Sumner County, Tennessee

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Credit Profile		
US$118.09 mil General Obligation Refunding Bonds, Series 2011, due 06/01/2023		
Long Term Rating	AA+/Stable	New
Sumner County, General Obligation		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' rating to Sumner County, Tenn.'s series 2011 general obligation (GO) refunding bonds. At the same time, Standard & Poor's affirmed its 'AA+' long-term rating on the county's series 2010 GO bonds. The outlook is stable.

The rating reflects our view of the county's:

- Own deep and diverse economic base, as well as its participation in the Nashville MSA;
- Very strong financial position, further supported by good financial management practices that will likely lead to high and sustainable reserve levels; and
- Low overall net debt burden, coupled with rapid GO debt amortization.

Unlimited ad valorem taxes levied on taxable property within the county secure the bonds. Officials plan to use bond proceeds to refund a portion of the county's GO debt outstanding in order to restructure the current debt so as to provide capacity to fund future debt issuances, and to fund potential growth-driven capital needs without raising taxes. As a result of this refunding, the anticipated savings is approximately negative $5 million in present-value figures.

The approximately 529-square-mile Sumner County, with an estimated population of 160,645, is one of the northern counties that form the Nashville MSA. Aside from employment opportunities throughout the MSA, county residents have access to a diverse range of local employment opportunities. Primary local employers include Sumner County

Board of Education (approximately 3,031 employees), a Gap Inc. (BB+/Stable) distribution center (1,100), Sumner Regional Medical Center/Highpoint Health System (1,027), and Volunteer State Community College (750), as well as a wide range of other manufacturing and distribution companies. As of January 2011, the county's unemployment rate of 9.1% was below both the state and national rates of 10.2% and 9.8%, respectively. Wealth and income levels for the county remain strong, in our view. Median household effective buying income stands at about 120% and 105% of the state and nation, respectively. The county's estimated market value of approximately $14.59 billion implies a per capita market value of about $90,809 for fiscal 2011, which we view as very strong. More than 77% of the estimated market value is attributable to residential and farm values, with only about 17% attributable to commercial and industrial values. Taxable assessed valuation (AV) has been relatively stable; since fiscal 2006, AV has increased by about 30% to $4.1 billion for fiscal 2011. The county is not dependent on any of its principal taxpayers.

We view Sumner County's financial position as very strong. In fiscal 2009, the county drew down on its general fund balance for a variety of planned capital expenditures; the end result reduced the county's general fund balance by about $7 million, leading to an ending unreserved general fund balance of approximately $15.4 million, or about 34% of operational expenditures. Following a prior-period adjustment of approximately $15 million for fiscal 2009, and an operational surplus of approximately $856,000, the county ended fiscal 2010 with an unreserved general fund balance of approximately $30.9 million, which equated to what we consider a very strong 76% of operational expenditures. In 2003-2004, the county sold a hospital, and the contract had a reverter clause that stated that if the hospital was moved from its location, the county would receive a $15 million payment; the hospital was relocated, and the $15 million prior-period adjustment is the receipt of such payment. According to county officials, sales tax revenues, along with other primary revenue streams for the county, are trending positively, and are presently at about 2% above initial projections for the year. County officials project ending fiscal 2011 with at least balanced operations, but the county may add approximately $600,000 to the general fund balance. The county's tax rate remains among the state's lowest rates at about $2.02 per $100 of AV for fiscal 2011.

Standard & Poor's deems Sumner County's financial management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Highlights include management's:

- Regular monthly monitoring of key revenues and expenditures;
- 10-year capital improvement program; and
- Conservative assumptions, on which it bases revenue and expenditure estimates.

The county's overall net debt burden is what we deem low at about 1.2% of estimated market value, or approximately $1,062 per capita. We view the county's debt amortization schedule as rapid, with about 73% of principal retiring over the next 10 years and all debt currently scheduled to retire by 2023. Debt service carrying charges are above average, in our view, and accounted for about 31% of expenditures in fiscal 2010. While management has an aggressive pay-as-you-go capital improvement program, it does not currently expect to issue any additional GO debt for at least the next three years. The county has no variable-rate debt. In addition, the county continues to fully fund its annual required pension contribution to the Tennessee Consolidated Retirement System. The county's annual pension contribution for fiscal 2010 of approximately $6.07 million represented about 15% of the annual operational expenditures. Although local governments under state law have the option of funding other postemployment benefits through a trust fund, Sumner County, to date, is funding its other postemployment benefits obligations through pay-as-you-go financing.

Outlook

The stable outlook reflects our expectation that the county's economic profile and good financial management practices will allow management to sustain its strong financial position through natural economic cycles. We do not expect to change the rating within the two-year outlook timeframe.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006