

ISSUER COMMENT

27 April 2020

RATING

General Obligation (or GO Related) ¹

Aa3 No Outlook

Contacts

Enrique Cavazos +1.212.553.1976
 Associate Lead Analyst
 enrique.cavazos@moody's.com

Orlie Prince +1.212.553.7738
 VP-Sr Credit Officer/Manager
 orlie.prince@moody's.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 357,546 and a moderate population density of 659 people per square mile. The county's median family income is \$71,628 (2nd quartile) and the February 2020 unemployment rate was 3.6% (2nd quartile) ². The largest industry sectors that drive the local economy are health services, manufacturing, and retail trade.

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 East Ridge. 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 East Ridge changes, we will update our opinion at that time.

Credit Overview

East Ridge has a good credit position. Its Aa3 rating matches the median rating of Aa3 for US cities. The key credit factors include a robust financial position, an affordable debt burden and a moderate pension liability. It also reflects a sound tax base and a below average wealth and income profile.

Finances: The financial position of the city is very strong and is consistent with the assigned rating of Aa3. East Ridge's cash balance as a percent of operating revenues (38.1%) is roughly equivalent to the US median, and rose slightly between 2015 and 2019. Moreover, the fund balance as a percent of operating revenues (40%) is a little stronger than the US median.

Debt and Pensions: The debt burden of the city is manageable and is favorable when compared to its Aa3 rating position. The net direct debt to full value (1%) is consistent with the US median, despite increasing slightly from 2015 to 2019. Additionally, the pension liability of East Ridge is mid-ranged and is comparable to the assigned rating of Aa3. The Moody's-adjusted net pension liability to operating revenues (0.81x) favorably is materially below the US median.

Economy and Tax Base: The coronavirus pandemic is driving an unprecedented economic slowdown. We currently forecast real US GDP to decline significantly over the first and second quarters of 2020, but a more moderate decline for the full year. Local governments with the highest exposure to the tourism, health care, consumer and international trade sectors could suffer particularly severe impacts.

EXHIBIT 1

Key Indicators 4.5 East Ridge

	2015	2016	2017	2018	2019	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$1,131M	\$1,167M	\$1,189M	\$1,247M	\$1,256M	\$1,904M	Improved
Full Value Per Capita	\$53,193	\$54,789	\$56,137	\$59,358	\$59,746	\$94,106	Improved
Median Family Income (% of US Median)	74%	75%	78%	78%	78%	111%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	37.8%	44.7%	44.0%	40.4%	40.0%	34.6%	Stable
Net Cash Balance as % of Operating Revenues	34.0%	42.6%	42.0%	41.3%	38.1%	39.6%	Stable
Debt / Pensions							
Net Direct Debt / Full Value	0.6%	0.5%	0.6%	0.9%	1.0%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.56x	0.49x	0.47x	0.76x	0.83x	0.84x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	0.6%	0.7%	0.9%	0.9%	1.0%	1.9%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	0.58x	0.64x	0.74x	0.77x	0.81x	1.56x	Stable
	2015	2016	2017	2018	2019	US Median	
Debt and Financial Data							
Population	21,275	21,311	21,193	21,024	21,024	N/A	
Available Fund Balance (\$000s)	\$4,646	\$5,887	\$6,107	\$6,015	\$5,971	\$8,028	
Net Cash Balance (\$000s)	\$4,175	\$5,610	\$5,828	\$6,143	\$5,699	\$9,530	
Operating Revenues (\$000s)	\$12,281	\$13,168	\$13,886	\$14,884	\$14,939	\$23,172	
Net Direct Debt (\$000s)	\$6,828	\$6,421	\$6,545	\$11,340	\$12,436	\$19,139	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$7,073	\$8,415	\$10,262	\$11,432	\$12,097	\$35,448	

Source: Moody's Investors Service

EXHIBIT 2

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



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

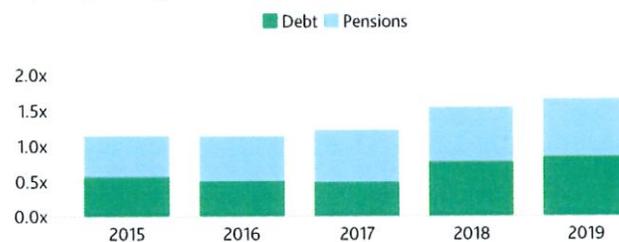
Full value of the property tax base increased from 2015 to 2019



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

- 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 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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