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Ratings

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Summary:
Morgan County, Tennessee; General Obligation

Primary Credit Analyst:
Stuart Nicol, Chicago + 1 (312) 233 7007; stuart.nicol@spglobal.com

Secondary Contact:
Steven E Waldeck, Boston (1) 617-530-8128; steven.waldeck@spglobal.com

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Summary:

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Credit Profile		
US$4.765 mil GO rfdg bnds ser 2020 due 04/01/2029		
Long Term Rating	A+/Stable	New
Morgan Cnty GO		
Long Term Rating	A+/Stable	Affirmed
Morgan Cnty GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rating Action

S&P Global Ratings assigned its 'A+' rating to Morgan County, Tenn.'s $4.8 million series 2020 general obligation (GO) refunding bonds. At the same time, S&P Global Ratings affirmed its 'A+' underlying rating on the county's GO debt outstanding. The outlook on all ratings is stable.

Revenue from an unlimited ad valorem tax levied on all taxable property within the county secure the bonds. The bond proceeds will refund the county's series 2010 bonds, series B-20-A loan and series 2009 loan for interest-cost savings, with no extension of maturities on any existing schedules.

Credit overview

While the scope of the economic and financial challenges posed by the COVID-19 outbreak remains to be seen, given that property taxes, charges for services, and state revenue are the county's primary sources of revenue (with less than 2% of revenue derived from local option taxes), we believe that Morgan County is well positioned to navigate the possible effects of the pandemic and recession through its strong available reserves and the presence of stable employers and taxpayers. While our outlook generally covers up to two years, we believe that the next six-12 months are critical when evaluating the impact to the county's revenues, and any corresponding expenditure adjustments. Therefore, rating stability will depend on the county's adjusting for any potential midyear changes in revenues and lingering financial and economic effects from the pandemic.

The 'A+' rating reflects our view of the county's:

- Weak economy, with projected per capita effective buying income (EBI) at 69.3% and market value per capita of $50,812, though that is advantageously gaining from access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, which closed with an operating deficit in the general fund but a slight operating surplus at the total governmental fund level;

- Strong budgetary flexibility, with an available fund balance in fiscal 2019 of 15.0% of operating expenditures;
- Very strong liquidity, with total government available cash at 50.7% of total governmental fund expenditures and 4.4x governmental debt service, and access to external liquidity that we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 11.5% of expenditures and net direct debt that is 98.5% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 84.6% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

Environmental, social, and governance factors

We analyzed the county's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile and determined that all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

All else being equal, should the county realize prolonged revenue pressure leading to material drawdowns in its reserve position, we could consider lowering the rating. We could also consider lowering the rating if layoffs or furloughs among the county's major employers materially increase or persist in a manner that leads to declines in property tax collections.

Upside scenario

We could raise the rating if the county strengthens its economic indicators to levels that we consider commensurate with those of higher-rated peers while maintaining very strong liquidity and at least strong level of reserves.. However, given our expectations of current economic volatility because of the recession, we view this as unlikely.

Credit Opinion

Weak economy

We consider the county's economy weak. Morgan County, with an estimated population of 21,403, is in the Knoxville MSA, which we consider to be broad and diverse. The county has a projected per capita EBI of 69.3% of the national level and per capita market value of $50,812. Overall, the county's market value was stable over the past year at $1.1 billion in 2020.

Morgan County covers approximately 539 square miles in northeast Tennessee. The county seat, Wartburg, is approximately 45 miles west of Knoxville, providing residents with regional employment opportunities in the Knoxville MSA. The local economy focuses largely on agriculture, with corn and livestock being the primary agricultural products while government, manufacturing, and tourism are also key industries. Although the local economy is somewhat limited, the county has experienced steady growth through expansions in recent years, including the conversion of Brushy Mountain Prison--a historic prison in the county, to a moonshine distillery and concert venue.

While we are concerned about the impact of the COVID-19 pandemic on the local tax base, particularly the manufacturing and tourism sector, most major employers and taxpayer's are considered essential businesses within the corrections, government, utilities, and education sectors and have not been affected by closures. The essentiality of the prisons have provided additional stability to the county during these uncertain times.

Adequate budgetary performance

Morgan County's budgetary performance is adequate, in our opinion as the county had deficit operating results in the general fund of 2.7% of expenditures, but a slight surplus result across all governmental funds of 0.7% in fiscal 2019. Audited fiscal 2019 general fund results are a reflection of inmate medical costs at the county prison being considerably higher than budgeted. Our analysis does, however, account for our future view of the county's budgetary performance given the heightened uncertainty related to the COVID-19 pandemic and its impact on certain revenues. While management is making prudent adjustments, revenue declines and other disruptions could negatively affect operations. The county's primary source of income is property taxes, accounting for 64% of general fund revenues in 2019, followed by charges for services (12%). While we anticipate these revenues will remain somewhat stable in the near term, local option taxes might experience more significant pressure, however, those revenues only account for 2% of general fund revenues.

Morgan County adopted a $50,000 (less than 1% of general fund expenditures) deficit general fund budget for the current fiscal year and preliminary forecasting suggests that despite the impact from the pandemic, the county expects to finish the year close to budget. In addition to the minimal immediate COVID-19 impact, the county has received a federal grant of approximately $19,000 to cover health care costs associated with the pandemic, which have been used to cover potential overtime costs for emergency services. The county is considered a distressed county in terms of infrastructure, and it has a number of capital projects for which it will receive state funding support in the coming months. While we believe the funding will come from the state given the approved status of the state budget, should funding not cover the infrastructure improvements, officials would consider increasing property taxes to cover these needs as well as stage projects over a longer period.

Although the fiscal 2021 budget has not been finalized, management has no plans to increase rates unnecessarily, and it expects to release approximately $200,000 of annual expenditures as the retirement percentage of the Tennessee Consolidated Retirement System (TCRS), which the county is responsible for, is decreasing to 2.55% from 7.25%. We believe Morgan County's limited exposure to immediate revenue pressures will provide relative budgetary stability in the coming year. However, should the pandemic continue to result in closures that affect revenue collection, the county could face prolonged budgetary pressures.

Adequate management

We view the county's 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.

Management makes conservative budget assumptions based on three years of historical trend analysis and provides the county board with monthly budget-to-actual reports. The formal investment policy reflects state guidelines, and management provides the board with monthly reports on holdings and earnings.

In accordance with state law, the county has adopted a debt management policy with comprehensive guidelines for types of allowable debt. While the county does not have a formal fund balance policy, management has an informal practice of maintaining a minimum $1.4 million in fund balance to sustain cash flow, a practice to which it has historically adhered to, although the county is currently below that level as per fiscal 2019 results. The county lacks formal long-term capital and financial plans.

Strong budgetary flexibility

Morgan County's budgetary flexibility is strong, in our view, with an available fund balance in fiscal 2019 of 15% of operating expenditures, or $1.37 million. Despite our belief that budgetary performance could deteriorate slightly compared with fiscal 2019 results, we believe the county's budgetary flexibility will remain at levels that we consider strong. The strong level of available reserves offsets risks associated with COVID-19 or a recession as they will provide a cushion against any temporary or permanent loss of tax revenue as well as any unexpected increases in expenditures as the county reacts to community health needs.

Very strong liquidity

In our opinion, Morgan County's liquidity is very strong, with total government available cash at 50.7% of total governmental fund expenditures and 4.4x governmental debt service in 2019. In our view, the county has strong access to external liquidity if necessary. Furthermore, although the state allows for what we view as somewhat permissive investments, we do not consider the county's investments aggressive. Its investments are eligible to be held in the state's highly liquid investment pool, U.S. government securities, or deposit accounts at state and federal chartered banks and savings and loan associations.

Strong debt and contingent liability profile

In our view, Morgan County's debt and contingent liability profile is strong. Total governmental fund debt service is 11.5% of total governmental fund expenditures, and net direct debt is 98.5% of total governmental fund revenue. Overall net debt is low at 1.4% of market value, and approximately 85% of the direct debt is scheduled to be repaid within 10 years, which in our view are positive credit factors. Our analysis includes the expectation that the county could issue approximately $10 million of additional debt to cover renovations at the county jail within the next two years. However, we understand that the county's plans are preliminary and are subject to change.

Pension and other postemployment benefits

- We do not consider the county's pension liabilities to pose a significant credit pressure given the overfunded status and manageable contributions relative to the budget.
- Required pension contributions could increase because of negative asset performance realized thus far through fiscal 2020.

The county participates in the following pension plan:

- TCRS: an agent multiple-employer, defined benefit pension plan that is 107.2% funded, with a proportionate share of the plan's net pension asset of 1.5 million

Significant funding progress was made in the most recent year for TCRS, with contributions significantly in excess of our minimum funding progress metric. We believe that the plan's closed, level-dollar amortization of less than 20 years will lead to timely paydown of unfunded liabilities. However, the plan's 7.25% assumed discount rate leaves some risk of rising pension costs due to market volatility.

Morgan County's primary government does not provide other postemployment benefits to its retirees. Combined required pension contributions totaled 4.7% of total governmental fund expenditures in 2019. The county made its full annual required pension contribution in 2019.

Very strong institutional framework

The institutional framework score for Tennessee counties 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