

# RatingsDirect®

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## Summary:

# Fentress County, Tennessee; General Obligation

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## Summary:

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### Credit Profile

US\$8.625 mil GO bonds ser 2020 due 03/01/2050

*Long Term Rating*

A+/Stable

New

## Rating Action

S&P Global Ratings assigned its 'A+' rating to Fentress County, Tenn.'s \$8.6 million series 2020 general obligation (GO) bonds. The outlook is stable.

Revenue from an unlimited ad valorem tax levied on all taxable property within the county secures the bonds. The proceeds of the bonds will be used to acquire a jail and justice center that is currently being leased from The Industrial Development Board of Fentress County. Through the acquisition, the county will prepay the lease for interest-cost savings.

### 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 7% of total governmental revenue derived from local option taxes), we believe that Fentress 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. S&P Global Economics indicates that the COVID-19 pandemic has caused the national economy to fall into a recession and recovery will be slow (see "The U.S. Faces A Longer And Slower Climb From The Bottom," published June 25, 2020, on RatingsDirect), which we expect will cause severely limited growth at the local level. While our outlook generally covers up to two years, we believe that the next six-to-12 months are critical when evaluating the impact on the county's revenues, and any corresponding expenditure adjustments. Therefore, rating stability will depend on Fentress 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:

- Very weak economy, with projected per capita effective buying income at 61.8% of the national level and market value per capita of \$68,165;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with slight operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 23% of operating expenditures;
- Very strong liquidity, with total government available cash at 39.7% of total governmental fund expenditures and

5.0x governmental debt service, and access to external liquidity we consider strong;

- Strong debt and contingent liability profile, with debt service carrying charges at 8.0% of expenditures and net direct debt that is 72.2% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value; and
- Very strong institutional framework score.

### **Environmental, social, and governance factors**

Currently, we are not aware of any environmental, social, and governance risks that could threaten our view of the county's creditworthiness. Given the growing risk associated with cyber-security, the county has put in place the necessary infrastructure to mitigate these risks. We have incorporated our view of the health and safety risks posed by the COVID-19 pandemic, which we consider social risk factors. Although the scope of economic and financial challenges posed by the pandemic remains unknown, we believe a prolonged disruption could weaken the county's local economy. Absent the implications of COVID-19, we consider the county's social risks to be in line with those of the sector. We also view governance and environmental risks as being in line with our view of the sector as a whole.

## **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**

### **Very weak economy**

We consider Fentress County's economy very weak. The county is located on the Cumberland Plateau in the northeastern part of Tennessee, about 35 miles north of Crossville, and has an estimated population of 18,523 over 498 square miles. The county has a projected per capita effective buying income of 61.8% of the national level and per capita market value of \$68,165. Overall, the county's market value grew by 1.9% over the past year to \$1.3 billion in 2020.

The county's local economy is based on regional tourism, agriculture, and a small manufacturing presence. The primarily mountainous Fentress County attracts visitors to its well-known horseback riding trails, Big South Fork National River and Recreational Area, Pickett State Park, and Dale Hollow Lake. In addition to agricultural activity (primarily in the poultry-processing industry), the county's leading employers include Fentress Board of Education,

with 329 employees; Micro Metals Inc., with 105 employees; and Robinson Manufacturing Co. (102 employees). The county unemployment rate was 4.2% in 2019, although we expect this might rise annually due to the pandemic and recession, with May unemployment at 7.1%, down from an April peak of 9.9%.

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 have not been affected by mandated closures.

### **Adequate budgetary performance**

Fentress County's budgetary performance is adequate, in our opinion, as the county had slight surplus operating results in the general fund of 1.1% of expenditures and across all governmental funds of 0.9% in fiscal 2019. 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. Audited fiscal 2019 general fund results are a reflection of increased oversight on budgetary expenditures. From this increased oversight, a former employee was identified as having committed fraudulent activity over a five-year period that resulted in approximately \$240,000 of personal costs being charged through a county credit card. The employee has since been terminated, purchasing policies have been created and enforced, and management expects to recoup approximately \$70,000 while Fentress County undertakes legal action against the former employee.

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 52% of general fund revenues in 2019, followed by charges for services (14%) and state fee revenue. While we anticipate these revenues will remain somewhat stable in the near term, local option sales taxes might experience more significant pressure; however, those revenues account for 7% of total governmental fund revenues and management has indicated there has been an uptick year-over-year from local option tax revenues during fiscal 2020.

Fentress County adopted a \$362,000 (3.5% of general fund expenditures) deficit general fund budget for the most recent fiscal year and preliminary unaudited results suggests that despite the impact from the pandemic, the county expects to finish the year above budget with an expected surplus of \$200,000. Although the fiscal 2021 budget has not been finalized, the proposed budget outlines a \$162,000 (1.7% of general fund expenditures) deficit in the general fund for the current fiscal year, with officials conservatively adjusting expected revenues based on the pandemic. Management expects to exceed budgetary assumptions based on anticipated revenues through discoveries made through a situs audit, which will increase local option sales tax, as well as a recently passed state mandate increasing the reimbursement rate for ambulance patient charges. We believe Fentress 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 earnings as part of the monthly financial reports the board

receives.

In accordance with state law, Fentress County has adopted a debt management policy; however, it lacks formal long-term capital and financial plans, although management is in discussions to develop and maintain both these plans. The county does also not maintain a formal reserve policy or target.

### **Very strong budgetary flexibility**

Fentress County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 23% of operating expenditures, or \$2.1 million. Despite our belief that revenue receipts could deteriorate slightly compared with previous years because of the pandemic, we believe the county's budgetary flexibility will remain at levels that we consider very strong. The very strong level of available reserves offsets risks associated with the COVID-19 pandemic or a recession because it 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, Fentress County's liquidity is very strong, with total government available cash at 39.7% of total governmental fund expenditures and 5.0x governmental debt service in 2019. In our view, the county has strong access to external liquidity if necessary. Furthermore, although Tennessee 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 currently has three loans outstanding that total \$2.4 million. Of those loans, one is a Securities Industry and Financial Markets Association-based variable-rate loan agreement totaling \$2.2 million, which is 20% of the county's total direct debt. None of the loan agreements contains provisions that would lead to immediate acceleration or contain events of default or covenant violations that we deem nonstandard pursuant to our contingent liquidity criteria.

### **Strong debt and contingent liability profile**

In our view, Fentress County's debt and contingent liability profile is strong. Total governmental fund debt service is 8.0% of total governmental fund expenditures, and net direct debt is 72.2% of total governmental fund revenue. Overall net debt is low at 0.9% of market value, which is in our view a positive credit factor. Officials have indicated that the county has no additional debt plans beyond this series 2020 issuance.

### **Pension and other postemployment benefits**

- We do not believe the county's pension liabilities will 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 so far through fiscal 2020.

Fentress County participates in the following pension plan:

- The Tennessee Consolidated Retirement System (TCRS): an agent multiple-employer, defined benefit pension plan that is 94.7% funded, with a proportionate share of the plan's net pension liability of 567,000.

The county made significant funding progress for TCRS in the most recent year, 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. Pension contributions totaled 2.2% of total governmental fund expenditures in 2019 and the county made its full annual required pension contribution during that year.

### **Very strong institutional framework**

The institutional framework score for Tennessee counties is very strong.

## **Related Research**

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- 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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.capitaliq.com](http://www.capitaliq.com). All ratings affected by this rating action can be found on S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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