S&P Global Ratings

RatingsDirect®

Summary:

Sumner County, Tennessee; General Obligation

Primary Credit Analyst:
Joshua Travis, Dallas 972-367-3340; joshua.travis@spglobal.com

Secondary Contact:
Joyce Jung, Centennial + 1 (303) 721 4189; joyce.jung@spglobal.com

Table Of Contents

Summary:

Sumner County, Tennessee; General Obligation

Credit Profile		
US$95.725 mil GO sch & pub imp bnds ser 2019 due 12/01/2038		
Long Term Rating	AA+/Stable	New
Sumner Cnty GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Sumner County, Tenn.'s series 2019 general obligation (GO) school and public improvement bonds. At the same time, S&P Global Ratings affirmed its 'AA+' long-term rating on the county's GO debt outstanding. The outlook is stable.

The bonds are secured by the full faith and credit of the county and are payable from revenue from unlimited ad valorem taxes to be levied on all taxable property within the county. Bond proceeds will be used to fund the construction of a new elementary and high school within the county, including infrastructure supporting the new campus.

The county has realized strong economic growth over the past few years, benefiting from the economic expansion of the Nashville metropolitan statistical area (MSA). This growth has led to sustained positive budgetary performance, driven by strong financial management practices and policies. While the county's debt profile is what we consider weak due to the county's issuance for school purposes, the pension and other postemployment benefits (OPEB) burden is minimal and fixed costs pressures are not expected to increase over the coming years.

The rating reflects our assessment of the following factors of the county:

- Strong economy, with access to a broad and diverse MSA;
- Strong management, with good 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 35% of operating expenditures;
- Very strong liquidity, with total government available cash at 80.3% of total governmental fund expenditures and 3.5x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 23.1% of expenditures and net direct debt that is 231.1% of total governmental fund revenue, but low overall net debt at less than 3.0% of market value; and

- Very strong institutional framework score.

Strong economy

We consider the county's economy strong. Sumner County, with an estimated population of 180,741, is located in the Nashville-Davidson-Murfreesboro-Franklin MSA, which we consider broad and diverse. The county has a projected per capita effective buying income of 101.9% of the national level and per capita market value of $96,467. Overall, the county's market value grew by 2.5% over the past year to $17.4 billion in 2018. The county unemployment rate was 3.0% in 2017.

The county, located in middle Tennessee approximately 30 miles northeast of Nashville, consists of eight incorporated cities, including the county seat of Gallatin. Largely as a result of expansion of the Nashville-Davidson-Murfreesboro-Franklin MSA, the county has seen sustained increases in assessed and market values as well as population. Officials report that the residential market has been rapidly expanding, with developments ranging from entry-level single-family neighborhoods to multimillion-dollar estates on Old Hickory Lake. In addition, some commercial and industrial expansion have occurred, including at Gap Inc. distribution facility and at UNIPRES, an automotive metal stamping facility. Primary local employers include Sumner County Board of Education (approximately 4,300 employees), Gap (1,306), Sumner Regional Medical Center/Highpoint Health System (1,077), and UNIPRES (1,062), in addition to a wide range of other manufacturing and distribution companies. Given the ample land available for development, as well as infrastructure improvements and expansions that should improve transportation within the county, we believe that the county will continue to experience solid population and property growth.

Strong management

We view the county's management as strong, with good financial policies and practices under our financial management assessment methodology, indicating our view that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Highlights include the use of historical trend analysis and the consultation of outside sources when making informed budget assumptions. Management updates the county board on a monthly basis, with budget-to-actual reports and cash and investment reports. The county follows strict state statutes which govern investment decisions. The county also has a formal debt management policy, which identifies repayment schedules and specifies that maturities can't exceed the useful life of the asset, among other qualitative factors. The county's formal reserve policy requires the county to maintain at least two months' operating expenses in unassigned balances to protect against unanticipated expenditures or revenue volatility. We understand that the county is working toward a five-year long term financial plan and a 20-year comprehensive capital improvement plan.

Strong budgetary performance

Sumner County's budgetary performance is strong, in our opinion. The county had operating surpluses of 3.9% of expenditures in the general fund and of 6.3% across all governmental funds in fiscal 2017.

Our consideration of the county's budgetary performance includes adjustments to account for the expenditure of significant one-time capital expenses and bond-funded capital outlay. For fiscal 2017 the county realized a solid general fund surplus, largely as a result of positive budget-to-actual performance. The county saw revenue above budget, largely as a result of property and sales tax growth as well as strong growth in fees and charges for services. On the expense side of the ledger, the county historically realizes expenditures of 89% to 93% of budget through strong fiscal management of departmental budgets.

For the fiscal year ended June 30, 2018, the county's original budget reflected an adopted $4 million deficit. However, unaudited results indicate a general fund surplus of approximately $1.1 million (or 2% of expenditures). The positive results came despite a $1.2 million expense related to a road project at the Sumner County Regional Airport and was funded from committed general fund balance. The surplus is attributed to the same factors that led to the positive operations in fiscal 2017: revenue increases in property taxes, sales taxes, and building permits, with expenses coming in below budget.

The county's fiscal 2019 budget reflects an adopted $4.6 million deficit, though we note that the county's budget assumptions have historically been conservative. In the fiscal year to date, the county reports that revenue is above budget and that expenditures are tracking below budgeted levels (and will likely be approximately 89% to 93% of budgeted figures). Given the historical performance, the county believes that it will again realize a general fund surplus. Furthermore, with a reappraisal of property underway, the county anticipates that future years' budgetary results will be, at worst, balanced. We believe that the county will sustain budgetary performance that we believe to be at least strong.

Very strong budgetary flexibility

Sumner County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 35% of operating expenditures, or $19 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The county has historically maintained general fund reserves in excess of the formally adopted reserve policy, with said reserves exceeding 30% for at least the past three fiscal years. Available reserves, at $19.0 million in fiscal 2017, are expected to increase to $21.1 million as of June 30, 2018 (reflecting both unassigned and assigned fund balance). Given the anticipation of, at worst, break-even results for fiscal 2019, we believe that the county will maintain reserves at levels we consider very strong and in excess of 30% of expenditures.

Very strong liquidity

In our opinion, Sumner County's liquidity is very strong, with total government available cash at 80.3% of total governmental fund expenditures and 3.5x governmental debt service in 2017. In our view, the county has strong access to external liquidity if necessary.

The county's liquidity is largely held in cash and deposit accounts, with a small amount held in the State Treasurer's Investment Pool. The county's strong access to external liquidity is based on the county's regular access of the capital markets through GO bond issuance. We understand that the county has no private placements, demand obligations, or other liabilities that would weaken our view of the county's liquidity profile.

Weak debt and contingent liability profile

In our view, Sumner County's debt and contingent liability profile is weak. Total governmental fund debt service is 23.1% of total governmental fund expenditures, and net direct debt is 231.1% of total governmental fund revenue.

Overall net debt is low at 1.6% of market value, which is, in our view, a positive credit factor.

We understand that the county has no additional debt plans within the next two years, though it has plans for a new justice center and a new middle school over the next five to seven years. Despite additional debt plans over the medium term, we believe that the county's debt profile will remain manageable. Furthermore, we note that the elevated debt profile is largely attributed to the county's issuance of debt for the school board, a component unit of the county.

Sumner County's required pension and actual OPEB contributions totaled 8.4% of total governmental fund expenditures in 2018. The county made its full annual required pension contribution.

County employees participate in the agent multiple-employer defined benefit pension plan administered by the Tennessee Consolidated Retirement System. The county's contribution to the plan is statutorily based and the county has historically made its full required contribution. As of June 30, 2017, the plan maintained a funded ratio of 98.6% with a net pension liability of $2.9 million. Although the assumed rate of return of 7.5% is slightly above the national average, we do not expect acceleration of fixed costs related to the plan and believe that the county's pension contributions will remain manageable. The county also offers OPEB in the form of participation in the county's health and dental health insurance plans, with payments made on a pay-as-you-go basis. As of June 30, 2017, the county's net OPEB obligation was $2.3 million.

Very strong institutional framework

The institutional framework score for Tennessee counties is very strong.

Outlook

The stable outlook reflects our expectation that the county will continue to benefit from its participation in the broad and diverse Nashville-Davidson-Murfreesboro-Franklin MSA, and that the county will maintain its very strong financial position. The outlook further reflects our opinion that, although it remains elevated, the county's debt profile will remain manageable. Given the above, we do not anticipate changing the rating within our two-year outlook horizon.

Upside scenario

We could consider a higher rating if the county were to see sustained economic expansion, leading to improved wealth and income metrics, combined with formalization of long-term plans.

Downside scenario

Conversely, we could consider a lower rating if the county were to see a significant decline in its financial profile, either from fixed-cost pressures or economic contraction.

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

- 2018 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.