

RatingsDirect®

Summary:

Lawrenceburg, Tennessee; General Obligation

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Credit Profile

US\$7.525 mil GO rfdg bn ds ser 2020 due 06/01/2027

Long Term Rating

A+/Stable

New

Lawrenceburg Pub Bldg Auth, Tennessee

Lawrenceburg, Tennessee

Lawrenceburg Pub Bldg Auth (Lawrenceburg) GO (AMBAC)

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

Rating Action

S&P Global Ratings assigned its 'A+' long-term rating and stable outlook to Lawrenceburg, Tenn.'s approximately \$7.525 million series 2020 general obligation (GO) bonds and affirmed its 'A+' long-term rating on the city's existing GO debt. The outlook is stable.

At the same time, we affirmed our 'A+' rating and stable outlook on Lawrenceburg's series 2015C GO refunding bonds. The series 2015C GO bonds are secured by an unlimited ad valorem pledge on all taxable property within the corporate limits of the city. Net revenues of the electric system being subordinate to outstanding electric system obligations further secure the bonds.

Officials intend to use series 2020 bond proceeds to refund the city's outstanding series 2003-174 water and sewer state revolving loan fund and the city's series 2016 GO bonds.

Revenue from an unlimited ad valorem tax on all taxable property in the city secures the bonds. Bond proceeds will be used to make infrastructure improvements and purchase sanitation and police vehicles and equipment.

Credit overview

S&P Global Economics reports COVID-19 has sent the national economy into recession, which we think signals a strong likelihood of a strong local economic slowdown. (For further information, please see the article, titled "The U.S. Faces A Longer and Slower Climb From The Bottom," published June 25, 2020, on RatingsDirect.) We currently think the city can withstand some revenue decrease, based on its very strong liquidity.

The city of Lawrenceburg, located in south central Tennessee, has an economy largely based in manufacturing. With recent expansions and developments, the city has seen hundreds of jobs added within the past few years. While these jobs have not yet resulted in a marked improvement in wealth and income levels, they are spurring additional residential and retail growth. This should allow the city to maintain its very strong financial flexibility, despite an expected drawdown of reserves in fiscal 2021. Finally, the city's debt and liability profile remains adequate, largely as a result of debt supported by the city's utility systems and manageable postemployment costs.

The rating also reflects our opinion of the city's:

- Weak economy, with market value per capita of \$70,243 and projected per capita effective buying income at 72.7% of the national level;
- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, which closed with balanced operating results in the general fund but an operating deficit at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 30% of operating expenditures;
- Very strong liquidity, with total government available cash at 117.2% of total governmental fund expenditures and 10.9x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability profile, with debt service carrying charges at 10.8% of expenditures and net direct debt that is 145.3% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 77.3% of debt scheduled to be retired in 10 years; and
- Very strong institutional framework score.

The stable outlook reflects S&P Global Ratings' opinion that Lawrenceburg will maintain healthy reserves and very strong liquidity, despite weaker budgetary performance for fiscal 2021. The outlook further reflects our expectation that limited additional capital needs will likely lead to the city maintaining an adequate debt profile, which will expect will remain manageable, despite revenue loss the city could see in fiscal 2021.

Environmental, social, and governance (ESG) factors

We have analyzed the city's ESG risks relative to its economy, management, financial measures, and debt and liability profile, and--absent any COVID-19-related risks, which we view as a health and safety risk--determined all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

If budgetary performance were to deteriorate, leading to a significant weakening of reserves or liquidity, we could consider a lower rating.

Upside scenario

If job growth and economic expansion were to result in employment diversification and materially stronger resident incomes at levels commensurate with those of higher-rated peers, we could raise the rating.

Credit Opinion

Weak economy

We consider Lawrenceburg's economy weak. The city, with an estimated population of 11,444, is located in Lawrence County. The city has a projected per capita effective buying income of 72.7% of the national level and per capita market value of \$70,243.

The county unemployment rate averaged 4.1% in 2019, which was above state and national averages. We recognize that county unemployment will see a significant increase in 2020, as it averaged 18.4% in May of 2020.

Located in south central Tennessee, Lawrenceburg is approximately 75 miles south of Nashville and 20 miles north of the Alabama border. The city serves as the seat of Lawrence County and accounts for about one-quarter of the county's population. The local economy centers on manufacturing and agriculture. Leading private employers include Modine Manufacturing Co., Dura Automotive Systems, Graphic Packaging, and Assurance Operations. Given the proximity to a General Motors assembly plant in neighboring Maury County and a Nissan plant in Decherd, much of the industry in Lawrenceburg is related to component and supplier manufacturing for the automotive industry.

The tax base is diverse, with the top 10 taxpayers making up 15.7% of the total assessed value (AV). AV has been stable in recent years, increasing by a total of 1.7% from fiscal 2017 and totaling \$233.6 million in fiscal 2020. County officials expect AV to remain stable over the next few years.

Officials report that several residential developments are poised to provide additional housing to support the additional workers, and that the average price of homes have jumped from \$175,000 to \$215,000 over the last month. The city's economy relies on manufacturing, and we recognize the susceptibility of the manufacturing industry to changing economic dynamics. County officials report that at the peak of unemployment, the county had seen 3,400 layoffs as a result of COVID-19, most of which were hospital-related. Two local industries accounted permanent layoffs, which combined, totaled approximately 350 jobs. Industries are now projecting consolidations and expansions that will ensure at least 80% of those 350 lost jobs will be backfilled. The county is working with these companies to ensure that these jobs, and possibly more, are brought back later this year.

Adequate management

We view the city'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 incorporates three to five years of historical data when preparing the budget. Management also routinely tracks revenue and expenditures and provides budget-to-actual reports to the city council per request. Lawrenceburg follows state investment statutes by investing its money mostly in certificates of deposit. The city's formal debt management policy establishes debt structure, types of permissible debt instruments, and compliance practices. Despite the lack of a formal fund balance policy, the city informally adheres to maintaining reserves at a minimum of 20% of the budget. Lawrenceburg does not keep a formal capital improvement plan, and does not perform any formal long-term financial projections.

Adequate budgetary performance

Lawrenceburg's budgetary performance is adequate, in our opinion. The city had balanced operating results in the general fund of 0.3% of expenditures, but a deficit result across all governmental funds of 2.1% in fiscal 2019. General fund operating results of the city have been stable over the last three years, with results of negative 0.9% in 2018 and 1.7% in 2017.

Our consideration of Lawrenceburg's budgetary performance includes adjustments to account for recurring transfers in from the city-owned utilities, as well as the removal of one-time expenditures the city saw in fiscal 2019.

The city ended fiscal 2019 with a \$455,000 use of general fund balance, though this was largely attributable to unbudgeted capital projects that the city's mayor had prioritized, which cost approximately the amount of fund balance the city spent down. The city derived approximately 33.3% of adjusted revenue from sales taxes in 2019, followed by property taxes (26%) and utility transfers (12.8%).

The fiscal 2020 general fund budget totaled \$13.6 million and was balanced. Estimates show the city finished the year with a \$539,133 general fund surplus. City officials report that the city likely finished somewhat close to the \$539,133 surplus, as shown by the general fund estimates. The city made budgetary adjustments throughout the year, cutting expenses as much as it could to counteract any type of revenue loss as a result of COVID-19. Additionally, the city saw an increase in online sales tax collections, helping offset any revenue loss, which the city notes was mostly from state-shared revenues. Lawrenceburg has also seen local option sales taxes grow by 9% from May 2019 to May 2020, and officials report that property tax revenues have increased, given the new residential development.

The fiscal 2021 general fund budget totals \$13.8 million, showing a \$307,501 use of reserves to balance the budget. Budgetary assumptions were fairly similar to fiscal 2020, and although the city recognizes that it will likely have to make budgetary adjustments throughout the year, it did not want to make any changes to the budget before receiving further information. Lawrenceburg currently expects that it could post a slight deficit in fiscal 2021 as a result of revenue loss from COVID-19, but believes budgetary performance will turn positive again after the fiscal 2021 year as the economy recovers. Therefore, we expect budgetary performance will likely remain adequate.

Very strong budgetary flexibility

Lawrenceburg's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 30% of operating expenditures, or \$3.9 million.

Given the estimated \$539,133 fiscal 2020 general fund surplus, and with the expectation to not use a significant amount of reserves in fiscal 2021, we don't believe general fund balance will be materially depleted over our two-year outlook horizon. Therefore, we expect that the city will maintain very healthy reserves, above its informal target of 20% of operating expenditures.

Very strong liquidity

In our opinion, Lawrenceburg's liquidity is very strong, with total government available cash at 117.2% of total governmental fund expenditures and 10.9x governmental debt service in 2019. In our view, the city has strong access to external liquidity, if necessary.

We expect Lawrenceburg's total government cash position to remain very strong. The city's cash and cash-equivalent investments are primarily certificates of deposit and money-market accounts, which we view as highly liquid. The city maintains strong access to external liquidity by frequently issuing GO and revenue debt for capital projects. The city has no contingent liabilities that could cause immediate or future liquidity pressure.

Strong debt and contingent liability profile

In our view, Lawrenceburg's debt and contingent liability profile is strong. Total governmental fund debt service is 10.8% of total governmental fund expenditures and net direct debt is 145.3% of total governmental fund revenue. Overall net debt is low at 2.4% of market value, and approximately 77.3% of the direct debt is scheduled to be repaid

within 10 years, which are in our view positive credit factors.

Following this issuance, the city will have approximately \$49.4 million in direct debt outstanding. However, our consideration of the city's debt burden includes debt supported by utility system revenue. We understand that the city has no variable-rate debt, direct-purchase, or alternative financing obligations outstanding. Outside of a possible refunding, the city reports that it will likely not issue any additional debt over the next two years. Therefore, we believe that the city's debt burden will remain adequate.

We do not view pension liabilities as an immediate credit risk for Lawrenceburg, given our opinion of the city's strong plan funding status and currently affordable contributions, although we see a small risk of cost escalation.

The city's combined required pension and other postemployment benefits (OPEB) contributions totaled 15.5% of total governmental fund expenditures in 2019, which we view as large, but recognize that the city has paid more than its annual required contribution, and the bulk of the city's costs are for the city's utility systems and are paid from utility system revenues. Of the combined amount, 8.5% represented required contributions to pension obligations and 6.9% represented OPEB payments. The city made 121% of its annual required pension contribution in 2019.

Lawrenceburg participates in the following plans as of June 30, 2018:

- Tennessee Consolidated Retirement System (TCRS), an agent multiple-employer plan, with a 68.4% funded ratio and a net pension liability of \$7.2 million;
- The Lawrenceburg Utility Systems (LUS) Employees' Pension Plan, a single-employer plan, with an 89.7% funded ratio and a net pension liability of \$1.95 million; and
- OPEB plans.

The largest plan, TCRS, was funded at only 68.4% as of fiscal 2018 (the most recent year for which data are available), with a net pension liability of \$7.2 million. The plan discount rate was lowered to 7.25% from 7.50% in fiscal 2017. Although the discount rate is now lower, we still believe this, coupled with a 3.4% payroll growth assumption, could lead to contribution volatility. The LUS plan featured a funded ratio of 89.7% as of fiscal 2019, with a net pension liability of \$1.95 million and a discount rate of 7.0%. It is a single-employer, defined-benefit health care plan, with contributions on a pay-as-you-go basis, and changes in assumptions or increases in the liability may result in increased costs. The city's contributions to both plans are actuarially based, though the city has been contributing to the LUS plan at a level in excess of the actuarially determined contribution rate.

Lawrenceburg also provides OPEB in the form of retiree medical, prescription, and death benefits. There are two distinct plans: one offered for city employees (excluding Lawrenceburg Utility System employees) and one for utility system employees. The plan for nonutility employees is funded on a pay-as-you go basis, with a net OPEB liability of \$15.3 million. However, the plan for utility employees is funded on an actuarial basis through an irrevocable trust. As of fiscal 2018, the LUS plan featured a funded ratio of 57.1%, with a net OPEB liability of \$10.7 million. While the LUS plan is funded on an actuarial basis, the pay-as-you-go funding of the city plan could result in escalating fixed costs. Furthermore, while the city's total pension and OPEB expenses are elevated, we note that the majority of costs are supported by utility system revenue and are not paid from the city's governmental funds.

Very strong institutional framework

The institutional framework score for Tennessee cities is very strong.

Related Research

- 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

Ratings Detail (As Of July 30, 2020)		
Lawrenceburg GO		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Lawrenceburg GO		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Lawrenceburg GO (BAM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Lawrenceburg GO (BAM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Lawrenceburg GO (BAM)		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Lawrenceburg GO		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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