Moody's
INVESTORS SERVICE

Rating Update: Moody's assigns initial Aa2 issuer rating to Atoka, TN

Global Credit Research - 21 Jan 2015

ATOKA (TOWN OF) TN
Cities (including Towns, Villages and Townships)
TN

NEW YORK, January 21, 2015 --Moody's Investors Service has assigned an initial Aa2 issuer rating to the Town of Atoka (TN). Debt outstanding is currently not rated.

SUMMARY RATING RATIONALE

The initial Aa2 issuer rating reflects the town's moderately sized tax base with above-average wealth levels, solid financial position with ample reserves and liquidity, and favorable debt profile with variable rate debt exposure.

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

- Significant tax base expansion

- Improved socioeconomic profile

WHAT COULD MAKE THE RATING GO DOWN

- Material contraction of tax base and weakening of socioeconomic indices

- Deficit operations resulting in declines in reserve levels

STRENGTHS

- Growing tax base benefitting from proximity to Memphis MSA

- Above average wealth levels

- Ample reserves and liquidity

CHALLENGES

- Moderate exposure to variable rate debt

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: GROWING TAX BASE BENEFITTING FROM PROXIMITY TO MEMPHIS

The town's tax base will likely experience ongoing growth given its favorable location in southwestern Tennessee (Aaa/Stable). The $639 million tax base serves as a bedroom community to the City of Memphis (Aa2/Negative), which is located approximately 30 miles south. The town has benefitted from its location as it has seen extensive population growth to 8,844 in 2013 from 659 in 1990. Residential and related commercial development have been the driving force behind the strong tax base increases, though given the national recession growth slowed to an average annual rate of 2.8% in the last five years (2009-2014). Assessed valuations grew at a higher five-year average annual rate of 7.8%. Management expects growth will remain modest going forward due to ongoing residential and commercial development citing an increase in construction permits in recent years. The tax base is relatively diverse with the top ten taxpayers representing a modest 8.6% of assessed valuation in fiscal 2014. Unemployment at 7.8%, as of October 2014, remained above the state (6.3%) and national (5.5%) rate. Wealth levels are above average, with a per capita income of $28,901 (119% of TN and 103% of US) and median family income of $82,408 (150.6% of TN and 127.6% of US). Full value per capita at $72,274 is below average when compared to the state (89.4%) and nation (82.9%).

FINANCIAL OPERATIONS AND RESERVES: SOLID FINANCIAL POSITION WITH AMPLE RESERVES

The town is expected to maintain a solid financial position in the near-term due to strong management with conservative budget assumptions. Over the last five years, the town's General Fund balance has increased to $4.0 million (119.5% of General Fund revenues) in fiscal 2013 from $2.7 million (104.9% of General Fund revenues) in fiscal 2008. This increase in reserves is primarily attributable to conservative budgeting for both revenues and expenditures. Most recently, fiscal 2013 ended with a $931,000 operating deficit due to planned one-time capital projects. Despite the deficit, the town ended fiscal 2013 with an unassigned General Fund balance of $3.39 million (78.9% of General Fund expenditures), which is well above the town's formal policy to maintain 20% of General Fund expenditures. Property taxes account for the town's largest revenue stream (65.5%), followed by state income taxes (23.9%).

The fiscal 2014 budget represented a 2.6% decrease from the fiscal 2013 budget and included a $63,000 in appropriated fund balance. The budget-to-budget decline reflected a decrease in capital spending. The budget also included a level tax rate. Based on preliminary estimates, the town expects to end fiscal 2014 with a $99,000 increase in General Fund balance driven by conservative expenditure estimates, as well as continued positive performance of state income taxes. The fiscal 2015 budget represents 10% increase from the previous year due to increases in services provided, which include a fire department that is expected to be funded through the enacted $0.25 increase in sales tax approved by voters in November 2013. The budget includes a level tax rate and approximately $348,000 in appropriated fund balance for fire related equipment purchases.

Liquidity

The town's net cash position at close of fiscal 2013 was strong $3.2 million (120.7% of General Fund revenues), and similar increased over the last five years by 49.2% of revenues.

DEBT AND PENSIONS: AFFORDABLE DEBT BURDEN WITH LIMITED FUTURE DEBT PLANS

The town's debt burden is expected to remain low going forward given limited future borrowing plans and rapid amortization of principal. The town has $1.0 million of outstanding general obligation backed debt, which includes two loans issued through the Tennessee Municipal Bond Fund (TMBF). All debt outstanding was issued for the purpose of water and sewer projects and is serviced by the self-supporting water and sewer fund. Gross direct debt is low at 0.2% when incorporating debt from overlapping municipalities. The town maintains a five-year $5.4 million Capital Improvement Plan (CIP) that will primarily fund new fire equipment, park and recreation equipment, and various street and water system improvements. The town expects to finance the projects through pay-as-you-go and grant funds. Amortization of the town's debt is very rapid with 99.8% of principal retired within 10 years. Debt service represented a low 5.1% of operating expenditures in fiscal 2013.

Debt Structure

All debt outstanding is backed by the town's general obligation unlimited tax pledge. Notably, $923,000, or 90% of the town's outstanding debt, is variable rate. The town's variable rate debt is comprised of two loans from the TMBF. This program provides liquidity facilities (Letters of Credit) through Bank of America, N.A. (Senior unsecured rated A2/stable) for put risk and has reasonable term-out provisions.

Debt-Related Derivatives

The town has no derivatives.

Pensions and OPEB

The town participates in the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit plan, which is administered by the Tennessee Consolidated Retirement System (TCRS). In fiscal 2013, the total Annual Required Contribution (ARC) for PSPP was $91,862 or 2.14% of operating expenditures. The town contributed 100% of the ARC in fiscal 2013. The town's combined adjusted net pension liability (ANPL), under Moody's methodology for adjusting reported pension data, is $554,000, or a below average 0.17 times operating revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the town's reported liability information, but to improve comparability with other rated entities. Total fixed costs including annual pension and debt service expenditures summed to a low 6.92% of fiscal 2013 expenditures. The town does not contribute to post employment benefits.

MANAGEMENT AND GOVERNANCE: AMPLE REVENUE RAISING FLEXIBILTY; CONSERVATIVE BUDTETING PRACTICES

Tennessee cities have an institutional framework score of "Aaa," or very strong. Both property tax and local option sales tax revenues for cities have remained relatively stable over the last five years, and many recovered in fiscal 2013 and 2014 from modest drops during the recession. Expenditures are largely predictable and cities have the legal ability to reduce expenditures if necessary.

KEY STATISTICS

Full Value, Fiscal 2014: $639 million

Full Value Per Capita, Fiscal 2014: $72,274

Median Family Income as % of US Median (2012 Census): 127.6%

Adjusted Fund Balance as % of Revenues, Fiscal 2014: 118.04%

5-Year Dollar Change in Fund Balance as % of Revenues: +37.51%

Cash Balance as % of Revenues, Fiscal 2014: 96.61%

5-Year Dollar Change in Cash Balance as % of Revenues: +49.21%

Institutional Framework: "Aaa"

5-Year Average Operating Revenues / Operating Expenditures: 1.15 times

Net Direct Debt as % of Assessed Value: 0.16%

Net Direct Debt / Operating Revenues: 0.31 times

3-Year Average ANPL as % of Assessed Value: 0.08%

3-Year Average ANPL / Operating Revenues: 0.16 times

OBLIGOR PROFILE

Atoka is a town with a population of 8,844 located in southwestern Tennessee.

LEGAL SECURITY

The issuer rating incorporates Moody's assessment of the town's implied unlimited general obligation pledge.

USE OF PROCEEDS

Not applicable for implied issuer ratings.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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