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Ratings

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Summary:

Maryville, Tennessee; General Obligation; General Obligation Equivalent Security

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Table Of Contents

Summary:

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Credit Profile		
US$20.315 mil GO rfdg bnds ser 2021 due 06/01/2034		
Long Term Rating	AA+/Stable	New
Maryville GO		
Long Term Rating	AA+/Stable	Affirmed
Maryville GO		
Long Term Rating	AA+/Stable	Affirmed
The Indl Dev Brd of Blount Cnty and the Cities of Alcoa & Maryville, Tennessee		
Alcoa, Tennessee		
Maryville, Tennessee		
Alcoa & MaryvillIndl Dev Brd (Maryville) (Alcoa) (Maryville Civic Arts Center Proj) GO Equiv		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' rating to the City of Maryville, Tenn.'s $20.3 million series 2021 general obligation (GO) refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the city's GO debt outstanding. The outlook is stable.

The bonds and outstanding GO debt 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 Maryville. Bond proceeds will be used to refund portions of the city's series 2009C, 2015, 2016, and 2016B bonds for interest-cost savings.

The city's existing series 2017B are secured by a pledge of net revenues from Maryville's water and sewer system but are ultimately backed by the city's pledge of unlimited-ad valorem taxes to be levied on all taxable property within the city. We rate the bonds based on the city's unlimited-tax GO pledge.

Credit overview

Maryville has experienced prolonged economic growth over the past decade through residential, commercial, and industrial developments and expansions, which has provided consistent budgetary performance through increased property tax revenue collections. As the city prepared for the impact from the pandemic, management curtailed revenue projections, which have since suffered little effect. The city is anticipating a return to normal and through adding to its already very strong level of reserves, Maryville is well-positioned to navigate unforeseen potential revenue disruptions as a result of the recent recession. S&P Global Ratings is optimistic that the economic recovery is beginning to accelerate and is expected to result in additional growth in GDP (See S&P Global Economics' report "Economic Outlook U.S. Q2 2021: Let The Good Times Roll"," published March 24, 2021, on RatingsDirect). The stable outlook reflects our expectation that management will continue to steer the city with an operationally balanced budget over the next two years, thereby maintaining its very strong reserves and the flexibility this provides if revenues fluctuate.

The 'AA+' rating further reflects our view of Maryville'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 (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 30% of operating expenditures;
- Very strong liquidity, with total government available cash at 60.4% of total governmental fund expenditures and 8.1x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 7.5% of expenditures and net direct debt that is 78.8% of total governmental fund revenue, as well as rapid amortization, with 67.6% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Environmental, social, and governance (ESG) factors

We consider Maryville's social risks to be in line with those of the sector, although we note the region is undergoing significant population growth. We consider the city's environmental risk in line with our view of the sector as a whole and oversight provided by the Tennessee comptroller's offices provides a basis for strong governance across the state and we view the city's governance factor in line with those of the sector.

Stable Outlook

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.

Credit Opinion

Strong economy

Maryville is in eastern Tennessee, approximately 15 miles from Knoxville, and has an estimated population of 29,356. 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.

The city has a projected per capita effective buying income of 83.4% of the national level and per capita market value of $122,644. Overall, Maryville's market value grew by 3.7% over the past year to $3.6 billion in 2020. A diverse mix of residential, commercial, and industrial properties comprises the city's growing property tax base. With new developments planned and ongoing expansions of current employers and taxpayers, including a recent $1 billion expansion by Denso Corp., officials expect continued growth in taxable assessed value for the next few years. We also believe Blount County's tax base will remain stable over the outlook horizon. The county unemployment rate was 3.2% in 2019, lower than that of the state (3.4%) and nation (3.7%), although we expect this might rise in 2020 due to the COVID-19 pandemic and recent recession, with annual 2020 unemployment reaching approximately 6.5%, we do not believe this will adversely affect our view of the economy. More recently, January 2021 unemployment is at 4.7%, down from the April 2020 peak of 14.4%.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Management prepares the budget using three years of historical data analysis and provides the board with quarterly budget-to-actual reports. Maryville has a formal investment management policy that follows state guidelines, with reporting on investments provided to the board monthly. The city also has a formal debt management policy with comprehensive measures that outline allowable debt and outstanding debt limitations. Management maintains a six-year capital improvement plan, which it updates annually. The plan has been updated recently 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, Maryville has adopted a formal reserve policy that requires the general fund balance be maintained at a minimum of two months of operations, which it is currently exceeding.

Strong budgetary performance

Maryville has realized consecutive years of surpluses, largely because of cost-containment measures and strong revenue performance, with increases in property and sales taxes, the city's largest revenue sources. Expenditure control and solid property value growth have enabled the city to build a reserve position we consider very strong. Maryville relies on property for 52% of revenue, which had an 8.7% revenue increase from the previous year, mainly attributable to a reappraisal that occurs every fourth year. Sales tax also exceeded prior-year collections of 4.1% and accounts for 25% of general fund revenue for the city. Maryville had operating surpluses of 2.8% of expenditures in the general fund and 3.3% across all governmental funds in fiscal 2020 after adjusting for recurrent transfers into and out of the general fund and one-time expenditure items. General fund operating results have been stable, at 3.3% in 2019 and 2.1% in 2018, and we believe Maryville's limited exposure to immediate revenue stress will provide budgetary stability in the coming years.

The fiscal 2021 budget was adopted with stressed revenue assumptions including an 8% sales tax decrease and offset the reductions with correlated expenditure adjustments. With continued strength in property tax and sales tax collection exceeding prior-year levels, officials are anticipating a $3.5 million surplus with intention to use $3.1 million of the excess revenue to pay down current debt obligations. In addition, Maryville is expecting to receive approximately $7.9 million in funding from the American Rescue Plan, which will offer increased budgetary relief. Management continues to make prudent adjustments and while revenue declines and other disruptions could negatively affect operations, tax revenues continue to exceed budgetary expectations and we do not believe there to be budgetary pressure stemming from the pandemic or recent recession.

Very strong budgetary flexibility

Maryville's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 30% of operating expenditures, or $14.2 million. Due to our expectation that budgetary performance will likely remain strong, 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.

Very strong liquidity

In our opinion, Maryville's liquidity is very strong, with total government available cash at 60.4% of total governmental fund expenditures and 8.1x governmental debt service in 2020. The city's cash and cash-equivalent investments are primarily certificates of deposit and investment pools, which we view to be highly liquid. We expect Maryville's total government cash position to remain very strong. city maintains strong access to external liquidity by frequently issuing GO debt for its capital needs.

Strong debt and contingent liability profile

In our view, Maryville's debt and contingent liability profile is strong. Total governmental fund debt service is 7.5% of total governmental fund expenditures, and net direct debt is 78.8% of total governmental fund revenue. Approximately 70% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor. The city has a number of capital outlay notes and loans, which represent 8% of Maryville's approximate $125 million total direct debt and do not consider any covenants or provisions within these notes as nonstandard and a contingent liability risk. Of that amount, the debt burden excludes approximately $50.5 million of self-supporting GO debt paid by utilities. While Maryville might have additional debt plans for the construction of a new school in the future, officials indicate this is still several years away with size and scope yet to be determined.

Pension and other postemployment benefit liabilities

- We do not consider pension liabilities as posing a significant credit pressure for the city given the overfunded status and manageable contributions relative to the budget.
- We do not consider other postemployment benefit (OPEB) liabilities significant.

Maryville participates in the following defined benefit pension plans:

- Tennessee Consolidated Retirement System (TCRS) Teacher Legacy Pension (TLP) Plan: A cost-sharing, multiple-employer plan that is 102.9% funded, with a proportionate share of the plan's net pension assets of $5 million;
- TCRS Teacher Retirement Plan (TRP): A cost-sharing, multiple-employer plan that is 118.1% funded, with a proportionate share of the plan's net pension assets of $155,000; and

- TCRS Public Employee Retirement Plan (PER): an agent multiple-employer, defined-benefit pension plan that is 102% funded, with a proportionate share of the plan's net pension asset of $1.9 million.

Significant funding progress was made in the most recent year for all three pension plans, with contributions significantly in excess of our minimum funding progress metric. We believe that the TLP's and PER's plans' closed, level-dollar amortization of less than 20 years will lead to timely pay down of unfunded liabilities. However, all three plans' 7.25% assumed discount rate leaves some risk of rising pension costs because of market volatility. OPEBs, in the form of retiree health insurance, are provided to both city and school employees. The city finances these OPEB benefits on a pay-as-you-go basis, recognizing a combined unfunded actuarial accrued liability of $23.1 million. Maryville's combined required pension and actual OPEB contributions totaled 5.7% of total governmental fund expenditures in 2020. Of that amount, 4.9% represented required contributions to pension obligations, and 0.8% represented OPEB payments. The city made its full annual required pension contribution in 2020, as required by state law.

Very strong institutional framework

The institutional framework score for Tennessee municipalities is very strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments