

MOODY'S

INVESTORS SERVICE

ISSUER COMMENT

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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 61,558 and a moderate population density of 134 people per square mile. The county's median family income is \$61,645 (2nd quartile) and the December 2017 unemployment rate was 3.9% (2nd quartile) ². The largest industry sectors that drive the local economy are local government, retail trade, and manufacturing.

Credit Overview

Covington's credit position is solid, and its A2 rating is below the US cities median of Aa3. Notable credit factors include a strong financial position, a small debt burden, a moderate pension liability, a narrow tax base, but a subpar wealth and income profile.

Finances: Covington has a healthy financial position, which is favorable in comparison to the A2 rating assigned. The city's cash balance as a percent of operating revenues (27.5%) is slightly under the US median, and decreased modestly between 2013 and 2017. Also, fund balance as a percent of operating revenues (16.8%) is materially below the US median.

Debt and Pensions: The debt and pension burdens of Covington are small overall and are quite favorable in relation to the assigned rating of A2. Net direct debt to full value (0.8%) is slightly under other Moody's-rated cities nationwide, and remained stable from 2013 to 2017. Favorably, Moody's-adjusted net pension liability to operating revenues (1.2x) is slightly lower than the US median.

Economy and Tax Base: Overall, Covington has a satisfactory economy and tax base, yet this factor is somewhat weak in relation to its A2 rating position. The full value per capita (\$64,701) is slightly below the US median. However, it rose from 2013 to 2017. That said, the total full value (\$577 million) is weaker than other Moody's-rated cities nationwide. Moreover, the median family income is a mere 50.8% of the US level.

Management and Governance: Tennessee cities have an Institutional Framework score ³ of Aaa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. 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. Tennessee is a Right to Work state, providing significant expenditure-cutting ability. 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

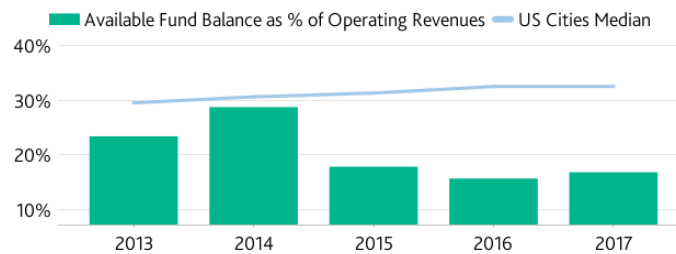
Key Indicators ⁴ ⁵ Covington

	2013	2014	2015	2016	2017	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$557M	\$549M	\$554M	\$562M	\$577M	\$1,787M	Stable
Full Value Per Capita	\$61,551	\$60,832	\$61,328	\$63,040	\$64,701	\$88,380	Improved
Median Family Income (% of US Median)	48%	52%	51%	51%	51%	113%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	23.4%	28.7%	17.8%	15.6%	16.8%	32.5%	Weakened
Net Cash Balance as % of Operating Revenues	32.1%	36.3%	32.9%	28.5%	27.5%	35.4%	Stable
Debt / Pensions							
Net Direct Debt / Full Value	0.9%	1.4%	0.7%	0.6%	0.8%	1.2%	Stable
Net Direct Debt / Operating Revenues	0.55x	0.83x	0.40x	0.34x	0.38x	0.93x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.9%	1.4%	1.8%	2.4%	2.5%	1.7%	Weakened
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.60x	0.83x	0.99x	1.27x	1.17x	1.46x	Weakened
	2013	2014	2015	2016	2017	US Median	
Debt and Financial Data							
Population	9,054	9,033	9,036	8,924	N/A	N/A	
Available Fund Balance (\$000s)	\$2,014	\$2,626	\$1,797	\$1,664	\$2,044	\$7,221	
Net Cash Balance (\$000s)	\$2,767	\$3,322	\$3,319	\$3,038	\$3,356	\$7,930	
Operating Revenues (\$000s)	\$8,621	\$9,143	\$10,098	\$10,648	\$12,183	\$21,262	
Net Direct Debt (\$000s)	\$4,761	\$7,620	\$4,064	\$3,656	\$4,580	\$18,822	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$5,137	\$7,545	\$10,020	\$13,498	\$14,254	\$29,896	

Source: Moody's Investors Service

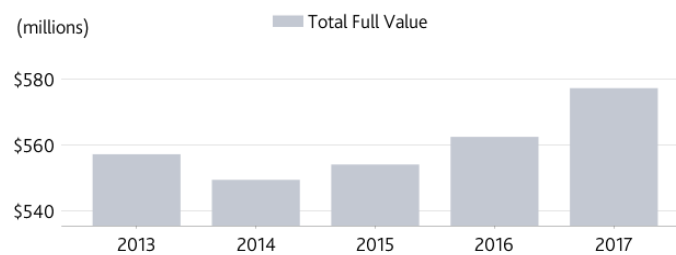
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 2

Available fund balance as a percent of operating revenues decreased from 2013 to 2017

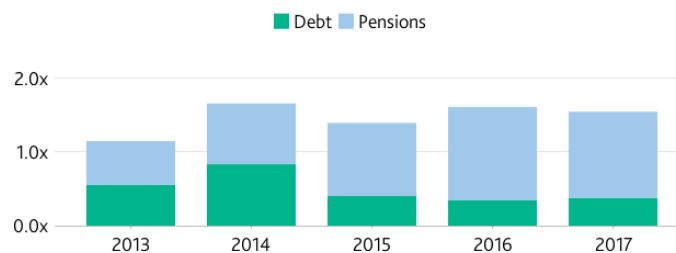
Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

Full value of the property tax base increased from 2013 to 2017

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 2013 to 2017

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 Reinforces Sector Stability as Pension Troubles Remain \(March 2017\)](#) 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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