Summary:
Hamilton County, Tennessee; General Obligation

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Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Hamilton County, Tenn.'s series 2015A general obligation (GO) bonds and series 2015B GO refunding bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating on the county's parity GO debt. The outlook on all ratings is stable.

A pledge of the county's full faith credit and resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure these bonds. Bonds will be used to refund existing parity GO bonds for present value savings and to refund revolving loans with fixed-rate GO bonds.

The rating reflects our assessment of the following factors for the county, specifically its:

- Strong economy at the center of the broad and diverse Chattanooga metropolitan statistical area (MSA);
- Adequate budgetary performance;
- Very strong budgetary flexibility with fiscal 2014 general fund reserves at 48% of expenditures;
- Very strong liquidity due to strong coverage of debt service;
- Very strong management conditions with a "strong" Financial Management Assessment (FMA);
- Very strong institutional framework; and
- Strong debt and contingent liabilities.

Strong economy

We consider Hamilton County's economy very strong due to its participation at the center of a six-county broad and diverse MSA that includes the city of Chattanooga, Marion and Sequatchie counties in Tennessee, and three counties in northern Georgia. Historically a manufacturing center, the economy has diversified into the trade, health care, higher education, and service sectors. Traditionally, unemployment in Hamilton County has tracked slightly above the state and national levels and was 7.5% in 2013. The county has projected its per capita effective buying income is 101.4% of the U.S. Per capita market value for the county is $32,360 for fiscal 2015. Assessed value (AV) has increased an average of 0.8% annually since fiscal 2012, to approximately $86.6 billion, or an estimated market value of $28.3 billion for fiscal 2014. In addition, we believe the tax base is very diverse, with the 10 leading taxpayers accounting for 12.3% of total AV.
Very strong budget flexibility
In our opinion, the county's budgetary flexibility remains very strong, with reserves at 48% of expenditures for the past several years and no plans to spend them down below what we consider a very strong level. The county closed fiscal 2014 with a surplus due to lower-than-budgeted expenditures, resulting in an available fund balance of $109.3 million, or what we believe is a very strong 49% of recurring expenditures. The fiscal 2015 budget is balanced, reflecting the maintenance of the fund balance, or roughly 56% of expenditures. While the county may use reserves in excess of its reserve policy, it likely will maintain reserves between 40%-60% of expenditures over the long term.

Adequate budgetary performance
Budgetary performance has been adequate overall, in our view, with a drawdown of 0.6% for the general fund and a decline of 4.3% for total governmental funds in fiscal 2014. The fiscal 2015 budget is balanced. Taxes account for the majority of the county's general fund. Property tax collections remain very healthy, with current collections averaging above 95% each year. We expect property and sales taxes will remain at least level, and if property taxes remain healthy, the county will be in a position to maintain its adequate performance despite potential allocations of excess reserves for economic development incentives through 2017.

Very strong liquidity
Supporting the county's finances is liquidity we consider very strong, with total governmental available cash above 67% of total governmental fund expenditures and above 278% of debt service. We believe the county has very strong access to external liquidity due to its annual issuance of debt.

Very strong management conditions
We view the county's management conditions as very strong, with "strong" financial practices, according to our FMA methodology. The county has formal financial management policies, which address investments, revenues, general operations, capital improvements, reserves, budgeting, and debt management. Highlights include a general fund reserve policy of no less than 25% of the operating budget, limitations on debt service carrying charges and maturities, and reporting requirements.

Strong debt and contingent liability profile
In our opinion, the county's debt and contingent liability profile is good, with total governmental fund debt service at 14% of total governmental fund expenditures in fiscal 2014, and net direct debt at 149% of total governmental fund revenue in fiscal 2014. However, the county's carrying charge is projected to increase to 16% of expenditures for 2015. The overall net debt burden is low at just 1.7%, a level we view as a credit positive. In addition, the amortization schedule is front loaded with 82% of principal scheduled to be retired in 10 years.

The county provides all employee retirement benefits through five pension plans. The majority of employees participate in two retirement plans provided by the Tennessee Consolidated Retirement System (TCRS). The required contribution is determined by actuarial valuation; the county contributes 100% of its annual required contribution (ARC) and the plan is 92% funded. As of Oct. 1, 2015, the county's pension plan with TCRS will effectively become a hybrid pension plan which provides eligible employees with both a defined-benefit pension plan and a defined-contribution plan 401(k) plan. The county estimates this change will incur savings of approximately $200,000 per year. The county also provides other postemployment benefits (OPEBs) and is paying slightly more than pay-as-you-go by partially pre-funding benefits within OPEB trust. The pension and OPEB contributions combined

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account for just 6.8% of expenditures.

**Very strong institutional framework**
We consider the institutional framework score for Tennessee cities very strong.

**Outlook**
The stable outlook reflects Standard & Poor's expectation that Hamilton County's financial and capital management policies will continue to provide stability within a two-year horizon. We believe the strength and diversity of the county's core economic structure will allow it to maintain a significant degree of financial flexibility and overall rating stability. While we don't expect it, significant deterioration in the county's very strong budget flexibility, performance, or liquidity position could lead to a downgrade.

**Related Criteria And Research**

**Related Criteria**
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

**Related Research**
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Tennessee Local Governments

**Ratings Detail (As Of April 9, 2015)**

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Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.
Fitch Rates Hamilton County, TN's GOs 'AAA'; Outlook Stable

Policy
01 Apr 2015 11:15 AM (EDT)

Fitch Ratings-New York-01 April 2015: Fitch Ratings has assigned an 'AAA' rating to the following general obligation (GO) bonds of Hamilton County, Tennessee (the county):

--$65 million GO bonds, series 2015A;
--$55 million GO refunding bonds, series 2015B.

The bonds are expected to sell competitively on April 14, 2015. The series 2015A bonds will pay the principal of certain outstanding revolving credit bond anticipation notes (BANs) and fund school and other governmental projects. The series 2015B bonds will refund certain outstanding GO bonds.

In addition, Fitch affirms the following rating:

--$238 million outstanding GO bonds at 'AAA'.

The Rating Outlook is Stable.

SECURITY

The full faith, credit, and unlimited taxing power of the county are irrevocably pledged.

KEY RATING DRIVERS

STRONG FINANCIAL MANAGEMENT: Consistently high reserves are supported by adherence to conservative policies. Revenue-raising capacity and manageable cost pressures contribute to ample financial flexibility.

DIVERSE LABOR MARKET: The county's diverse economy benefits from the increasing presence of healthcare, insurance, and higher education, which supplement the traditional manufacturing and transportation sectors. Recent increases to the employment base coupled with the availability of gigabit-speed Internet service enhance the county's long-term economic prospects.

SOUND SOCIOECONOMIC INDICATORS: The county exhibits favorable socioeconomic characteristics, including wealth levels that are favorable to the state, and moderate unemployment rates.

LOW DEBT BURDEN: Rapid debt amortization along with projected population and tax base growth should allow the county to maintain low debt levels as it implements its manageable borrowing plans.

RATING SENSITIVITIES

The rating is sensitive to shifts in fundamental credit characteristics, including the county's strong financial management. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

CREDIT PROFILE

Hamilton County is located in the southeast region of Tennessee with the city of Chattanooga as its largest city. It is approximately 120 miles southwest of Knoxville and 360 miles east of Memphis.

DIVERSE LABOR MARKET

The county is home to Chattanooga (GO bonds rated 'AA+', Outlook Stable by Fitch), the regional economic center of a six-county metropolitan statistical area. Healthcare, insurance, higher education, retail, and transportation companies, as well as a growing energy presence stabilize the county's economy. The county's Riverwalk, available outdoor activities, and historical sites have augmented its attractiveness as a tourist destination. Manufacturing remains above the state and national averages but no longer dominates the economy, as was the case several decades ago. Somewhat offsetting concerns about this concentration is the increase in high-end and high-skilled manufacturing.
A recent positive announcement is a major expansion by one of the county’s largest taxpayers. Volkswagen (VW; long-term issuer Default Rating of ‘A’, Outlook Stable) is investing $900 million to its automotive production plant to add a new product line. Production of the new mid-sized SUVs is expected in late 2016 and the new plant is estimated to add 2,000 jobs. VW is located in a 3,000 acre industrial park as well as several ancillary businesses. Additional automotive suppliers are expected to open in the county as a result of the expansion.

Amazon.com, Inc. has a fulfillment center located within the county with full-time employment of 1,966. Fitch anticipates that recent commercial development will continue to diversify the county’s economic profile over the next few years. The region is the first nationwide to offer internet service at gigabit speed to all residences and businesses. The high speed internet service helped spark establishment of an innovation district in the urban core to foster business creation and innovation.

SOUND SOCIOECONOMIC PROFILE
Economic metrics have remained stable. The tax base has been generally stable in recent years, with the latest four-year cyclical reappraisal completed in fiscal 2014. The property tax rate has been constant for six years. The November 2014 unemployment rate of 6.4% is the same as the state and moderately above the national (5.5%) rate. Wealth levels hover slightly above state averages but below national averages.

STRONG FINANCIAL PROFILE
The county’s sound financial management practices notably include the maintenance of operating reserves well above its conservative policy (unassigned general fund balance of at least 25% of budgeted expenditures). With commission approval, the county may raise its largest revenue source, property taxes, by increasing the tax rate periodically. In addition, the county has implemented expenditure reductions to address revenue fluctuations. Fitch notes that reductions to date have been modest, providing the flexibility to make further cuts if necessary.

In fiscal 2013, the county realized its sixth consecutive operating surplus, which increased the unrestricted general fund balance to a very strong 51.5% of total spending, well above its 25% reserve policy. The fiscal 2014 final general fund budget appropriated $5.8 million of reserves to balance operations; but again through favorable budgetary control actual reserve use was a minimal $1.4 million. General fund spending included $5 million for capital outlay and a $5 million increase in transfers to the debt service fund. At year end, the unrestricted general fund balance was a strong 47.9% of spending.

The adopted fiscal 2015 general fund budget of $199.9 million is a 1% increase over the prior year budget; and was balanced without the use of reserves. The general fund budget includes an across the board pay raise of 2.5% (there were no raises in fiscal 2014) and full time budgeted positions declines modestly. There is no increase in the real property tax rate although 2% growth is budgeted for taxbase growth.

Subsequent to budget adoption the county agreed to fund capital expenditures to the enterprise south industrial park related to the VW expansion, the net budgetary impact is for the use of $15 million to $16 million in general fund reserves in fiscal 2015. Given the county’s exceptionally strong balance sheet position, the county’s financial position is expected to remain strong and well in excess of the county general fund balance policy.

Further appropriation of $6.25 million of reserves for the VW expansion is planned for fiscal 2016, which will still leave strong reserves. The county retains ample financial flexibility as the real property tax rate can be increased and the current local option sales tax rate of 2.25% is under the state authorized maximum, of 2.75%. The county has actively pursued cost containment effort to stem the trajectory of employee health insurance costs, adopted a new hybrid pension program to control pension costs for new hires and when needed has cut staffing levels.

LOW DEBT BURDEN
The county’s positive debt profile is underpinned by sound debt management practices. The county’s conservative policy of retiring GO debt within 15 years with level principal repayment results in a rapid amortization rate of 74% in 10 years. Despite the rapid amortization, debt service claimed a manageable 14% of fiscal 2014 general government expenditures. Overall debt ratios of 2.1% of market value and $1,706 on a per capita basis remain low and the county will further benefit from probable tax base growth.

The fiscal 2016 through 2020 capital improvement plan (CIP) totals a manageable $168 million, including $104 million for education needs. The county maintains a $50 million bank line of credit which is used for interim capital financing pending long term take out. The next planned long-term debt issuance is $83 million in Spring of 2017.

MANAGEABLE RETIREE COSTS
Other long-term liabilities should not pressure the credit profile. The county makes 100% of its annual required contribution (ARC) for pensions equal to 5.6% of general government expenses, inclusive of the sheriff fund. Benefits are primarily provided through the state managed political subdivision pension plan, a well-funded plan. Employees hired on or after Oct. 1, 2015 will participate in a hybrid pension plan which fixes the county’s contribution to 9% a year (the current plan is now 14%) regardless of plan performance.
The county paid other post-employment benefits (OPEB) of $1.4 million in fiscal 2014 and additionally contributed $1.6 million (combined 4.1% of expenses) to a trust with a balance of $11 million. An additional $1.6 million trust contribution was budgeted for fiscal 2015. The unfunded OPEB plan is 32% funded and the unfunded liability is a modest $23 million.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from CreditScope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, and the National Association of Realtors.

Applicable Criteria and Related Research:
- 'Tax-Supported Rating Criteria' (Aug, 14, 2012);

Applicable Criteria and Related Research:
Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

Additional Disclosure
Solicitation Status

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Moody's
INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Hamilton County's (TN) $112.8M Bonds, Series 2015

Global Credit Research - 08 Apr 2015

Affirms Aaa on $238M outstanding rated debt

HAMILTON (COUNTY OF) TN
Counties
TN

Moody's Rating

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General Obligation Refunding Bonds, Series 2015B | Aaa |
| Sale Amount | $47,800,000 |
| Expected Sale Date | 04/15/15 |
| Rating Description | General Obligation |

Moody's Outlook | STA

NEW YORK, April 08, 2015 – Moody's Investors Service assigns a Aaa rating to the County of Hamilton's (TN) $65 million General Obligation Bonds, Series 2015A and $47.8 million General Obligation Refunding Bonds, Series 2015B. Concurrently, Moody's has affirmed the Aaa rating on the county's $238 million of outstanding rated GO debt. Post-sale, the county will have approximately $413.77 million in parity debt.

SUMMARY RATING RATIONALE

The Aaa rating reflects the county's regionally important economy that includes the City of Chattanooga (Aa1), historically strong financial operations and a manageable debt burden.

OUTLOOK

The stable outlook reflects our expectation that the county will experience stable financial operations and tax base growth in the medium-term.

WHAT COULD MAKE THE RATING GO DOWN

- Any significant use of reserves beyond anticipated 2015 reduction
- Substantial tax base contraction
- Increase in variable rate exposure

STRENGTHS

- Large, regionally important tax base
- Strong financial management and healthy General Fund reserves despite anticipated drawdown
- Manageable debt burden

**CHALLENGES**

- Elevated taxpayer concentration
- Moderate variable rate exposure

**RECENT DEVELOPMENTS**

Recent developments are incorporated in the Detailed Rating Rationale.

**DETAILED RATING RATIONALE**

**ECONOMY AND TAX BASE: REGIONALLY IMPORTANT TAX BASE EXPECTED TO REMAIN STABLE**

The county’s economy is anchored by the City of Chattanooga, which represents approximately 50% of the population and 55% of the county’s $28.4 billion tax base. The city is the regional economic center of an eight-county area in southern Tennessee (Aaa stable) and Northern Georgia (Aaa stable). Economic development inside and outside the city has contributed to taxable growth in the county averaging 3.7% from 2009 to 2014, inclusive of a revaluation in fiscal 2010. Full valuation has grown at a similar, 3.4% pace since 2009.

The largest development for the county over the last several years was Volkswagen Aktiengesellschaft’s (A2 stable) $1 billion investment in its U.S. manufacturing headquarters in Chattanooga. In July 2014, Volkswagen announced plans to undergo an additional $900 million expansion of its facilities, which is expected to bring 2000 new jobs to the region. Approximately 200 of the new positions will be highly skilled professional jobs resulting from the opening of a research and development center at the headquarters. The county entered into an agreement with Chattanooga and the State of Tennessee to provide funding to assist with Volkswagen’s expansion. The county is expected to spend approximately $15 million of its General Fund reserves in fiscal 2015 and $3 million in 2016 to support this project.

Unemployment within the county is equal to the state average at 6.4% (December 2014), but above the national rate of 5.4%. Wealth indices are above state average, with median family income of 110% of the state. Full value per capita is solid at $81,328.

**FINANCIAL OPERATIONS AND RESERVES: STRONG RESERVES DESPITE PLANNED REDUCTION IN FISCAL 2015**

The county’s financial position is expected to remain stable over the medium term, given prudent fiscal management, conservative budgeting and solid General Fund reserve levels. The county has formal fund balance policies which require it to maintain a minimum unassigned General Fund balance of the lesser of 25% of its operating budget or three months of operating expenditures for any given year. The fiscal 2014 budget was balanced with $3.5 million in fund balance appropriations and the county replenished all but $1.4 million. Although expenditures exceeded revenues in the General Fund do to charges for services revenues falling short of budget, fund balance actually grew to $112.1 million (49.1% of revenue) because the Sheriff and Juvenile Court Clerk Funds were merged into the General Fund. The county experienced positive operations in its Debt Service and General Purpose School Funds. Fiscal 2015 results are tracking close to budget, and management expects to finish the year with a General Fund balance of approximately $95 million due to $15 million in one-time expenses related to Volkswagen’s expansion. Following the draw, General Fund balance (which has historically been largely unassigned) would be 47% of budgeted 2015 expenditures, which is compliant with the county’s formal policy.

**Liquidity**

The county’s liquidity including total cash and investments in its General Fund, Debt Service Fund, and General Purpose School Fund was a robust $183.7 million at the end of fiscal 2014, a 16% increase since 2009.

**DEBT AND PENSIONS: MANAGEABLE DEBT POSITION**

The county is expected to maintain its manageable debt position given above-average amortization (88% of debt is repaid in 10 years) and ongoing tax base expansion. The county’s direct debt burden is manageable at 1.5% of full valuation, inclusive of the county’s $30 million line of credit. Following the bond sale, all current draws on the loan will be repaid, however the county plans to draw approximately $25 million in fiscal 2016 or fiscal 2017 to fund capital projects. Fixed costs, including debt service, pension, and OPEB payments represented a reasonable 11%
of operating expenditures in fiscal 2014.

Debt Structure

The county is a party to a $90 million line of credit with U.S. Bank National Association (Aa3/Ratings Under Review for Possible Upgrade). Following a draw, the full principal amount of the loan must be repaid within two years and the obligation bears interest at a variable rate derived from LIBOR. Payment of the loan can be accelerated at the bank’s discretion, following certain events of default including bankruptcy of the county, failure to make payments on the loan, and downgrade of the county’s rating below A3.

Debt-Related Derivatives

The county does not have any derivative exposure.

Pensions and OPEB

The county participates in the Political Subdivision Pension Plan (PSPP) and the State Employees, Teachers, and Higher Education Employees’ Pension Plan (SETHEEPP). Both of these are agent multiple-employer defined benefit plans administered by the Tennessee Consolidated Retirement System (TCRS). Annual required contributions (ARC) totaled $14.6 million for PSPP and $15.4 million for SETHEEPP. The county’s payments to both plans constituted 100% of the ARC in fiscal 2014. The county’s combined adjusted net pension liability, under Moody’s methodology for adjusting reported pension data, is $337.4 million, or a below average 0.55 times Operating Fund revenues. Moody’s uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district’s reported liability information, but to improve comparability with other rated entities. We determined the county’s share of liability for the state-run plans in proportion to its contributions to the plans.

MANAGEMENT AND GOVERNANCE

Hamilton County is well-managed. The county budgets conservatively and adheres to its formal fund balance policies. Tennessee counties have an institutional framework score of "Aaa," or very strong. Counties in Tennessee often rely heavily on property tax revenues which proved relatively stable throughout the recession and have shown growth over the last several years. Local option sales tax revenues, which are used primarily to support county school districts, have been growing moderately. Expenditures are largely predictable and counties have the legal ability to reduce expenditures if necessary.

KEY STATISTICS

Full Value, Fiscal 2014: $28.4 billion
Full Value Per Capita, Fiscal 2014: $81,328
Median Family Income as % of US Median: 93.2%
Fund Balance as % of Revenues, Fiscal 2014: 49.1%
5-Year Dollar Change in Fund Balance as % of Revenues: 12%
Cash Balance as % of Revenues, Fiscal 2014: 45%
5-Year Dollar Change in Cash Balance as % of Revenues: 16%
Institutional Framework: "Aaa"
5-Year Average Operating Revenues / Operating Expenditures: 1.02
Net Direct Debt as % of Full Value: 1.5%
Net Direct Debt / Operating Revenues: 0.95x
3-Year Average ANPL as % of Full Value: 1.11%
3-Year Average ANPL / Operating Revenues: 0.55x

OBLIGOR PROFILE
Hamilton County is located in southeastern Tennessee midway between Metropolitan Government of Nashville and Davidson County (Aa2 stable) and Atlanta, GA (Aa2 positive) and has a population of approximately 348,000.

LEGAL SECURITY

The Series 2015A and Series 2015B bonds are secured by the county's unlimited property tax pledge.

USE OF PROCEEDS

The Series 2015A bonds will refund outstanding BANs and reimburse the county for the costs of design, acquisition, and construction of various capital projects, and will repay the outstanding draw on the county's line of credit. The Series 2015B bonds will refund outstanding Series 2009 and 2011A bonds for an estimated net present value savings of 3.69% of refunded principal without extending the maturity schedule.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

Please see the ratings tab on the issuer/entity page on www.moodys.com for additional regulatory disclosures for each credit rating.

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