

RatingsDirect®

Summary:

Selmer, Tennessee; General Obligation

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Credit Profile

US\$7.575 mil GO rfdg bnnds ser 2020 due 06/01/2035

Long Term Rating A+/Stable New

Selmer GO

Long Term Rating A+/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'A+' long-term rating and stable outlook to Selmer, Tenn.'s roughly \$7.575 million series 2020 general obligation (GO) refunding bonds and affirmed its 'A+' long-term rating and underlying rating (SPUR), with a stable outlook, on the town's existing GO debt.

Selmer's unlimited-ad valorem-tax pledge secures the series 2020 bonds. While surplus net utility system revenue secures several series of the town's GO debt, unlimited-ad valorem-tax revenue ultimately secures all of the town's GO debt.

Officials intend to use series 2020 bond proceeds to refund the town's series 2013 and 2015 bonds for interest-cost savings taken during the bonds' lifetime with no maturity extensions.

Credit overview

While the scope of economic and financial challenges posed by COVID-19 currently remain unknown, Selmer has maintained a manageable debt profile and very strong reserves, which we think support good credit quality. Despite these strengths, we think the limited local economy somewhat constrains the rating. We imagine the local economy will likely remain fairly limited during the next few years.

The rating reflects our opinion of the town's:

- Very weak economy, with market value per capita of \$68,068 and projected per capita effective buying income at 58.8% of the national level;
- Adequate financial management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Weak budgetary performance, with operating results we expect could improve in the near term relative to fiscal 2019, which closed with operating deficits in the general fund and at the total governmental-fund level in fiscal 2019;
- Very strong budgetary flexibility, with available fund balance in fiscal 2019 at 50% of operating expenditures;
- Very strong liquidity, with total government available cash at 2.2x total governmental-fund expenditures and 32.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt-and-contingent-liability position, with debt service carrying charges at 6.8% of expenditures and net direct debt that is 55.4% of total governmental-fund revenue, as well as low overall net debt at less than 3% of

market value; and

- Very strong institutional framework score.

The stable outlook reflects S&P Global Ratings' opinion that Selmer will likely sustain very strong budgetary flexibility and liquidity. In our opinion, the town's moderate debt with limited capital needs and contingent liabilities provide additional rating stability.

Stable Outlook

Downside scenario

We could lower the rating if budgetary performance were negative, coupled with deteriorating very strong budgetary flexibility and liquidity.

Upside scenario

With all else being equal, we could raise the rating if wealth and income were to improve to levels we consider comparable with higher-rated peers and Selmer were to formalize key financial management practices and policies.

Credit Opinion

Very weak economy

We consider Selmer's economy very weak. The town, with a population estimate of 4,762, is in McNairy County. The town has a projected per capita effective buying income at 58.8% of the national level and per capita market value of \$68,068. Overall, market value decreased by 2.3% during the past year to \$324.1 million in fiscal 2019. County unemployment was 5.4% in 2018.

Selmer, in southwestern Tennessee, near the Mississippi-Tennessee state line, is about 100 miles east of Memphis and 15 miles north of Corinth. It is McNairy County's seat and principal commerce center. Some area leading employers include:

- Monogram Refrigeration Inc. (385 employees),
- McNairy County Schools (384), and
- Spectrum Lubricants Corp. (172).

Although preliminary fiscal 2019 estimates indicate an assessed value (AV) decrease, officials report that several area employers are expanding operations and that proposed residential and commercial development could generate AV growth during the next few fiscal years. Due to historical economic metrics and planned area developments, we do not expect our assessment of the local economy will likely change materially during the next few years.

S&P Global Economics is projecting COVID-19 has caused the national economy to fall into a recession, which we think signals a strong likelihood of a strong local economic slowdown. (For further information, please see the article, titled "An Already Historic U.S. Downturn Now Looks Even Worse," published April 16, 2020, on RatingsDirect.) We

expect any near-term budgetary pressure, particularly potential state-funding decreases, will likely become more apparent during the next six months to 12 months.

Adequate management

We view the town's financial management as adequate, with standard financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Highlights include management's:

- Use of historical data and consultations with a number of outside sources to develop budgetary forecasts,
- Monthly reports on budget-to-actual performance and investment holdings to the town council,
- Adherence to state investment guidelines,
- Maintenance of a detailed debt-management policy, and
- Adherence to an informal reserve target of maintaining six months to nine months of working capital in reserve.

Although management discusses long-term financial and capital needs, it does not maintain formal written plans.

Weak budgetary performance

Selmer's budgetary performance is weak, in our opinion. The town had operating deficits at 7.2% of expenditures in the general fund and 3.6% across all governmental funds in fiscal 2019. Our assessment accounts for the fact that we expect budgetary results could improve from fiscal 2019 results during the next few fiscal years.

We adjusted the town's operating data to better analyze typical operations and facilitate compared with its peers. We treat recurring transfers in from the enterprise funds as revenue, and we adjusted for capital expenditures funded by bond proceeds. Management attributes the fiscal 2019 drawdown to the use of reserves for capital projects.

The town's diverse revenue stream includes 44% of general fund revenue from local-option sales taxes, 29% from intergovernmental sources, and 24% from property taxes. We note COVID-19 could have an effect on this revenue, and we will continue to monitor the situation. COVID-19 could have an effect on state-shared taxes, but the majority of local taxes from essential services could remain stable.

The fiscal 2020 budget features a roughly 1% general fund operating deficit, but management reports a number of items are trending positively compared with the budget; consequently, it expects to finish fiscal 2020 closer to breakeven results. Due to stable operations and a history of outperforming budgets, we consider management's projections reasonable.

Very strong budgetary flexibility

Selmer's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2019 at 50% of operating expenditures, or \$2.4 million. We expect available fund balance will likely remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Due to reserves and management's projections, we expect management will likely maintain very strong budgetary flexibility during the next few fiscal years. Due to the strength of the town's reserves, Selmer could withstand pressure

from lost revenue due to very strong reserves.

Very strong liquidity

In our opinion, Selmer's liquidity is very strong, with total government available cash at 2.2x total governmental-fund expenditures and 32.2x governmental debt service in fiscal 2019. In our view, the town has strong access to external liquidity if necessary.

Although the state allows for, what we view as, somewhat permissive investments, we do not consider the town's investments aggressive; it holds investments in the state's liquid investment pool. According to officials, Selmer does not have any directly placed loans or debt or contingent liabilities that could negatively affect current liquidity. Therefore, we expect liquidity will likely remain very strong during the next two fiscal years.

Very strong debt-and-contingent-liability profile

In our view, Selmer's debt-and-contingent-liability profile is very strong. Total governmental-fund debt service is 6.8% of total governmental-fund expenditures, and net direct debt is 55.4% of total governmental-fund revenue. Overall net debt is low at 2.7% of market value, which is, in our view, a positive credit factor.

Our view of Selmer's debt reflects adjustments for revenue-supported obligations, which the town funds with utility system proceeds. Within the next two years, the town will likely issue only additional utility-revenue-secured debt. Therefore, we do not expect our assessment of the town's debt will likely change materially during the next few years.

Pension and other-postemployment-benefit liabilities

We do not view pension liabilities as an immediate credit risk for Selmer due to our opinion of the town's strong plan funding and currently affordable contributions; we, however, see small cost-escalation risk.

Selmer provides pension benefits for all eligible employees through an agent multiple-employer, defined-benefit plan known as the Public Employees' Retirement Plan, administered by Tennessee Consolidated Retirement System (TCRS). Pension contributions are statutorily determined.

At June 30, 2019, Selmer participates in TCRS, which is 112% funded, with a proportionate share of the plan's net liability at a negative \$1.4 million. The town does not offer other postemployment benefits.

TCRS made significant funding progress during the most recent fiscal year with contributions exceeding our minimum-funding-progress metric. We think the plan's closed, level-dollar amortization of less than 20 years will lead to the timely pay down of unfunded liabilities. The plan's 7.25% assumed discount rate, however, leaves some increasing-pension-cost risk due to market volatility. Selmer's pension contributions totaled 3.8% of total governmental-fund expenditures in fiscal 2019. The town made 147% of its annual required pension contribution in fiscal 2019.

Very strong institutional framework

The institutional framework score for Tennessee municipalities is very strong.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 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
- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 6, 2020)

Selmer GO		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Selmer GO (AGM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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