

## ISSUER COMMENT

19 April 2019

### RATING

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

Aa3

No Outlook

### Contacts

Isaac Rauch +1.212.553.4346  
 Associate Lead Analyst  
 isaac.rauch@moodys.com

Orlie Prince +1.212.553.7738  
 VP-Sr Credit Officer/Manager  
 orlie.prince@moodys.com

### CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

## City of East Ridge, TN

### Annual Comment on East Ridge

#### Issuer Profile

The City of East Ridge is located in Hamilton County in southeastern Tennessee, bounded on the south by the Georgia state line. The city lies within the southeastern suburbs of Chattanooga. The county has a population of 354,589 and a moderate population density of 654 people per square mile. The county's median family income is \$68,031 (2nd quartile) and the January 2019 unemployment rate was 3.4% (1st quartile)<sup>2</sup>. The largest industry sectors that drive the local economy are health services, manufacturing, and retail trade.

#### Credit Overview

East Ridge has a very healthy credit position, and its Aa3 rating matches the median rating of Aa3 for US cities. Notable credit factors include a robust financial position, a small debt burden, an affordable pension liability, a moderately sized tax base, and a somewhat weak wealth and income profile.

**Finances:** The financial position of the city is very strong and is favorable in relation to the assigned rating of Aa3. East Ridge's cash balance as a percent of operating revenues (41.3%) is consistent with the US median, and remained the same from 2014 to 2018. In addition, the fund balance as a percent of operating revenues (40.4%) is a little stronger than the US median.

**Debt and Pensions:** Overall, the debt and pension liabilities of the city are low and are a modest credit strength in comparison to the Aa3 rating assigned. The net direct debt to full value (0.9%) is roughly equivalent to the US median and East Ridge's Moody's-adjusted net pension liability to operating revenues (0.77x) is favorably below the US median.

**Economy and Tax Base:** The city has a solid economy and tax base. However, the factor is relatively unfavorable when compared to its Aa3 rating. The total full value (\$1.2 billion) is weaker than the US median despite growing markedly from 2014 to 2018. In addition, the full value per capita (\$59,093) is slightly below the US median and the median family income equals only 74.6% of the US level.

**Management and Governance:** Tennessee cities have an Institutional Framework score<sup>3</sup> 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 <sup>4</sup>/<sub>5</sub> East Ridge

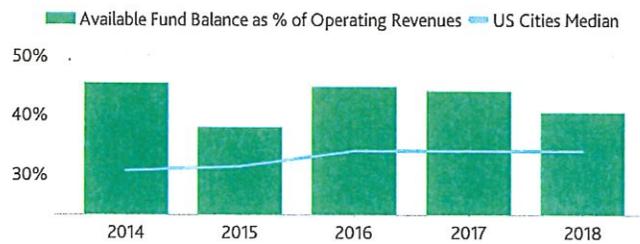
	2014	2015	2016	2017	2018	US Median	Credit Trend
<b>Economy / Tax Base</b>							
Total Full Value	\$1,114M	\$1,131M	\$1,167M	\$1,189M	\$1,247M	\$1,867M	Improved
Full Value Per Capita	\$52,511	\$53,193	\$54,789	\$56,337	\$59,093	\$89,200	Improved
Median Family Income (% of US Median)	77%	74%	75%	75%	75%	113%	Stable
<b>Finances</b>							
Available Fund Balance as % of Operating Revenues	45.4%	37.8%	44.7%	44.0%	40.4%	33.9%	Stable
Net Cash Balance as % of Operating Revenues	41.5%	34.0%	42.6%	42.0%	41.3%	36.9%	Stable
<b>Debt / Pensions</b>							
Net Direct Debt / Full Value	0.4%	0.6%	0.5%	0.6%	0.9%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.36x	0.56x	0.49x	0.47x	0.76x	0.88x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.5%	0.6%	0.7%	0.9%	0.9%	1.8%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.45x	0.58x	0.64x	0.74x	0.77x	1.51x	Stable
	2014	2015	2016	2017	2018	US Median	
<b>Debt and Financial Data</b>							
Population	21,220	21,275	21,311	21,118	21,118	N/A	
Available Fund Balance (\$000s)	\$5,965	\$4,646	\$5,887	\$6,107	\$6,015	\$7,419	
Net Cash Balance (\$000s)	\$5,453	\$4,175	\$5,610	\$5,828	\$6,143	\$8,404	
Operating Revenues (\$000s)	\$13,152	\$12,281	\$13,168	\$13,886	\$14,884	\$21,930	
Net Direct Debt (\$000s)	\$4,768	\$6,828	\$6,421	\$6,545	\$11,340	\$18,580	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$5,879	\$7,073	\$8,415	\$10,262	\$11,432	\$32,507	

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

## EXHIBIT 2

Available fund balance as a percent of operating revenues was stable from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

## EXHIBIT 3

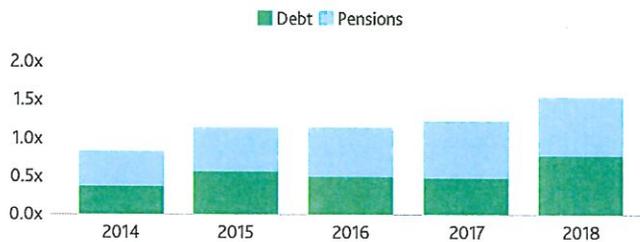
Full value of the property tax base increased from 2014 to 2018



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

## EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues was stable 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 - Property values key to stability, but pension burdens remain a challenge \(March 2018\)](#) 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.