

ISSUER COMMENT

20 June 2019

RATING

General Obligation (or GO Related) ¹

Aa3 No Outlook

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City of Sevierville, TN

Annual Comment on Sevierville

Issuer Profile

The City of Sevierville is the county seat of Sevier County, located in eastern Tennessee, approximately 20 miles east of Knoxville. The county has a population of 95,523 and a moderate population density of 161 people per square mile. The county's median family income is \$53,774 (4th quartile) and the April 2019 unemployment rate was 2.5% (2nd quartile) ². The largest industry sectors that drive the local economy are accommodation/food services, retail trade, and arts/entertainment/recreation.

Credit Overview

Sevierville's credit position is high quality, and its Aa3 rating matches the median rating of Aa3 for US cities. The key credit factors include a very strong financial position, a healthy tax base, a mid-ranged pension liability, but a weak wealth and income profile and an outsized debt burden.

Finances: Sevierville has a robust financial position, which is favorable in comparison to the assigned rating of Aa3. The city's cash balance as a percent of operating revenues (43.8%) is slightly stronger than the US median, and grew between 2014 and 2018. In addition, the fund balance as a percent of operating revenues (55.7%) is much higher than the US median.

Economy and Tax Base: The economy and tax base of the city are solid overall. However, they are slightly weak in comparison to the Aa3 rating assigned. The full value per capita (\$149,074) is much stronger than the US median, and stayed the same from 2014 to 2018. In addition, the total full value (\$2.5 billion) is slightly above other Moody's-rated cities nationwide. However, the median family income is a mere 56.8% of the US level.

Debt and Pensions: Overall, Sevierville has inflated debt and pension liabilities, which are unfavorable in comparison to its Aa3 rating. The Moody's-adjusted net pension liability to operating revenues (1.3x) is consistent with the US median, and increased modestly between 2014 and 2018. Moreover, the net direct debt to full value (6.9%) is significantly above the US median.

Management and Governance: Tennessee cities have an Institutional Framework score ³ of Aaa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector has one or more major revenue sources that are not subject to any caps. 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. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

Sector Trends - Tennessee Cities

Tennessee's economy is continuing to experience economic growth, spurred by improving residential construction, manufacturing and consumer spending. Cities will continue to benefit from their low business costs and ability to attract new manufacturing investment. Major revenue sources such as property taxes and local and state sales taxes will continue to add stability to Tennessee cities' stable financial operations. The majority of municipal employees within Tennessee cities participate in the Political Subdivision Pension Plan (PSP), an agent multiple-employer defined benefit pension plan and the local portions are generally well funded.

Exhibit 1

Key Indicators^{4,5} Sevierville

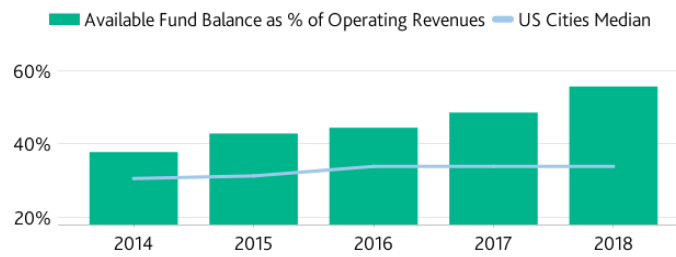
	2014	2015	2016	2017	2018	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$2,285M	\$2,302M	\$2,322M	\$2,468M	\$2,484M	\$1,904M	Improved
Full Value Per Capita	\$146,565	\$144,769	\$143,232	\$150,612	\$149,074	\$94,106	Stable
Median Family Income (% of US Median)	62%	61%	59%	57%	57%	111%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	37.8%	42.9%	44.5%	48.6%	55.7%	34.6%	Improved
Net Cash Balance as % of Operating Revenues	27.9%	33.9%	36.4%	40.7%	43.8%	39.6%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	9.6%	9.3%	9.1%	8.5%	6.9%	1.1%	Improved
Net Direct Debt / Operating Revenues	6.62x	6.59x	5.86x	5.48x	4.39x	0.84x	Improved
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.3%	1.6%	1.8%	1.9%	2.0%	1.9%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.93x	1.13x	1.12x	1.25x	1.31x	1.56x	Stable
	2014	2015	2016	2017	2018	US Median	
Debt and Financial Data							
Population	15,592	15,903	16,213	16,387	16,665	N/A	
Available Fund Balance (\$000s)	\$12,481	\$13,998	\$16,076	\$18,479	\$21,664	\$8,028	
Net Cash Balance (\$000s)	\$9,214	\$11,069	\$13,159	\$15,486	\$17,046	\$9,530	
Operating Revenues (\$000s)	\$33,009	\$32,654	\$36,164	\$38,038	\$38,904	\$23,172	
Net Direct Debt (\$000s)	\$218,455	\$215,085	\$211,995	\$208,605	\$170,825	\$19,139	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$30,759	\$36,863	\$40,658	\$47,505	\$50,927	\$35,448	

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 2

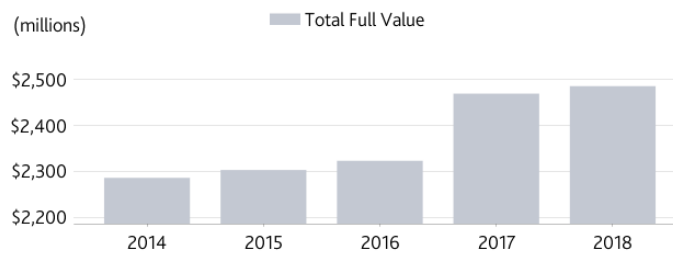
Available fund balance as a percent of operating revenues increased from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

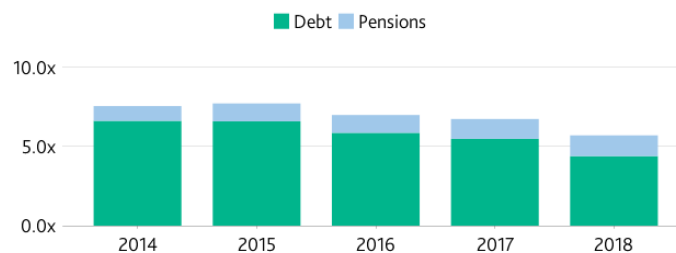
Full value of the property tax base increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
- The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
- For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- The medians come from our most recently published local government medians report, [Medians - Property values key to stability, but pension burdens remain a challenge \(March 2018\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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