

RatingsDirect®

Summary:

Maryville, Tennessee; General Obligation; General Obligation Equivalent Security

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Summary:

Maryville, Tennessee; General Obligation; General Obligation Equivalent Security

Credit Profile

US\$24.0 mil GO bnds ser 2018 due 06/01/2040

Long Term Rating

AA+/Stable

New

The Indl Dev Brd of Blount Cnty and the Cities of Alcoa & Maryville, Tennessee

Alcoa, Tennessee

Maryville, Tennessee

Alcoa & Maryville Indl Dev Brd (Alcoa) (Maryville Civic Arts Center Proj) GO Equiv

Long Term Rating

AA+/Stable

Upgraded

Rationale

S&P Global Ratings raised its long-term rating on Maryville, Tenn.'s general obligation (GO) debt one notch, to 'AA+' from 'AA'. At the same time, S&P Global Ratings assigned its 'AA+' long-term rating to the city's series 2018 GO bonds. The outlook is stable.

The rating change is based on the formalization and implementation of several comprehensive management practices and policies.

The bonds are secured by the city's full faith and credit pledge, payable from the levy of an unlimited-ad valorem tax on all taxable property within the corporate limits of the city.

The city's existing series 2017B are secured primarily by a pledge of net revenues from the city's water and sewer system, subject to prior pledges of such net revenues in favor of the city's outstanding water and sewer obligations. In the event such net revenues are insufficient, the series 2017B bonds are payable from unlimited-ad valorem taxes to be levied on all taxable property within the city. The city's existing series 2008B water and sewer revenue and tax bonds are secured by an unlimited-ad valorem pledge on all taxable property within the corporate limits of the city, and further secured by a pledge of net revenues to be derived from the city's utility system. The city's existing series 2010 bonds are secured by an unlimited-ad valorem pledge on all taxable property within the corporate limits of the city, and are further secured by revenues derived from the electrical distribution system. We view the GO pledge as stronger than the net revenue pledge; therefore, we rate the series 2017B, the series 2008B, and the series 2010 bonds to the strength of the GO pledge.

Proceeds from the bonds will be used to fund various capital projects.

The rating reflects our assessment of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);

- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 28% of operating expenditures;
- Very strong liquidity, with total government available cash at 44.5% of total governmental fund expenditures and 6.0x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 7.5% of expenditures and net direct debt that is 96.3% of total governmental fund revenue; and
- Very strong institutional framework score.

Strong economy

We consider Maryville's economy strong. The city, with an estimated population of 28,944, is located in Blount County in the Knoxville MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 89.8% of the national level and per capita market value of \$105,832. Overall, the city's market value grew by 2.4% over the past year to \$3.1 billion in 2017. The county unemployment rate was 4.5% in 2016.

Maryville is located in eastern Tennessee, approximately 15 miles from Knoxville. It is the county seat of Blount County, which closely borders the Great Smoky Mountains National Park. The city benefits from its proximity to the national park, and other tourist attractions such as Dollywood, Gatlinburg, and Pigeon Forge.

The area has a strong agricultural economy, with major crops in tobacco, strawberries, livestock, and dairy. Residents also have access to the broad and diverse Knoxville MSA for additional employment opportunities. Major areas of employment are in manufacturing, education, health care, and retail trade.

A diverse mix of residential, commercial, and industrial properties comprises the city's growing property tax base. In addition to various smaller developments, the city is anticipating several major projects, including the current \$1 billion expansion plan by Denso, the city's largest employer and taxpayer. Officials expect recent developments to create significant growth in taxable assessed value for the next two years.

Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable. We have revised our assessment of the city's management to 'very strong' from 'adequate' based on the formalization of a long-term financial plan and reporting practices, as well as comprehensive updates to the long-term capital improvement plan and debt management policy.

Management prepares the budget using three years of historical data analysis and provides the board with quarterly budget-to-actual reports. The city has a formal investment management policy which follow state guidelines; although,

routine reporting on investment holdings and earnings is not formally required. The city also has a formal debt management policy with comprehensive measures which outline allowable debt and outstanding debt limitations. Management maintains a six-year capital improvements plan which it updates annually. The plan has been recently updated to include funding sources for each project. The city has formally implemented long-term financial planning with a six-year financial forecast, which will be updated and provided to the board annually. In addition, the city will adopt a formal reserve policy which requires the general fund balance be maintained at a minimum of two months of operations.

Strong budgetary performance

Maryville's budgetary performance is strong in our opinion. The city had operating surpluses of 5.3% of expenditures in the general fund and of 3.4% across all governmental funds in fiscal 2017. Our assessment accounts for our expectation that budgetary results will be more modest than 2017 results in the near term.

Fiscal 2017 ended with an operating surplus of approximately \$2 million, after adjusting for recurrent transfers into and out of the general fund and one-time expenditure items. Revenues exceeded budgeted projections by \$900,745 and expenditures were under budget by \$970,380. The favorable results are attributable to controlled expenditures and strong revenue performance, with increases in property and sales taxes, the city's largest revenue sources.

For fiscal 2018, officials report performance is line with budget and expects to add at least \$500,000 to fund balance at year-end. Given the city's record of better-than-budgeted operating results, we expect budgetary performance will remain at least strong for the subsequent years.

Very strong budgetary flexibility

Maryville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 28% of operating expenditures, or \$10.5 million.

The city has maintained very strong reserves above 20% of operating expenditures for the past three years. Based on projections for fiscal 2018, the general fund will reach approximately \$11 million, or about 24% of budgeted operating expenditures for fiscal 2018. Due to our expectation that budgetary performance will likely remain strong, we expect budgetary flexibility to remain very strong as the city has historically maintained very healthy reserve levels.

Very strong liquidity

In our opinion, Maryville's liquidity is very strong, with total government available cash at 44.5% of total governmental fund expenditures and 6x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

We expect Maryville's total government cash position to remain very strong. The city's cash and cash-equivalent investments are primarily certificates of deposit and investment pools, which we view to be highly liquid. The city maintains strong access to external liquidity by frequently issuing GO debt for its capital needs.

Adequate debt and contingent liability profile

In our view, Maryville's debt and contingent liability profile is adequate. Total governmental fund debt service is 7.5% of total governmental fund expenditures, and net direct debt is 96.3% of total governmental fund revenue.

Subsequent to this issuance, Maryville will have approximately \$131.4 million of total direct debt. The city plans to issue approximately \$16 million of additional debt within the next two years. The new debt entails approximately \$8 million for a new electric substation, and another \$8 million for improvements to the sewer treatment plant. Officials report the debt will be self-supported with revenues from the respective utility funds, and anticipate both projects to begin in 2019.

Maryville's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 5.8% of total governmental fund expenditures in 2017. Of that amount, 4.9% represented required contributions to pension obligations, and 0.9% represented OPEB payments. The city made 99% of its annual required pension contribution in 2017.

The city participates in a multiple-employer, defined-benefit pension plan, Tennessee Consolidated Retirement System. The city has historically made its actuarial determined contribution, which equaled \$2.2 million in fiscal 2017. Using updated reporting standards in accordance with Governmental Accounting Standards Board Statement (GASB) No. 67, the plan was 93.4% funded, as of the most recent actuarial valuation.

Maryville also provides other postemployment benefits (OPEBs) on a pay-as-you-go basis. As a result, the entire OPEB liability of \$7.7 million was unfunded as of the most recent actuarial valuation on Jan. 1, 2017.

Very strong institutional framework

The institutional framework score for Tennessee municipalities is very strong.

Outlook

The stable outlook reflects our view that Maryville will maintain very strong reserves and liquidity through strong budgetary performance. Furthermore, we believe the city's diverse and growing economic base will continue to provide additional credit support. Therefore, we do not expect the rating to change within our two-year outlook horizon.

Upside scenario

Improvement in the city's debt and contingent liability profile and substantial growth in wealth and income levels, could lead to a higher rating.

Downside scenario

Material weakening in budgetary performance causing depletion of liquidity, or significant economic deterioration, could lead to a downgrade.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of April 25, 2018)		
Maryville GO		
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Maryville GO (SYNCORA)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Maryville GO		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
<i>Long Term Rating</i>	AA+/Stable	Upgraded
Sevier Cnty Pub Bldg Auth, Tennessee		
Maryville, Tennessee		
Sevier Cnty Pub Bldg Auth (Maryville)		
<i>Unenhanced Rating</i>	AA+(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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