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Ratings

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Summary:

McMinn County, Tennessee; General Obligation

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Table Of Contents

Summary:

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Credit Profile		
US$4.965 mil GO rfdg bnds (Hiwassee Util Comm) ser 2021 due 06/01/2042		
Long Term Rating	AA-/Stable	New
McMinn Cnty (Hiwassee Util Comm) GO		
Long Term Rating	AA-/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to McMinn County, Tenn.'s approximately $5 million series 2021 general obligation (GO) refunding bonds, issued for the benefit of the Hiwassee Utility Commission (HUC). At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating on the county's existing debt. The outlook is stable.

The bonds are secured by revenue from an unlimited ad valorem tax levied against all taxable property in the county. The bonds are additionally payable, but not secured by, revenue derived from the operation of the HUC's water system. Bond proceeds will be used to refund the county's series 2015 GO bonds for interest cost savings.

Credit overview

Although McMinn County has a limited economy, its financial and debt profile has been strong, providing stable credit quality. McMinn County is a rural county in southeastern Tennessee, with some employment concentration in manufacturing. Despite these weaknesses, the local economy has been stable, which has provided a steady revenue base for the county. Stable revenue along with conservative budgeting has helped sustain structurally balanced operations and a very strong reserve and liquidity position. In our view, the county's very strong reserves are a credit strength, as they provide the county with cushion in the event of a financial or economic shock. Another credit strength is the county's debt profile: The series 2021 bonds will be the county's only debt outstanding, and debt service on the bonds is fully self-supporting with utility revenue from the HUC. The stable outlook reflects our expectation that although the county's employment opportunities are concentrated in manufacturing, the makeup of these firms has been historically stable and the firms expect growth. In addition, we expect that the county, based on its conservative management style, will maintain positive financial operations over the next two years.

The 'AA-' rating also reflects our assessment of the county's:

- Very weak economy, with a concentrated employment base;
- Strong management, with good financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2020;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 43% of operating expenditures;

- Very strong liquidity, with total government available cash at 151.6% of total governmental fund expenditures, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with no debt requiring governmental fund support, as well as low overall net debt at less than 3% of market value; and
- Very strong institutional framework score.

Environmental, social, and governance (ESG) factors

We consider the county's social risks in line with those of the sector, although a somewhat aging population could weigh on its demographic profile in the longer term. We view the county's governance and environmental risks as in line with those of the sector.

Stable Outlook

Upside scenario

We could raise the rating if the local economy were to grow and diversify away from the manufacturing sector, coupled with improving wealth and income levels.

Downside scenario

We could lower the rating if the county's finances weaken, leading to deterioration in reserves and liquidity, or if the county were to issue significant debt.

Credit Opinion

Very weak economy

We consider McMinn County's economy very weak. The county has an estimated population of 53,085. The county has a projected per capita effective buying income of 65.9% of the national level and per capita market value of $86,963. Overall, the county's market value grew by 4.1% to $4.6 billion in 2020. Weakening McMinn County's economy is a concentrated employment base, with the manufacturing sector accounting for 35% of total county employment.

McMinn County is in Southeast Tennessee, bordered by Meigs County to the west, Roane and Loudon counties to the north, Monroe County to the east, and Bradley and Polk counties to the south. Athens is the county seat and is the county's largest city. The largest employers in the county include Hackney Home Furnishing (1,523 employees), DENSO (auto exhaust system manufacturing, 1,400), and Calhoun Newsprint Co. (paper, 900). The top 10 taxpayers account for 23.8% of the county's total assessed value (AV). Resolute, a paper mill, is the largest taxpayer at 8.4% of AV. According to management, Resolute has appealed its valuation. We understand that if the full appeal is granted, the county could lose about $100,000 in property tax revenue. However, this represents less than 1% of the county's total general fund revenue, so we don't view the appeal as a significant credit risk.

S&P Global Ratings believes that economic recovery from the COVID-19 pandemic and associated recession will begin to accelerate, but with unemployment remaining at precrisis levels until 2023. (See S&P Global Economics' reports "Economic Outlook U.S. Q2 2021: Let The Good Times Roll," published March 24, 2021, on RatingsDirect, and "Within Reach: How Stimulus Proposals Lift U.S. GDP to Pre-Pandemic Levels," published Feb. 1, 2021.) The county's unemployment rate reached 17.2% during the peak of the stay-at-home orders in the earlier part of 2020, but has steadily decreased, and was 5.0% as of February 2021. The preliminary unemployment rate for 2020 was 7.6%. Management reports that local companies are hiring. We note that Red Stag, an ecommerce fulfillment company, is constructing a distribution center just one mile outside the county and plans to hire 3,5000 employees.

Strong management

We view the county's management as strong, with good financial policies and practices under our FMA methodology, indicating our view that financial practices exist in most areas but that governance officials might not formalize or monitor all of them on a regular basis. We revised our FMA to good from strong because the county does not use formal long-term financial projections, its capital plan uses fairly basic assumptions, and its debt policy does not restrict the county beyond state guidelines.

The county takes a conservative approach to preparing the annual budget, looking back five to seven years and then smoothing out trends to project revenue estimates. On the expenditure side, it starts with a zero-based approach and each department has to justify increases. Management can amend the budget at any time during the year, but tends to adjust only for large items such as grants. The commissioners receive monthly reports that highlight budget-to-actual results. The county also keeps a limited long-range capital plan, in which it identifies general needs to be funded out of its capital projects fund. The county has its own investment policies that mirror state guidelines, but reporting is done only once per year. It has also adopted debt management policies that follow state guidelines. Last, it has a formal reserve policy to maintain a minimum unassigned general fund balance of 8% of next year's budget. It is currently meeting this policy.

Strong budgetary performance

McMinn County's budgetary performance is strong, in our opinion. The county had operating surpluses of 3.9% of expenditures in the general fund and of 6.2% across all governmental funds in fiscal 2020 (ended June 30). The county has a history of conservative budgeting, which has contributed to a recent trend of surpluses. In 2020, the county had originally budgeted for a $347,000 deficit in the general fund but ended with a surplus of $542,000. Property taxes were the largest general fund revenue source at 56.5% of total revenue. Other taxes, which include sales and hotel taxes, accounted for 19.1%.

Tax revenue has performed relatively well through the pandemic. In addition, in March 2020, voters approved an increase in the county's local option sales tax rate to 2.75% from 2.00%. This has led to higher sales tax collections, which has helped mitigate revenue declines in other areas of the budget. Sales tax collection has also grown organically in the past year because the pandemic spurred more residents to shop directly in the county rather than travel to surrounding counties. According to management, the pandemic's largest impact on revenue has been on prisoner board revenue (the county houses state inmates), though a corresponding reduction in prison expenses has offset this. Overall, the county expects to report another general fund surplus in fiscal 2021, even before factoring in the expected receipt of federal stimulus funding. Management estimates that the county will receive about $10.5 million from the American Rescue Plan. The county had previously received about $800,000 in Coronavirus Aid, Recovery, and Economic Security (CARES) Act funding as well as $1.1 million in one-time funding from the state.

Officials plan to adopt a balanced budget for fiscal 2022. We anticipate that the county will continue to make adjustments as it deems necessary to maintain structurally balanced operations over the next two years.

Very strong budgetary flexibility

McMinn County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 43% of operating expenditures, or $6.1 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Given management's expectations for a surplus in 2021 and balanced operations in 2022, we anticipate that the county's budgetary flexibility will remain very strong. The county has a formal policy to maintain a minimum unassigned general fund balance of 8% of expenditures but has no plans to draw down reserves to this level.

Very strong liquidity

In our opinion, McMinn County's liquidity is very strong, with total government available cash at 1.5x total governmental fund expenditures in 2020. In our view, the county has strong access to external liquidity if necessary.

The county had $38 million in cash and cash equivalents at the end of fiscal 2020. We believe the county has strong access to external liquidity because it has issued debt in the past decade. The county has no long-term investments; most of its cash is held in bank accounts.

Very strong debt and contingent liability profile

In our view, McMinn County's debt and contingent liability profile is very strong. The county has no direct debt outstanding requiring governmental fund support.

The county has no debt outstanding other than the pledge to support the series 2021 bonds if HUC revenue is insufficient. Because the water system is fully self-supporting, the county pays no debt service out of its governmental funds. If the water system were not self-supporting, requiring the county's support, we would still view the county's debt profile as very strong. Assuming no self-support, the bonds represent about 19% of total governmental fund revenue and 1.3% of market value. Maximum annual debt service on the bonds is only 1.3% of total governmental fund expenditures. The county also has only about $100,000 in overlapping debt. The county has incurred no debt for the school system and plans to cash fund school projects in the future. Therefore, we anticipate that the debt profile will remain very strong.

Pension and other postemployment benefit (OPEB) liabilities

We do not consider the county's pension and OPEB liabilities a significant credit pressure, given the overfunded status of the pension plans and manageable contributions relative to the budget.

The county participates in the following pension and OPEB plans:

- Tennessee Consolidated Retirement System (TCRS) Public Employee Retirement Plan, an agent multiple-employer, defined benefit pension plan that is 111% funded, with a proportionate share of the plan's net pension asset of $6.2 million
- McMinn County Government OPEB plan, a single-employer defined benefit plan: 0% funded with a net OPEB liability of $367,000

TCRS made significant funding progress in the most recent year, with contributions 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 as a result of market volatility. The county made its full annual required pension contribution of $527,000 in fiscal 2020, totaling 2.1% of total governmental fund expenditures.

The county funds OPEB on a pay-as-you-go basis. OPEB costs were only 0.1% of total governmental fund expenditures in 2020.

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

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