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Ratings

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Summary:

Bledsoe County, Tennessee; General Obligation

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Table Of Contents

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Credit Profile		
US$8.75 mil GO bnds ser 2020 due 03/01/2040		
Long Term Rating	A/Stable	New
Bledsoe Cnty GO		
Long Term Rating	A/Stable	Affirmed
Bledsoe Cnty GO (AGM)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Bledsoe Cnty GO (ASSURED GTY)		
Unenhanced Rating	A(SPUR)/Stable	Affirmed
Bledsoe Cnty GO (MAC)		
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 Bledsoe County, Tenn.'s $8.8 million series 2020 general obligation (GO) bonds and affirmed its 'A' long-term rating and underlying rating (SPUR) on the county's existing GO debt. The outlook on all ratings is stable.

The 2020 bonds are secured by the county's full faith and credit, including its ability to levy ad valorem property taxes without limitation as to rate or amount. The bond proceeds will refund the majority of the county's series 2011 and series 2013 bonds for interest-cost savings. Approximately $2.1 million of the series 2020 bonds will be used for a various renovations and other improvements throughout the county.

Credit overview

While the scope of the economic and financial challenges posed by the COVID-19 pandemic remains to be seen we believe the county is adequately positioned to navigate the possible effects of the pandemic through its very strong reserve balance and economic developments that will provide stability and growth during this period of uncertainty. The reserve position will allow for cushion against potential revenue losses and unexpected costs, should the coronavirus transmission rate increase, requiring a subsequent economic shutdown. S&P Global Economics indicates that the pandemic had caused the national economy to fall into a recession with the current recovery expected to be slow (see "The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, 2020, and "Economic Research: U.S. Real-Time Economic Data Continues To Paint A Mixed Picture," published Aug. 14, 2020, on RatingsDirect), which we anticipate will cause severely limited growth at the local level as a result of ongoing recessionary pressures. However, we believe management will adjust spending as needed to meet its obligations while maintaining structural balance as was evident in preliminary fiscal 2020 surplus results and budgeted fiscal 2021. While our outlook generally covers up to two years, we believe that the next six-to-12 months are critical to evaluating the impact on the revenue and expenditure expectations, therefore, rating stability will depend on the county's response to adjusting for any potential changes in tax collections through lingering financial and economic effects from the pandemic and subsequent recession.

The 'A' long-term rating further reflects our view of the county's

- Very weak economy, with market value per capita of $55,485 and projected per capita effective buying income (EBI) at 67.0% of the national level;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Weak budgetary performance, with operating results that 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 an available fund balance in fiscal 2019 of 24% of operating expenditures;
- Very strong liquidity, with total government available cash at 70.8% of total governmental fund expenditures and 4.3x governmental debt service, and access to external liquidity that we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 16.4% of expenditures and net direct debt that is 215.7% of total governmental fund revenue, but low overall net debt at less than 3% of market value; and
- Very strong institutional framework score.

Environmental, social, and governance factors

We analyzed Bledsoe County's environmental, social, and governance risks relative to the county's economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard. In our view, oversight provided by the Tennessee comptroller's offices provides a basis for strong governance across the state.

Stable Outlook

Downside scenario

We could lower the rating if the county experiences protracted use of reserves to fund operations or increased volatility within the local economy that would significantly affect budgetary operations, reducing reserves to levels that we no longer feel commensurate with those of similarly rated peers.

Upside scenario

Holding all other factors equal, we could raise the rating if economic indicators improve to levels commensurate with those of higher-rated peers as well as the maintenance of improved budgetary performance.

Credit Opinion

Very weak economy

We consider Bledsoe County's economy very weak. The county is about 50 miles north of Chattanooga. While the local economy is somewhat shallow, it remains stable. Trade, agriculture, and public safety are key sectors of the economy. The county has an estimated population of 15,036. The county has a projected per capita EBI of 67.0% of the national level and per capita market value of $55,485. Overall, market value grew by 1.5% over the past two years to $834 million in fiscal 2020 with management expecting this to continue in coming years as a result of continued economic development.

The leading county employer is Bledsoe County Correctional Complex, which employs approximately 1,200. The leading private employer is Hubbard Farms, which currently employs 72. Aviagen Poultry Inc. recently purchased the company, and upgraded the hatchery plant through an investment of $15 million. Aviagen also purchased 50 acres within the county to build a new $35 million poultry facility, which will create 40 additional jobs and the county expects it to be in operation by third quarter 2021. We believe it is possible this new development and a commitment from Aviagen to contract local farmers, with Tennessee Department of Transportation investing $4.3 million for infrastructure upgrades within the county, could attract ancillary business. While new developments and sustained growth will increase economic expansion, we believe the county's economy could improve from what we consider very weak, should the new positions raise the county's wealth indicators.

The county has been somewhat isolated from the COVID-19 pandemic primarily due to the rural nature, with limited impact on current employers resulting in no announcements of permanent closures. Recent county unemployment rates have trended above those of the state, and we recognize that county unemployment peaked at 14% in 2009, compared with Tennessee's 10.5% and the nation's 9.3%. While county unemployment was 5.4% in 2019, August unemployment rate indicated 7.9%, down from the April peak of 16.5%. Should pressure from a prolonged recovery from the recession result in a significant downturn in demand causing local closures, we believe residents could move elsewhere for work. Our view of the economy could deteriorate if unemployment rises above 10% for an extended period.

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.

While developing the budget, the county reviews up to 12 years of actual performance data, but it focuses on budgetary performance over the past five fiscal years. Officials monitor the budget regularly with a finance committee and make updates, as needed, and report the results quarterly to the county board. The county has flexibility to adjust the budget ad hoc.

The county's only formal written financial-management policies exist for investments and debt management, which follow investment guidelines outlined by state statutes; management provides the governing body with at least quarterly updates. The debt-management policy outlines general guidelines for debt issuance, including variable-rate debt with the prohibition of derivatives. The county informally targets a $1.7 million minimum undesignated general fund balance. It lacks a long-term financial policy and capital plan.

Weak budgetary performance

Bledsoe County's budgetary performance is weak, in our opinion. The county had operating deficits of 8.6% of expenditures in the general fund and 4.1% across all governmental funds in fiscal 2019. Our view of the county's budgetary performance reflects adjustments made to exclude one-time expenditures and our analysis does account for the county's future budgetary performance, given the heightened uncertainty related to the pandemic and its impact on certain revenue streams. However, our assessment accounts for the fact that we expect budgetary results could improve somewhat from 2019 results in the near term based on fiscal 2020 estimates highlighting an unaudited 8.2% general fund surplus and a breakeven fiscal 2021 adopted budget.

Fiscal 2019 deficit results pertained to revenues coming in lower than expected, primarily through contracted prisoner board amounts due to a nearby county housing state prisoners as the Bledsoe County detention center underwent an expansion. Management indicates that this shortfall was one-time in nature and the expansion has increased revenue for fiscal 2020. Officials anticipate revenues to exceed expenditures for fiscal 2020 with a preliminary general fund surplus result of $500,000 (approximately 8% of general fund expenditures).

Although management is making prudent adjustments, revenue declines and other disruptions could negatively affect operations. In fiscal 2019, the county's primary sources of general fund revenues were property taxes (40%), followed by charges for services (18%), and state revenues (18%). While we expect these revenues will remain relatively stable in the near term, we are aware local sales tax nationwide have experienced volatility, although unaudited fiscal 2020 results outline a 12% annual increase in sales tax revenue and accounts for only 2% of the general fund's total revenue.

Still, management has adjusted for this potential risk by adopting a fiscal 2021 budget that has an annual decrease of 5.5% in overall revenues from the previous year budget. The fiscal 2021 budget does not include approximately $1.2 million grant funds from the state allocated for distressed entities, which will be used to alleviate capital project costs, providing budgetary relief. Based on conservative revenue and expenditure assumptions, coupled with likely revenue growth, we expect budgetary performance to remain, at least, adequate through the end of fiscal 2021.

Very strong budgetary flexibility

Bledsoe County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 24% of operating expenditures, or $1.4 million. Considering the county's conservative budgeting practices, we do not expect a major drawdown for the next two years. The very strong level of available reserves offsets risks associated with the pandemic or the 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 responds to community health needs.

Very strong liquidity

In our opinion, Bledsoe County's liquidity is very strong, with total government available cash at 70.8% of total governmental fund expenditures and 4.3x governmental debt service in 2019. In our view, the county has strong access to external liquidity if necessary.

We expect total government cash will likely remain very strong due to limited expected draws on unencumbered cash. County investments are highly liquid, with a majority of investments in certificates of deposit with maturities not exceeding 12 months. Our opinion that the county maintains strong access to external liquidity reflects its history of GO bond issuance for more than a decade. The county does not currently have contingent liabilities that, in our opinion, could cause immediate or future liquidity pressure.

Weak debt and contingent liability profile

In our view, Bledsoe County's debt and contingent liability profile is weak. Total governmental fund debt service is 16.4% of total governmental fund expenditures, and net direct debt is 215.7% 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. The county has no additional new money debt plans outside the new money portion of the series 2020 bonds, therefore we expect its debt profile to strengthen over the next two years.

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.

Bledsoe County participates in the following pension plan:

- The Tennessee Consolidated Retirement System (TCRS): an agent multiple-employer, defined-benefit pension plan that is 101.2 % funded, with a proportionate share of the plan's net pension asset of $235,000.

In the most recent year, Bledsoe made significant funding progress 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. The county does not provide material other postemployment benefits for its employees; therefore, pension contributions totaled 6.1% 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