

ISSUER COMMENT

9 December 2016

RATING

General Obligation (or GO Related)¹

A2 No Outlook

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City of Covington, TN

Annual Comment on Covington

Issuer Profile

The City of Covington is the county seat of Tipton County, located in western Tennessee, approximately 35 miles northeast of Memphis. Tipton County has a population of 61,623 and a population density of 134 people per square mile. The county's per capita personal income is \$33,626 (3rd quartile) and the August 2016 unemployment rate was 6.1% (3rd quartile).² The largest industry sectors that drive the local economy are local government, retail trade, and manufacturing.

Credit Overview

The credit position for Covington is sound, and its A2 rating is weaker than the median rating of Aa3 for US cities. The credit drivers include a healthy financial position, and an exceptionally light debt burden with a mid-ranged pension liability. It also incorporates a narrow tax base with a weak socioeconomic profile.

Finances: The financial position of the city is strong, which is favorable when compared to the assigned rating of A2. The net cash balance as a percent of revenues (32.9%) approximates the US median and grew slightly between 2012 and 2015. In addition, Covington's available fund balance as a percent of operating revenues (17.8%) falls short of other Moody's-rated cities nationwide.

Debt and Pensions: The debt and pension burdens of the city are small and a credit strength in relation to its A2 rating. The net direct debt to full value (0.7%) is lower than the US median. Additionally, the Moody's-adjusted net pension liability to operating revenues (1.1x) is favorably below the US median, and this metric increased between 2012 and 2015.

Economy and Tax Base: The economy and tax base of Covington are satisfactory, yet they are slightly weak with respect to its A2 rating position. The city's total full value (\$554 million) is below the US median and fell modestly from 2012 to 2015. Moreover, the full value per capita (\$61,328) is slightly weaker than other Moody's-rated cities nationwide. Lastly, the median family income equals only 52.4% of the US level.

Management and Governance: Balanced financial operations are a component of good financial management. On average, Covington's operations were approximately break-even over the past several years.

Tennessee cities have an institutional framework score ³ of "Aaa," or very strong. City revenues are primarily from property taxes and local option sales taxes, which are moderately predictable and stable. Cities have high revenue-raising flexibility as property taxes are not subject to any statutory limits. Expenditures primarily consist of personnel

costs, which are highly predictable. Cities have a high ability to reduce their major expenditures if necessary. Total fixed costs, which include pension liabilities, are typically manageable and usually comprise a small percentage of total expenditures.

Sector Trends - Tennessee Cities

Tennessee's economy is continuing to experience economic growth, spurred by improving residential construction, manufacturing and consumer spending. Cities will continue to benefit from their low business costs and ability to attract new manufacturing investment. Major revenue sources such as property taxes and local and state sales taxes will continue to add stability to Tennessee cities' stable financial operations. The majority of municipal employees within Tennessee cities participate in the Political Subdivision Pension Plan (PSP), an agent multiple-employer defined benefit pension plan and the local portions are generally well funded.

Exhibit 1

Key Indicators^{4 5}

Covington, TN

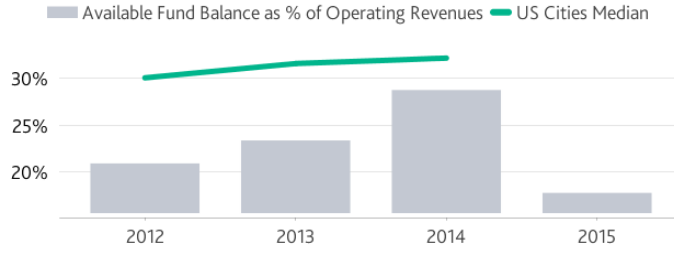
	2012	2013	2014	2015	US Median	Credit Trend
Economy / Tax Base						
Total Full Value	\$577M	\$557M	\$549M	\$554M	\$1,722M	Stable
Full Value Per Capita	\$63,679	\$61,551	\$60,832	\$61,328	\$85,195	Stable
Median Family Income (% of US Median)	49.2%	48.2%	52.4%	52.4%	115.2%	Stable
Finances						
Available Fund Balance as % of Operating Revenues	20.9%	23.4%	28.7%	17.8%	32.1%	Stable
Net Cash Balance as % of Operating Revenues	29.3%	32.1%	36.3%	32.9%	34.4%	Stable
Debt / Pensions						
Net Direct Debt / Full Value	0.51%	0.85%	1.4%	0.73%	1.2%	Stable
Net Direct Debt / Operating Revenues	0.34x	0.55x	0.83x	0.40x	0.94x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.73%	0.92%	1.5%	2.0%	1.7%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.48x	0.60x	0.87x	1.09x	1.35x	Weakened

Source: Moody's

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Exhibit 2

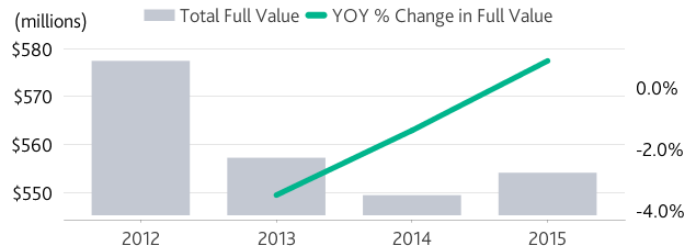
Available fund balance as a percent of operating revenues decreased from 2012 to 2015
Available Fund Balance as a Percent of Operating Revenues



Source: Issuer financial statements; Moody's

Exhibit 3

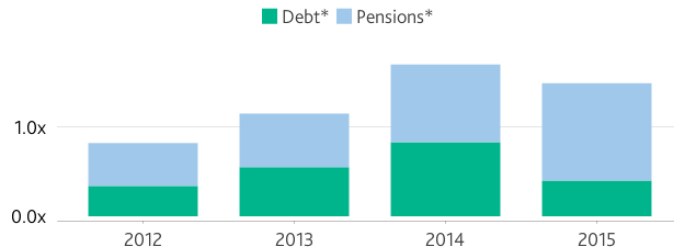
Full value of the property tax base decreased between 2012 and 2015
Total Full Value



Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Exhibit 4

Moody's-adjusted net pension liability to operating revenues grew from 2012 to 2015
Net Direct Debt and Adjusted Net Pension Liability / Operating Revenues



*Debt is represented as Net Direct Debt / Operating Revenues. Net Direct Debt is defined as gross debt minus self supporting debt. Pensions are represented as ANPL / Operating Revenues. ANPL is defined as the average of Moody's-adjusted Net Pension Liability in each of the past three years.
 Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Endnotes

- 1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See [Local Government GO Pledges Vary Across States](#), for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantee or enhancement programs or bond insurance.
- 2 The per capita personal income data and unemployment data for all counties in the US census are allocated to quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile. The first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is \$46,049 for 2014. The median unemployment rate for US counties is 4.9% for August 2016.
- 3 The institutional framework score measures a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(January 2014\)](#) for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey. Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average ANPL) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years. Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Certain state specific rules also apply to individual data points and ratios. Moody's makes adjustments to New Jersey local governments' reported financial statements to make it more comparable to GAAP. Additionally, Moody's ANPLs reflect analyst adjustments, if any, for pension contribution support from non-operating funds and self-supporting enterprises. Many local government pension liabilities are associated with its participation in the statewide multiple-employer cost-sharing plans. Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians – Growing Tax Bases and Stable Fund Balances Support Sector's Stability \(March 2016\)](#). The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014. As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2014. However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians. Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

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