

## ISSUER COMMENT

16 August 2019

### RATING

**General Obligation (or GO Related) <sup>1</sup>**

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. The county has a population of 61,434 and a moderate population density of 134 people per square mile. The county's median family income is \$63,867 (2nd quartile) and the June 2019 unemployment rate was 4.6% (3rd quartile) <sup>2</sup>. The largest industry sectors that drive the local economy are local government, retail trade, and manufacturing.

#### Credit Overview

Covington's credit position is solid but its A2 rating is beneath the median rating of Aa3 for cities nationwide. The key credit factors include a healthy financial position, an affordable debt burden, a moderate pension liability, and a limited tax base with a below average wealth and income profile.

**Finances:** Covington has a healthy financial position, which is a modest strength when compared to the assigned rating of A2. That said, the city's cash balance as a percent of operating revenues (27.3%) is beneath the US median, and contracted between 2014 and 2018. Furthermore, the fund balance as a percent of operating revenues (18.9%) is materially lower than the US median.

**Debt and Pensions:** The debt and pension burdens of the city are manageable overall and are favorable with respect to the assigned rating of A2. Covington's net direct debt to full value (0.8%) is slightly below the US median, and contracted from 2014 to 2018. Also, the Moody's-adjusted net pension liability to operating revenues (1.4x) approximates the US median.

**Economy and Tax Base:** Overall, the city has a limited economy and tax base, which are weak relative to its A2 rating position. Covington's total full value (\$587 million) is much smaller than other Moody's-rated cities nationwide. The full value per capita (\$65,770) is slightly below the US median. Also, the median family income equates to a low 51.5% of the US level.

**Management and Governance:** Tennessee Cities have an institutional framework score <sup>3</sup> of "Aaa", which is very strong. The sector has one or more major revenue sources that are not subject to any caps. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Unpredictable expenditure fluctuations tend to be minor, under 5% annually.

## 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 <sup>4</sup> <sup>5</sup> Covington

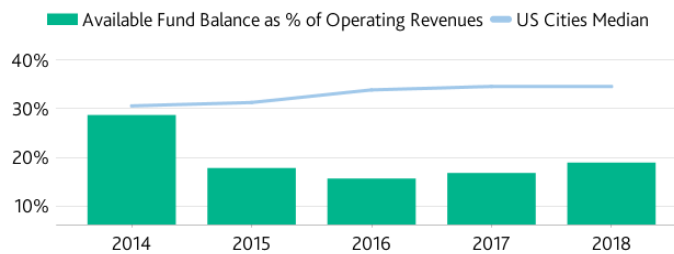
	2014	2015	2016	2017	2018	US Median	Credit Trend
<b>Economy / Tax Base</b>							
Total Full Value	\$549M	\$554M	\$562M	\$577M	\$586M	\$1,904M	Improved
Full Value Per Capita	\$60,832	\$61,328	\$63,040	\$64,723	\$65,770	\$94,106	Improved
Median Family Income (% of US Median)	52%	51%	51%	52%	52%	111%	Stable
<b>Finances</b>							
Available Fund Balance as % of Operating Revenues	28.7%	17.8%	15.6%	16.8%	18.9%	34.6%	Weakened
Net Cash Balance as % of Operating Revenues	36.3%	32.9%	28.5%	27.5%	27.3%	39.6%	Weakened
<b>Debt / Pensions</b>							
Net Direct Debt / Full Value	1.4%	0.7%	0.6%	0.8%	0.8%	1.1%	Improved
Net Direct Debt / Operating Revenues	0.83x	0.40x	0.34x	0.38x	0.42x	0.84x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.4%	1.8%	2.4%	2.5%	2.5%	1.9%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.83x	0.99x	1.27x	1.17x	1.37x	1.56x	Weakened
	2014	2015	2016	2017	2018	US Median	
<b>Debt and Financial Data</b>							
Population	9,033	9,036	8,924	8,921	8,921	N/A	
Available Fund Balance (\$000s)	\$2,626	\$1,797	\$1,664	\$2,044	\$1,986	\$8,028	
Net Cash Balance (\$000s)	\$3,322	\$3,319	\$3,038	\$3,356	\$2,868	\$9,530	
Operating Revenues (\$000s)	\$9,143	\$10,098	\$10,648	\$12,183	\$10,501	\$23,172	
Net Direct Debt (\$000s)	\$7,620	\$4,064	\$3,656	\$4,580	\$4,403	\$19,139	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$7,545	\$10,020	\$13,498	\$14,254	\$14,390	\$35,448	

Source: Moody's Investors Service

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](http://www.moody's.com) for the most updated credit rating action information and rating history.

## EXHIBIT 2

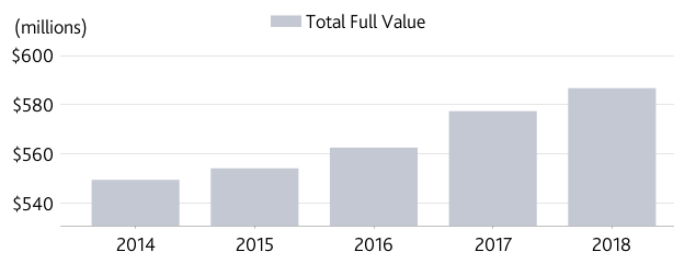
## Available fund balance as a percent of operating revenues decreased from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

## EXHIBIT 3

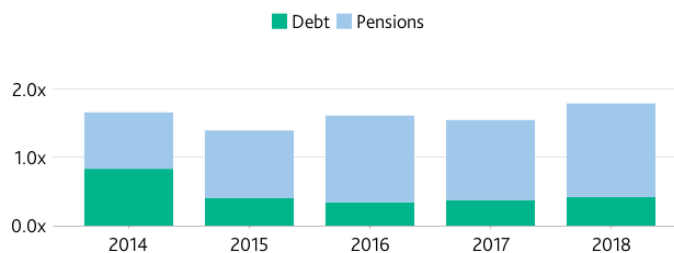
## Full value of the property tax base increased from 2014 to 2018



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

## EXHIBIT 4

## Moody's-adjusted net pension liability to operating revenues increased from 2014 to 2018



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

## Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, 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 guarantees, enhancement programs or bond insurance.
- The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into 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 institutional framework score assesses 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 \(December 2016\)](#) methodology report for more details.
- For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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