

CREDIT OPINION

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Bristol (City of) TN

Update to credit analysis

Summary

The credit profile of Bristol, TN (Aa2) is supported by moderately-sized and growing tax base and a healthy and stable financial profile which is expected to continue based on conservative budgeting practices. These attributes are weighed against a slightly-elevated debt burden and low resident incomes.

Credit strengths

- » Growing and moderately-sized tax base
- » Strong and healthy financial position

Credit challenges

- » Above average taxpayer concentration
- » Slightly above-average debt burden

Rating outlook

Moody's typically does not assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Material growth in the tax base and wealth indicators
- » Reduction in debt burden

Factors that could lead to a downgrade

- » Significant contraction in tax base
- » Imbalanced operations leading to a decline in reserves
- » Material growth in debt burden

Key indicators

Exhibit 1

Bristol (City of) TN	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$2,114,156	\$2,167,101	\$2,280,402	\$2,302,534	\$2,304,575
Population	26,734	26,668	26,766	26,852	N/A
Full Value Per Capita	\$79,081	\$81,262	\$85,198	\$85,749	N/A
Median Family Income (% of US Median)	75.3%	76.1%	75.4%	73.7%	N/A
Finances					
Operating Revenue (\$000)	\$66,164	\$67,409	\$68,702	\$70,750	\$70,858
Fund Balance (\$000)	\$26,316	\$26,836	\$27,121	\$27,984	\$29,621
Cash Balance (\$000)	\$23,426	\$20,784	\$22,631	\$25,160	\$26,727
Fund Balance as a % of Revenues	39.8%	39.8%	39.5%	39.6%	41.8%
Cash Balance as a % of Revenues	35.4%	30.8%	32.9%	35.6%	37.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$45,247	\$47,028	\$44,565	\$42,050	\$39,111
3-Year Average of Moody's ANPL (\$000)	\$80,625	\$97,381	\$102,674	\$106,249	\$108,819
Net Direct Debt / Full Value (%)	2.1%	2.2%	2.0%	1.8%	1.7%
Net Direct Debt / Operating Revenues (x)	0.7x	0.7x	0.6x	0.6x	0.6x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	3.8%	4.5%	4.5%	4.6%	4.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.2x	1.4x	1.5x	1.5x	1.5x

Sources: Moody's Investors Service, Bristol, TN's financial statements, US Census

Profile

Bristol is located in the northeastern part of the state with a population of 26,668 according to the American Community Survey. The city is one of the three cities that comprise the "Tri-City" area. The other two cities include Johnson City (Aa2) and Kingsport (Aa2).

Detailed credit considerations

Economy and tax base: growing tax base in northern Tennessee

The city's tax base will continue to see modest annual growth due to ongoing development as it expanded to \$2.3 billion in 2020. Over the past several years, the city has experienced material development from the Pinnacle project, a mixed-use center. The project has generated new commercial, industrial, and residential development for the city and because it is classified as a "border region retail tourism development district" by the state, the city receives additional sales tax revenues for transactions within this area. Large tenants in the project include Bass Pro Group, LLC (Ba3 stable), CarMax, and Belk, Inc. (Caa2 negative). In addition to this commercial development, the city reports new apartment units, a new car dealership, and hotel in development.

The city's tax base has above average concentration with the top ten taxpayers accounting for 18.3% of total assessed value with the largest taxpayer, Bristol Motor Speedway, at 5.5%. The Speedway hosts large events annually such as the Food City 500 and Bass Pro Shops NRA Night Race. The Speedway continued to host events during the COVID-19 pandemic, albeit, at reduced attendance.

Resident income levels are low with median family income of the state and nation amounting to 86% and 73.7%, respectively.

Financial operations and reserves: stable operations and reserves

The city's financial position will remain strong and stable in the near-term due to conservative budgeting. At the end of fiscal 2020, the city's total available operating fund balance, which includes the general, debt service, and general purpose school funds, totaled \$29.6 million or a healthy 41.8% of operating revenues. Nominally, this is the highest available fund balance in six years. Over the

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past six years, the city has kept the available operating fund balance between 36% and 41.8% of operating fund revenues. The general fund, which accounts for approximately half of total operating funds, has experienced growth in both local and state sales tax revenues attributable to the Pinnacle Development. Since fiscal 2014, sales tax revenues have generated a 14.7% average annual growth rate. Management has tried to budget conservatively for sales tax revenues during the development stages of the Pinnacle project to maintain balanced operations.

Fiscal 2021 operations are trending better than budget given that the management team generated the fiscal 2021 during the early stages of the coronavirus pandemic when its operating environment was uncertain. Overall, the city is expecting to end the year with a general fund balance of \$17.5 million. Property and sales tax revenues are trending over budget with spending generally in line. Fiscal 2022 revenues are budgeted to increase 7.4% from fiscal 2021 reflective of an increase in expected sales tax revenues. The city is only budgeting to draw a modest amount of reserves to balance the budget.

Liquidity

The city's liquidity is healthy with ending fiscal 2020 operating fund cash of \$26.7 million or 37.7% of operating revenues.

Debt and pensions: slightly-elevated debt burden

The city's debt burden will remain above-average but manageable due to ongoing capital projects over the next five years. Including the current issuance, the city's net direct debt burden is 2.1% of full value. In addition to the city's outstanding general obligation debt, the city's Industrial Development Board has approximately \$150 million in outstanding debt secured by special sales tax revenues generated from projects within specific areas within the city. The city has not secured or backed any of the IDB's debt but the IDB is a component unit of the city. The bonds are non-recourse to the city and IDB and are payable solely from the state shared sales tax distributed the city under the Border Region Act.

In the near-term, the city plans to issue approximately \$9 million to fund a new middle school, fire station, and fire equipment.

Legal security

The bonds are secured by and payable from unlimited ad valorem taxes to be levied on all taxable property within the city's corporate limits. For prompt payment of principal and interest, the full faith and credit of the city are irrevocably pledged.

Debt structure

All of the city's debt is fixed rate with a below average 54.9% of principal maturing within ten years.

Debt-related derivatives

The city is not exposed to any interest-rate swap or derivative agreements.

Pensions and OPEB

The city's pension and OPEB liabilities are modest and are not expected to increase in the near-term. The city participates in the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit plan, administered by the Tennessee Consolidated Retirement System (TCRS). The city's adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension data, was \$139.3 million, or an average 1.9 times operating revenues. The city continues to contribute in excess of its estimated pension trend water indicator, which is the amount the city would need to contribute in order for its pension liability to remain flat assuming all of the plans assumptions are met.

ESG considerations

Environmental

Environmental factors do not pose a credit risk in the near-term for the city. According to county-level data from Moody's affiliate Four Twenty Seven, the city does not have high exposures to any climate risks but has a medium exposure to heat stress, which measures relative change over time in the frequency and severity of hot days, and the average temperature, extreme rainfall, and hurricanes. These exposures are mitigated by ongoing efforts address annual infrastructure improvements and support from FEMA in the event of material storm damage.

Social

Social issues are unlikely to pose a material credit risk over the near-term. We will continue to monitor a variety of social factors including demographics, wealth levels, population trends and employment levels, as these remain important key credit metrics. The city has an above-average poverty rate of 20% compared to the national average of 13.4%. As of February 2021, the city's unemployment rate of 4.9% was in line with the state yet below the nation (6.6%).

Governance

The city has a formal policy to maintain at least three months of reserves, however there is an informal goal to have at least four months.

Tennessee Cities have an Institutional Framework score of Aaa, which is very high. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector's primary revenue sources are property and local option sales taxes; property taxes are not subject to any caps, however local option sales taxes are limited to a rate of 2.75%. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures mainly driven by debt and pension costs. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching adjustments dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Bristol (City of) TN

Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$2,304,575	Aa
Full Value Per Capita	\$85,825	Aa
Median Family Income (% of US Median)	73.7%	Baa
Finances (30%)		
Fund Balance as a % of Revenues	41.8%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	9.7%	A
Cash Balance as a % of Revenues	37.7%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	5.3%	A
Management (20%)		
Institutional Framework	Aaa	Aaa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	2.1%	A
Net Direct Debt / Operating Revenues (x)	0.7x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	4.7%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.5x	A
Notching Adjustments: ^[2]		
Unusually Strong or Weak Security Features		Up
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa2

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication

Source: Moody's Investors Service; US Census; Bristol, TN's financial statements

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