S&P Global Ratings

RatingsDirect®

Summary:

LaFollette, Tennessee; General Obligation

Primary Credit Analyst:
Steven E Waldeck, Dayton + 1 (617) 530 8128; steven.waldeck@spglobal.com

Secondary Contact:
Anna Uboytseva, Salt Lake City + 1 (312) 233 7067; anna.uboytseva@spglobal.com

Table Of Contents

Summary:

LaFollette, Tennessee; General Obligation

Credit Profile		
US$7.0 mil GO bnds ser 2021B due 06/01/2041		
Long Term Rating	A+/Stable	New
La Follette GO bnds		
Long Term Rating	A+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'A+' long-term rating and stable outlook to LaFollette, Tenn.'s roughly $7 million series 2021B general obligation (GO) bonds and affirmed its 'A+' long-term rating and underlying rating (SPUR), with a stable outlook, on the city's existing GO debt.

Officials intend to use series 2021B bonds proceeds to acquire land and construct; renovate; extend; and equip site improvements, facilities, and electric-system equipment.

An unlimited-ad valorem-property-tax pledge secures the series 2021B bonds and existing debt. GO bonds are payable from revenue of unlimited ad valorem property taxes; however, the portion of bonds that finance electric-system extensions and improvements are additionally payable from, but not secured by, revenue derived from utility operations. Therefore, we rate these bonds only to the city's GO pledge.

Credit overview

The limited LaFollette, in central Campbell County in northeastern Tennessee, is approximately 40 miles north of Knoxville and its economy. In our opinion, finances are strong with stable general fund performance and very strong reserves and liquidity. Furthermore, stable financial policies and practices under our Financial Management Assessment (FMA) methodology support proactive management. In addition, the city expects a surplus in fiscal 2021 due to higher-than-budgeted overall sales taxes.

The stable outlook reflects S&P Global Ratings' expectation that LaFollette will likely maintain balanced general fund performance and very strong reserves. Due to its small but growing economy, and its participation in the broad and diverse Knoxville metropolitan statistical area (MSA), we expect the city will likely continue to experience property tax base growth. Our outlook is generally for two years, but we see some downside risk due to COVID-19 and the lagging effects of the recent related recession during the next 12 months.

The rating reflects our view of the city's:

- Limited nature as a residential suburb of Knoxville, which continues to experience population decreases despite economic stability;
- Budgetary performance volatility during the past few fiscal years, albeit with a forecast surplus in fiscal 2021;

- Standard financial-management practices but very strong Institutional Framework; and
- Very strong debt profile with more than 90% of debt self-supporting from the utility systems.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks relative to the city's economy, management, financial measures, and debt-and-liability profile and have determined all are in-line with our view of the sector standard. In our view, oversight provided by the Tennessee comptroller's office, relative to transparency and reporting, provides the basis for strong governance statewide.

Stable Outlook

Downside scenario

We could lower the rating if finances were to deteriorate, possibly due to increasing fixed costs, resulting in a substantial reserve decrease.

Upside scenario

We could raise the rating if economic conditions, including wealth and income, were to improve to levels we consider commensurate with higher-rated peers.

Credit Opinion

A limited residential suburb of Knoxville that continues to experience population decreases despite economic stability

U.S. Highway 25-W and county highways 63 and 90 traverse the roughly 4.9-square-mile LaFollette, connecting residents to regional employment opportunities in the broad, diverse Knoxville MSA. At the same time, while the local economy is somewhat limited, it maintains an agricultural and light-manufacturing base, including metal fabrication and textiles. The tax base is diverse with the 10 leading taxpayers accounting for 15.2% of assessed value (AV). County unemployment increased to 16.6% in April 2020 due to COVID-19 before it decreased to 4.8% in August 2021.

According to officials, the city's 15-acre industrial site is available for private development; they are working with the county to apply for state grants and stimulate economic growth. Officials currently expect taxable value to remain in-line with current value.

S&P Global Economics indicates the national economic outlook is improving, and it remains resilient despite a slight cooldown recently. (For more information on our view of the U.S. economy, see the articles, titled, "Risks Rise As Recovery Hits a Snag," published Sept. 28, 2021; and "Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off," published Sept. 23, 2021, on RatingsDirect.)

Budgetary performance volatility during the past few fiscal years with a forecast fiscal 2021 surplus

Our view of budgetary performance reflects adjustments made to include recurring transfers into the general fund from the electric-department fund and transfers for general purposes.

Management attributes positive general fund performance in fiscal 2020 to tax revenue stability despite the recent

COVID-19-related recession and expenditures far below budgeted levels due to hiring and spending freezes during the pandemic's early stages. The city also realized lower-than-expected salary-and-benefit, program-reduction, and utility cost savings.

Local sources account for more than 72% of general fund revenue: The local sales tax, the largest revenue source, generated 25% of total revenue in fiscal 2020, followed by property taxes at 21%, electric department in lieu of tax payments at 15%, intergovernmental sources at 11%, and charges for services at 9%.

The fiscal 2021 budget includes a small decrease due to the use of $180,000 for police vehicles; however, officials confirmed local revenue sources remained stable or increased throughout COVID-19. Officials expect positive general fund operations in fiscal 2021 due to better-than-budgeted revenue performance; therefore, we recognize it will not have to draw on reserves.

Officials passed a balanced fiscal 2022 budget. They optimistically expect, at least, balanced operations in fiscal 2022, which we consider likely due to cautious budgeting and historically strong performance.

Cash is very strong, in our view. Officials confirm there is no direct-purchase or privately placed debt; therefore, we expect liquidity will likely remain very strong during the next two fiscal years.

Standard financial-management policies and practices, indicating the finance department maintains adequate policies in some, but not all, key areas.

When preparing the annual budget, the city uses two years to three years of historical information to formulate revenue and expenditure assumptions. In addition to working with the county assessor to project local AV growth, the city tracks sales-tax-revenue projections and uses state forecast publications to budget for state revenue changes. It also uses outside consultants to assess electric-system demand and these projections to supplement internal utility-system assumptions and budget estimates.

During each fiscal year, management monitors budgetary performance regularly, reporting budget-to-actual results to the city council monthly. According to management, it makes ad hoc budget amendments with council approval. Although the city does not maintain a formal investment-management policy, it adheres to state investment guidelines. In addition to budget-to-actual reports, management presents monthly investment-earnings-and-holdings reports to the council.

However, LaFollette does not conduct formal long-term financial planning beyond the next budgeted year. It also lacks a formal capital-improvement plan. The electric utility system maintains an informal five-year plan to address certain capital needs and improvements. At the same time, management reviews a formal adopted debt-management policy annually and targets debt types it could issue, as well as risk-mitigation strategies for variable-rate debt issuance. Officials choose not to enter into interest-rate swaps or use derivative instruments unless adopting a debt derivative policy that complies with state funding board guidelines. The city does not currently maintain a formal reserve policy or informal fund-balance target, but management evaluates annual cash-flow needs to maintain sufficient reserves to address potential revenue shortfalls or unforeseen expenditures.

A very strong debt profile with more than 90% of debt self-supporting from utility systems

Following the series 2021B bond issuance, LaFollette will have approximately $44 million of total direct debt outstanding, all of which is fixed-rate debt. At the same time, we adjusted approximately $41 million of enterprise-related GO debt out from net direct debt calculations. GO-related water-and-sewer and electrical utility system debt centers on three years of user charges providing full coverage to support obligations. The debt profile could improve over time when our self-supporting analysis includes debt payments related to this issuance.

Pension and OPEB liabilities are not currently a credit pressure

We do not view pension liabilities as an immediate credit risk for La Follette due to our opinion of very strong plan funding and currently affordable contributions. Required pension contributions totaled 4.8% of total governmental fund expenditures in fiscal 2020, which we view as low.

The city administers a single-employer, defined-benefit, health-care plan with pay-as-you-go contributions, and assumption or increase changes in the liability could result in increased costs.

As of June 30, 2020, the city participates in LaFollette Employees' Pension plan--a multiemployer, defined-benefit pension plan--which was 100.7% funded, with a net liability of $97,000.

LaFollette also administers a pay-as-you-go OPEB plan that provides health insurance; it pays 50% of health-insurance premiums for anyone with 20 years of service that is 55 years old, or 30 years of service under the Tennessee Consolidated Retirement System, until the earlier of age 65 or when they become Medicare eligible. At fiscal year-end June 30, 2018, the net OPEB obligation was about $1.4 million. The city does not expect pension and OPEB costs to increase substantially during the next few years.

Very strong Institutional Framework

The Institutional Framework score for Tennessee municipalities is very strong.

LaFollette, Tennessee Select Key Credit Metrics

	Most recent	--Historical information--		
		2020	2019	2018
Weak economy				
Projected per capita effective buying income as a % of U.S.	56.0			
Market value per capita ($)	58,283			
Population		7,370	7,440	7,466
County unemployment rate(%)		7.6		
Market value ($000)	429,544	439,611		
10 leading taxpayers as a % of taxable value	18.8			
Adequate budgetary performance				
Operating fund result as a % of expenditures		5.2	(6.4)	(3.5)
Total governmental fund result as a % of expenditures		4.8	(4.9)	(2.5)
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		45.4	38.1	47.4
Total available reserves ($000)		3,429	3,136	3,707

LaFollette, Tennessee Select Key Credit Metrics (cont.)	Most recent	--Historical information--		
		2020	2019	2018
Very strong liquidity				
Total government cash as a % of governmental fund expenditures		81.6	68.9	78.5
Total government cash as a % of governmental fund debt service		1,611.6	1,714.7	2,033.8
Adequate management				
Financial Management Assessment	Standard			
Very strong debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		5.1	4.0	3.9
Net direct debt as a % of governmental fund revenue	36.3			
Overall net debt as a % of market value	0.6			
Direct debt 10-year amortization (%)	76.7			
Required pension contribution as a % of governmental fund expenditures		3.6		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		1.2		
Very strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

Related Research

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

Ratings Detail (As Of November 18, 2021)		
LaFollette GO (AGM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
La Follette GO (BAM)		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.