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Ratings

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Summary:

Kingston, Tennessee; General Obligation

Primary Credit Analyst:
Randy T Layman, Centennial + 1 (303) 721 4109; randy.layman@spglobal.com

Secondary Contact:
Stuart Nicol, Chicago + 1 (312) 233 7007; stuart.nicol@spglobal.com

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Credit Profile		
US$8.635 mil GO bnds ser 2021 due 06/01/2041		
Long Term Rating	AA-/Stable	New

Rating Action

S&P Global Ratings assigned its 'AA-' long-term rating to the City of Kingston, Tenn.'s 2021 general obligation (GO) bonds, with a preliminary par amount of $8.6 million. The outlook is stable.

The city's full faith and credit, including its ability to levy ad valorem taxes without limitation as to rate or amount, secures the 2021 GO bonds.

Bond proceeds will finance various capital improvement expenditures and refund the majority of the city's debt outstanding, including all of its unhedged variable-rate obligations. The refunding component takes debt service savings upfront (when using the city's budgeted rates for the existing variable-rate debt) but does not extend maturities. When combined with the new money component, the city's annual debt service costs remain in line with existing figures, making new money debt service budget neutral. In addition to the city's GO securing the issue, city utility revenue will support the portion that finances or refinances improvements to the utility system, though utility revenue is not legally pledged to the 2021 GO bonds.

Credit overview

The rating reflects our view of the city's stable financial position, largely defined by consistent operating performance, expenditure management, and a healthy reserve position. The rating also considers the city's manageable debt profile and healthy retirement liability position. The city's local economy is stable and supported by the sprawling U.S. Department of Energy operations affiliated with Oak Ridge National Lab and Y-12 National Security Complex, though population and tax base growth have been limited until very recently. The city's financial position has improved amid the pandemic, and with no plans to materially spend down reserves or issue new debt we anticipate rating stability over the medium term.

The 'AA-' long-term rating further reflects our view of the city's:

- Adequate economy, with access to a broad and diverse metropolitan statistical area;
- Adequate management, with standard financial policies and practices under our financial management assessment 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 21% of operating expenditures;

- Very strong liquidity, with total government available cash at 38% of total governmental fund expenditures and 5.8x governmental debt service;
- Adequate debt and contingent liability profile, with debt service carrying charges at 6.5% of expenditures and net direct debt that is 138.8% 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

In our view, the city faces slightly elevated environmental and social risk factors pertaining to the nearby Kingston Fossil Plant, one of the nation's largest coal-fired power plants, and lingering effects from the 2008 coal ash spill, one of the most significant industrial spills in U.S. history. Damage to properties directly within the city was very limited, though the spill affected Kingston's local environment, waterways, and nearby communities. We also believe the incident may have pressured population and property value trends. The Tennessee Valley Authority, the plant's owner, recently announced plans to shut down the plant between 2026 and 2033. The plant employs approximately 300; while that figure is material, we believe a shutdown would not significantly affect the overall local economy. Furthermore, a plant shutdown may have positive secondary effects for the city associated with factors such as property desirability. Oversight by the Tennessee comptroller's offices provides a strong governance framework across the state, and we view the city's governance factors as in line with those of the sector.

Stable Outlook

Upside scenario

All else equal, should economic metrics materially improve relative to those of higher-rated peers and should the city adopt formalized policies in several key areas, we could consider a higher rating.

Downside scenario

All else equal, if the city drastically reduces its reserve position as a result of one-time spending or a period of structural imbalance, we could lower the rating.

Credit Opinion

Adequate economy

Kingston, the seat of Roane County, is located in east central Tennessee at the confluence of the Clinch, Emory, and Tennessee rivers. The city is approximately 35 miles west of Knoxville and 20 miles southwest of Oak Ridge. The city has an estimated 2020 population of 5,863 and has a projected per capita effective buying income of 89.5% of the national level and per capita market value of $98,096.

Knoxville is home to the state flagship University of Tennessee, while Oak Ridge is dominated by the presence of Oak Ridge National Lab and the U.S. Department of Energy (DOE), which are the key drivers for the local economy. The DOE occupies nearly 1,200 buildings and employs nearly 13,000 in the areas across its various operations and contracts, which center on energy-related research and development and national security functions. The local economy also supports a growing and diversified light manufacturing industry and continues to attract firms related to research at DOE facilities.

We consider the county's employment composition concentrated under our methodology given that the professional and business service sector accounts for approximately 40% of employment, though we understand this figure is elevated partly as a result of the presence of the DOE-related facilities and accompanying industries that are included within this sector.

City market and assessed value surpassed levels realized in 2008 only in 2019, though 12% growth for 2021 highlighted strong demand in line with housing trends nationally.

The local economy remained fairly resilient in the face of the pandemic. The county realized a decline in hospitality and manufacturing employment to a lesser extent, but experienced an uptick property values and sales tax activity. The unemployment rate increased to 12.3% in April 2020, averaged 6.6% for the year, and has since fallen to 4.0% in August 2021. County unemployment has historically trended slightly higher than state and national figures.

Adequate management

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

Key practices include the use of historical trend analysis and some zero-based budgeting practices when developing the budget, as well as monthly financial reporting to the city council. The city does have a formal debt management policy, though the policy does not include meaningful limitations beyond state statutes. The city maintains a formalized cash management policy, though cash or investment balances are not formally reported. The city has an informal target to maintain available reserves above 20% of expenditures. The city does not maintain formalized long-term capital or financial plans.

Strong budgetary performance

The city had operating surpluses of 2.7% of expenditures in the general fund and 2.7% across all governmental funds in fiscal 2020.

The city has realized break-even results on average over the past four audited fiscal years as operating expenditure control offset limited revenue growth. Furthermore, operating results have been fairly consistent since 2014. Local option sales tax revenue has grown steadily, particularly in 2020 (seeing a 10.5% increase) as online sales tax distributions began for municipalities in the state.

Property tax revenue has been steady as the city adjusts its rate to produce a revenue-neutral levy, though 2021 was a record year amid strong collections. Positive performance in fiscal 2021 as a result of expenditure management and positive revenue variances enabled the city to increase the general fund balance by $1.1 million. The city realized budgetary savings across the board, while actual revenue was up 9.4% versus the budget and 8.8% over fiscal 2020 (on a budgetary basis). Property taxes accounted for 32% of 2021 revenue, followed by local option sales at 21%, with state-shared revenue and charges for services making up the bulk of the remainder.

The city is allocated $1.8 million in American Rescue Plan Act funds and plans to use the majority for capital projects.

The 2022 budget does include using $350,000 in reserves for one-time capital projects, but also includes revenue 10.5% below 2021 figures, highlighting the potential for positive variance.

Very strong budgetary flexibility

Kingston's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 21% of operating expenditures, or $1.3 million. With 2021 results, the city's available reserve position will grow to around 40% on a budgetary basis. With limited plans to spend down reserves and no intention to take reserves to less than 20% of expenditures, we anticipate that the city's budgetary flexibility will remain very strong. The comparatively low property tax rate supports budgetary flexibility.

Very strong liquidity

In our opinion, Kingston's liquidity is very strong, with total government available cash at 38% of total governmental fund expenditures and 5.8x governmental debt service in 2020. In our view, the city has satisfactory access to external liquidity if necessary. The city carries operating funds solely within demand deposits and does not carry any operating investments we would consider aggressive. Additionally, the city is not exposed to any material contingent obligations that could negatively affect its liquidity profile.

Adequate debt and contingent liability profile

In our view, Kingston's debt and contingent liability profile is adequate. Total governmental fund debt service is 6.5% of total governmental fund expenditures, and net direct debt is 138.8% of total governmental fund revenue. Overall net debt is low at 2.3% of market value, which is, in our view, a positive credit factor. The city has no plans to incur additional debt.

Pension and other postemployment benefit (OPEB) liabilities

We do not view retirement liabilities as a credit risk for Kingston given a strong funding position and manageable contributions. We see limited risk from cost escalation.

Kingston provides pension benefits for eligible employees under the Public Employee Retirement Plan defined benefit plan administered by the administered by the Tennessee Consolidated Retirement System. Kingston's component of the agent, multiple-employer plan was 111% funded with a net asset position of $688,412 as of the latest valuation. The city provides a single-employer OPEB plan for non-Medicare-eligible employees hired prior to fiscal 2015. The OPEB liability was $122,881 as of the latest valuation.

Pension and OPEB contributions totaled 2% of 2020 total governmental fund expenditures, which we consider comparatively low. All defined benefit contributions exceeded normal costs, meaning positive funding status positions will be sustained as long as actuarial assumptions are met. In our view, the majority of plan assumptions are reasonable, though we consider the 7.25% discount rate elevated, leading to the potential for some contribution volatility if returns fall short.

Very strong institutional framework

The institutional framework score for Tennessee municipalities is very strong.

Related Research

- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- 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
- 2020 Update Of Institutional Framework For U.S. Local Governments