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Ratings

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Summary:

Henderson County, Tennessee; General Obligation

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Summary:

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Credit Profile		
US$3.075 mil rural sch rfdg bnds ser 2020 due 03/01/2029		
Long Term Rating	A+/Stable	New
Henderson Cnty GO		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Henderson Cnty GO		
Long Term Rating	A+/Stable	Affirmed
Henderson 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+' long-term rating to Henderson County, Tenn.'s $3.075 million series 2020 general obligation (GO) rural school 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 lying outside the corporate limits of the city of Lexington secure the bonds. The bond proceeds will refund the county's series 2013 rural school bonds, with no extension of maturities on any existing schedules.

Credit overview

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, we believe that Henderson County is well positioned to navigate the possible effects of the pandemic and recession through its very strong available reserves and the presence of stable employers and taxpayers. In addition, the collection of online sales tax revenue provides additional stability to revenue and subsequently credit quality. 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 rating reflects our view of the county's:

- Weak economy, with market value per capita of $63,737 and projected per capita effective buying income at 72.0% of the national level;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment methodology;

- Weak budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 30% of operating expenditures;
- Very strong liquidity, with total government available cash at 33.7% of total governmental fund expenditures and 2.2x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 15.6% of expenditures and net direct debt that is 107.1% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 94.6% 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, absent any risks related to COVID-19, which we view as a health and safety risk.

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. In addition, if increased debt from future issuances further weakened the city's debt profile to levels no longer comparable with those of peers at the current rating level, we could lower the rating.

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 levels 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 Henderson County's economy weak, with an estimated population of 28,117. The county has a projected per capita effective buying income of 72% of the national level and per capita market value of $63,737. Overall, the county's market value grew by 15.3% over the past year to $1.8 billion in 2020. The county unemployment rate was 4.3% in 2019.

Officials reported that its largest employers are quite stable in the midst of the ongoing pandemic-induced recession. In addition, a number of companies have recently added approximately 1,000 well-paying jobs and several other employers within the county have expressed a desire to expand, as well as some new employment opportunities moving in with a medical equipment supply plant in Lexington. There is a moderate number of new residential construction underway, which will continue to add to the county's tax rolls.

With job expansion, the unemployment rate has significantly improved from 11.4% in 2013 to 4.3% in 2019. 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. We will look to monitor the county's economic profile as recessionary headwinds continue to unfold.

Adequate management

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

Key practices include:

- Conservative revenue and expenditure assumptions when compiling the budget;
- Budget-to-actual financial reports are presented monthly to the commissioners, with budget amendments made quarterly, if necessary;
- Investment practices follow state guidelines and holdings are provided by the trustee monthly, and the county has a formally adopted debt management policy;
- A formal policy to maintain 10% of total budgeted expenditures in reserve;
- The county lacks formal long-term financial and capital plans; however, management is actively looking to create a planning committee that will seek to implement such forward-looking plans.

Weak budgetary performance

Henderson County's budgetary performance is very weak in our opinion. The county had surplus operating results in the general fund of 2.6% of expenditures, but a deficit result across all governmental funds of negative 3.7% in fiscal 2019. Our analysis does include the adjustment of expenses that are one-time in nature, and also accounts 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.

Management generally adopts deficit budgets and then conservative budgeting for revenues, which produces better-than-expected results. The county had increased expenditures in fiscal 2019 due to a number of capital projects and purchases including new fire and highway equipment as well as some development at the local school level. While the county posted a 2.6% general fund operating surplus for the fiscal year, the accumulation of the aforementioned projects drove a deficit of 3.7% across total governmental funds.

For this current fiscal 2020, officials anticipate surpluses in both its main operating funds, the general fund and the general purpose school fund. The recent implementation of online sales tax collection has helped tremendously in providing stability of revenues, especially given the impact of the pandemic on service-oriented businesses. Looking ahead to fiscal 2021, officials are not anticipating substantial impacts from the pandemic; management is realistic about the volatile economic environment and has identified several items that could provide budgetary flexibility. At the school level, a number of non-essential positions could be cut if need be to alleviate expense pressures. In addition, the county can implement an increase in its Wheel Tax, which would provide approximately $1 million in recurring revenue each year and can be put into effect in just 60 days.

Very strong budgetary flexibility

Henderson County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 30% of operating expenditures, or $3.1 million. Officials have noted that there is no intention to draw upon any of its fund balances for the foreseeable future, especially given flexibility at the operating level to manage the budget as necessary. The very 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, Henderson County's liquidity is very strong, with total government available cash at 33.7% of total governmental fund expenditures and 2.2x 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. The county is not party to any debt or other contingent liabilities that could pose a risk to the very strong liquidity position.

Adequate debt and contingent liability profile

In our view, Henderson County's debt and contingent liability profile is adequate. Total governmental fund debt service is 15.6% of total governmental fund expenditures, and net direct debt is 107.1% of total governmental fund revenue. Overall net debt is low at 1.6% of market value, and approximately 94.6% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. The current bond issuance will be used to refund existing debt for savings. Future debt could be needed for improvements at the jail, but there is no definite plan at this time.

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 124.1% funded, with a proportionate share of the plan's net pension asset of $3.2 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.

Henderson County's primary government provides postemployment benefits through the Local Government Group Insurance Plan for health-care benefits; however, it does not pay any portion of the retirees' insurance premiums. Combined required pension contributions totaled 1.9% 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 is very strong.

Related Research

Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020