserves. [It first upgraded](#) Chattanooga to AAA from AA-plus in 2021.

"Fitch expects management will continue to maintain strong reserves to cushion operations against economic downturns and manage the pace of future expenditure growth without pressuring the city's financial flexibility," the rating agency said. "Fitch expects debt levels to remain moderately low with continued growth in the resource base and annual principal amortization offsetting anticipated issuance of new debt for capital needs."

The city had a "favorable" fiscal 2023, Fitch said, closing the year with a \$19.2 million general fund surplus and an unassigned fund balance of \$135.6 million, 44% of the year's total spending based on year-end unaudited financial reports.

Its fiscal 2024 operating budget of \$341.3 million marks a 4% growth over the previous year's and includes expectations for increased levels of investments and property tax revenues, according to the report.

The city's positive financial momentum is being driven by a growing tax base and higher than anticipated property tax collections, along with sales tax revenues that beat official estimates, Fitch said.

"Sales taxes have benefited from the city's collection of local option sales tax from out-of-state companies shipping to local customers, which began in fiscal 2022," the agency said. "Additionally, the city realized expenditure savings related to positions remaining vacant throughout the year."

In its report, S&P said Chattanooga's AAA is supported by a growing regional economy, a stable financial position boosted by significant revenue growth, good financial management, and a comparatively low debt burden.

The city is central to the region's expanding manufacturing base, S&P said, and anchored by the automotive industry, including Volkswagen's sole U.S. manufacturing plant that's located in the city.

"Although the metro area's concentration in manufacturing employment is nearly double that of the U.S. as a whole, its largest share of employment is in the trade, transportation, and utilities sector, reflecting its position as a transportation corridor," the rating agency said. "Several major insurers also maintain significant operations in the city."

S&P cautioned that while slowing domestic and global demand could affect the pace of manufacturing employment growth in the medium-term, the city benefitted from "large-scale projects announced or underway" and a current population growth outpacing the U.S. average.

"We anticipate that economic development prospects will remain relatively bright for the city," S&P said.

To accommodate its new growth, Chattanooga has launched several major economic development efforts aimed at improving infrastructure and boosting tourism.

City authorities are currently planning the construction of a new stadium for the Chattanooga Lookouts, the minor league, Double-A affiliate of Major League Baseball's Cincinnati Reds, with development of an \$82 million facility to be supported by local funds via a tax incentive financing structure.