

ISSUER COMMENT

20 January 2021

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 61,447 and a moderate population density of 134 people per square mile. The county's median family income is \$69,214 (2nd quartile) and the November 2020 unemployment rate was 5.3% (3rd quartile) ². The largest industry sectors that drive the local economy are local government, retail trade, and manufacturing.

We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety and the economy. We do not see any material immediate credit risks for Covington. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Covington changes, we will update our opinion at that time.

Credit Overview

Covington has a favorable credit position. Its A2 rating is lower than the median rating of Aa3 for US cities. Key credit factors include an adequate financial position, small debt burden, moderate pension liability, limited tax base and subpar wealth and income profile.

Finances: Covington's financial position is moderate and well reflected in the assigned rating of A2. Cash balance as a percent of operating revenues (21.5%) is materially below the US median and decreased between 2015 and 2019. Also, the fund balance as a percent of operating revenues (16%) is materially lower than other Moody's-rated cities nationwide.

Debt and Pensions: Overall, the debt and pension liabilities of Covington are small and a credit strength when compared to its A2 rating. Net direct debt to full value (0.7%) is slightly lower than the US median and was flat from 2015 to 2019. Additionally, the Moody's-adjusted net pension liability to operating revenues (1.2x) favorably is slightly below the US median.

Economy and Tax Base: Overall, Covington has a satisfactory economy and tax base, yet the factor is slightly weak when compared to city's A2 rating. Total full value (\$603 million) is weaker than the US median. Full value per capita (\$68,048) is slightly below the US median and median family income equals a mere 53.4% of the US level.

The coronavirus caused an unprecedented economic slowdown. We currently forecast US GDP to gradually recover in 2021. Local governments with the highest exposure to tourism, hospitality, healthcare, retail, and oil and gas could have a much slower recovery.

Management and Governance: Tennessee Cities have an institutional framework score [3](#) of "Aaa", which is very strong. The sector has one or more major revenue sources that are not subject to any caps. Revenue predictability is typically highly stable and predictable. Across the sector, fixed and mandated costs tend to be highly stable and predictable with minor fluctuations under 5% annually.

Sector Trends - Tennessee Cities

Tennessee's economic expansion and tax base growth is expected to continue over the next several years despite the coronavirus pandemic. The rate and extent of tax base growth over the near term will depend largely on how long it takes for economic activity to return to normal levels. Major revenue sources such as property taxes and local and state sales taxes support Tennessee cities' stable financial operations. While sales taxes are typically more economically sensitive by nature, given that they are levied on everything in Tennessee, including food and groceries, they will be less affected than in other states. The majority of municipal employees within the Tennessee cities participate in the Political Subdivision Pension Plan (PSPP), an agent multiple-employer defined benefit pension plan and the local portions are generally well funded.

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 1

Key Indicators ^{4.5} Covington

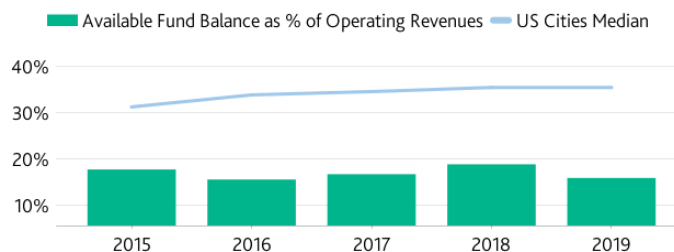
	2015	2016	2017	2018	2019	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$554M	\$562M	\$577M	\$586M	\$602M	\$2,024M	Improved
Full Value Per Capita	\$61,328	\$62,397	\$64,723	\$66,260	\$68,048	\$97,657	Improved
Median Family Income (% of US Median)	51%	59%	52%	53%	53%	114%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	17.8%	15.6%	16.8%	18.9%	16.0%	35.5%	Stable
Net Cash Balance as % of Operating Revenues	32.9%	28.5%	27.5%	27.3%	21.5%	40.0%	Weakened
Debt / Pensions							
Net Direct Debt / Full Value	0.7%	0.6%	0.8%	0.8%	0.7%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.40x	0.34x	0.38x	0.42x	0.37x	0.82x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.8%	2.4%	2.5%	2.3%	2.1%	1.9%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.99x	1.27x	1.17x	1.26x	1.18x	1.57x	Stable

	2015	2016	2017	2018	2019	US Median
Debt and Financial Data						
Population	9,036	9,016	8,921	8,855	8,855	N/A
Available Fund Balance (\$000s)	\$1,797	\$1,664	\$2,044	\$1,986	\$1,699	\$8,489
Net Cash Balance (\$000s)	\$3,319	\$3,038	\$3,356	\$2,868	\$2,287	\$9,759
Operating Revenues (\$000s)	\$10,098	\$10,648	\$12,183	\$10,501	\$10,642	\$36,135
Net Direct Debt (\$000s)	\$4,064	\$3,656	\$4,580	\$4,403	\$3,928	\$19,137
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$10,020	\$13,498	\$14,254	\$13,240	\$12,571	\$38,399

Source: Moody's Investors Service

EXHIBIT 2

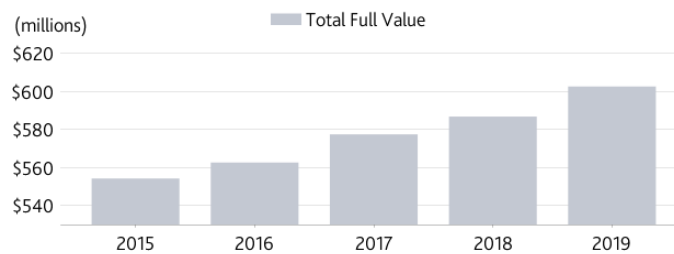
Available fund balance as a percent of operating revenues decreased from 2015 to 2019



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

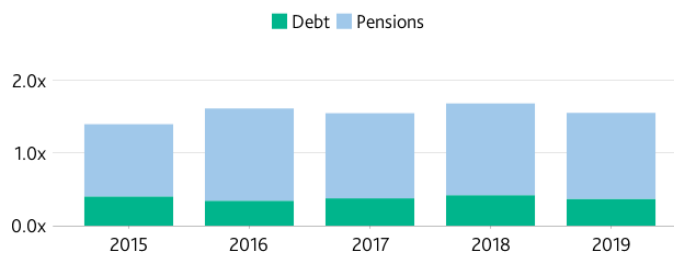
Full value of the property tax base increased from 2015 to 2019



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 2015 to 2019



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

Endnotes

- 1 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.
- 2 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.

- 3 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 \(July 2020\)](#) methodology report for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). 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 - Tax base expansion bolsters revenue, but pensions remain a hurdle \(May 2020\)](#), which is available on Moodys.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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