2017 Bond Rating

Finance & Administration Committee
May 23, 2017
Types of Bonds

- **"General obligation bond"** means a negotiable bond issued by a city and payable from the levy of unlimited ad valorem taxes on all the taxable property within the city through its debt service fund which is required to be established by section 384.4.

- **"Revenue bond"** means a negotiable bond issued by a city and payable from the net revenues of a city utility, combined utility system, city enterprise, or combined city enterprise.
Essential Corporate Purpose

- a. The opening, widening, extending, grading, and draining of the right-of-way of streets, highways, avenues, alleys, public grounds, and market places, and the removal and replacement of dead or diseased trees thereon; the construction, reconstruction, and repairing of any street improvements; the acquisition, installation, and repair of traffic control devices; and the acquisition of real estate needed for any of the foregoing purposes.
- b. The acquisition, construction, improvement, and installation of street lighting fixtures, connections, and facilities.
- c. The construction, reconstruction, and repair of sidewalks and pedestrian underpasses and overpasses, and the acquisition of real estate needed for such purposes.
- d. The acquisition, construction, reconstruction, extension, improvement, and equipping of works and facilities useful for the collection, treatment, and disposal of sewage and industrial waste in a sanitary manner, for the collection and disposal of solid waste, and for the collection and disposal of surface waters and streams.
Essential Corporate Purpose (cont.)

- e. The acquisition, construction, reconstruction, enlargement, improvement, and repair of bridges, culverts, retaining walls, viaducts, underpasses, grade crossing separations, and approaches thereto.
- f. The settlement, adjustment, renewing, or extension of any part or all of the legal indebtedness of a city, whether evidenced by bonds, warrants, or judgments, or the funding or refunding of the same, whether or not such indebtedness was created for a purpose for which general obligation bonds might have been issued in the original instance.
- g. The undertaking of any project jointly or in co-operation with any other governmental body which, if undertaken by the city alone, would be for an essential corporate purpose, including the joint purchase, acquisition, construction, ownership, or control of any real or personal property.
- h. The acquisition, construction, reconstruction, improvement, and extension of works and facilities useful for the control and elimination of any and all sources of air, water, and noise pollution, and the acquisition of real estate needed for such purposes.
Essential Corporate Purpose (cont.)

• i. The acquisition, construction, reconstruction, and improvement of all waterways, and real and personal property, useful for the protection or reclamation of property situated within the corporate limits of cities from floods or high waters, and for the protection of property in cities from the effects of flood waters, including the deepening, widening, alteration, change, diversion, or other improvement of watercourses, within or without the city limits, the construction of levees, embankments, structures, impounding reservoirs, or conduits, and the establishment, improvement, and widening of streets, avenues, boulevards, and alleys across and adjacent to the project, as well as the development and beautification of the banks and other areas adjacent to flood control improvements.

• j. The equipping of fire, police, sanitation, street, and civil defense departments and the acquiring, developing, and improving of a geographic computer data base system suitable for automated mapping and facilities management.

• k. The acquisition and improvement of real estate for cemeteries, and the construction, reconstruction, and repair of receiving vaults, mausoleums, and other cemetery facilities.

• l. The acquisition of ambulances and ambulance equipment.

• m. The reconstruction and improvement of dams already owned.
Essential Corporate Purpose (cont.)

- n. The reconstruction, extension, and improvement of an airport owned or operated by the city, an agency of the city, or a multimember governmental body of which the city is a participating member.
- o. The rehabilitation and improvement of parks already owned, including the removal, replacement and planting of trees in the parks, and facilities, equipment, and improvements commonly found in city parks.
- p. The rehabilitation and improvement of area television translator systems already owned.
- q. The aiding in the planning, undertaking, and carrying out of urban renewal projects under the authority of chapter 403, and all of the purposes set out in section 403.12. However, bonds issued for this purpose are subject to the right of petition for an election as provided in section 384.26, without limitation on the amount of the bond issue or the size of the city, and the council shall include notice of the right of petition in the notice required under section 384.25, subsection 2.
Essential Corporate Purpose (cont.)

• r. The acquisition, construction, reconstruction, improvement, repair, and equipping of waterworks, water mains, and extensions, and real and personal property, useful for providing potable water to residents of a city.

• s. The provision of insurance, or funding a self-insurance program or local government risk pool, including but not limited to the investigation and defense of claims, the establishment of reserve funds for claims, the payment of claims, and the administration and management of such self-insurance program or local government risk pool.

• t. The acquisition, restoration, or demolition of abandoned, dilapidated, or dangerous buildings, structures or properties or the abatement of a nuisance.

• u. The establishment or funding of programs to provide for or assist in providing for the acquisition, restoration, or demolition of housing, as part of a municipal housing project under chapter 403 or otherwise, or for other purposes as may be authorized under chapter 403A.
General corporate purpose

• a. The acquisition, construction, reconstruction, extension, improvement, and equipping of city utilities, city enterprises, and public improvements as defined in section 384.37, other than those which are essential corporate purposes.

• b. The acquisition, construction, reconstruction, enlargement, improvement, and equipping of community center houses, recreation grounds, recreation buildings, juvenile playgrounds, swimming pools, recreation centers, parks, and golf courses, and the acquisition of real estate therefor.

• c. The acquisition, construction, reconstruction, enlargement, improvement, and equipping of city halls, jails, police stations, fire stations, garages, libraries, and hospitals, including buildings to be used for any combination of the foregoing purposes, and the acquisition of real estate therefor.

• d. The acquisition, construction, reconstruction, and improvement of dams at the time of acquisition.
General corporate purpose (cont.)

• e. The removal, replacement, and planting of trees, other than those on public right-of-way.

• f. The acquisition, purchase, construction, reconstruction, and improvement of greenhouses, conservatories, and horticultural centers for growing, storing, and displaying trees, shrubs, plants, and flowers.

• g. The acquisition, construction, reconstruction, and improvement of airports at the time of establishment.

• h. The undertaking of any project jointly or in co-operation with any other governmental body which, if undertaken by the city alone, would be for a general corporate purpose, including the joint purchase, acquisition, construction, ownership, or control of any real or personal property.

• i. Any other purpose which is necessary for the operation of the city or the health and welfare of its citizens.
Revenue Bonds

• What is a bond covenant?
  ➢ A bond covenant is a legally binding term of agreement between a bond issuer and a bond holder. Bond covenants are designed to protect the interests of both parties.
  ➢ Covenants require the issuer to meet specific requirements.
City Revenue Bond
Debt Service Coverage

• Net Revenues / Revenue Debt (includes SRF loans)

> Required 1.75 ratio to maintain Aa2 ratings.

> City will need to continue to manage debt service coverage to maintain Aa2 rating or there is a potential for a downgrade in rating.
Bond Purpose Statement

• The bond purpose statement outlines the City’s intension of how the proceeds of a bond sale will be spent. It lists, in general form mirroring Iowa Code authority, the types of projects that the City will fund.
Changes to Moody’s rating system in 2014

<table>
<thead>
<tr>
<th>Category</th>
<th>Prior</th>
<th>New</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy/Tax Base</td>
<td>40%</td>
<td>30%</td>
</tr>
<tr>
<td>Finances</td>
<td>30%</td>
<td>30%</td>
</tr>
<tr>
<td>Management</td>
<td>20%</td>
<td>20%</td>
</tr>
<tr>
<td>Debt/Pensions</td>
<td>10%</td>
<td>20%</td>
</tr>
</tbody>
</table>
# Moody’s Scorecard

## Scorecard Factor and Weights

<table>
<thead>
<tr>
<th>Broad Rating Factor</th>
<th>Rating Subfactor</th>
<th>Subfactor Weighting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy/Tax Base</td>
<td>Tax Base Size (full value)</td>
<td>10%</td>
</tr>
<tr>
<td>Economy/Tax Base</td>
<td>Full Value Per Capita</td>
<td>10%</td>
</tr>
<tr>
<td>Economy/Tax Base</td>
<td>Wealth (median family income)</td>
<td>10%</td>
</tr>
<tr>
<td>Finances</td>
<td>Fund Balance (% of revenues)</td>
<td>10%</td>
</tr>
<tr>
<td>Finances</td>
<td>Fund Balance Trend (5-year change)</td>
<td>5%</td>
</tr>
<tr>
<td>Finances</td>
<td>Cash Balance (% of revenues)</td>
<td>10%</td>
</tr>
<tr>
<td>Finances</td>
<td>Cash Balance Trend (5-year change)</td>
<td>5%</td>
</tr>
<tr>
<td>Management</td>
<td>Institutional Framework</td>
<td>10%</td>
</tr>
<tr>
<td>Management</td>
<td>Operating History</td>
<td>10%</td>
</tr>
<tr>
<td>Debt/Pensions</td>
<td>Debt to Full Value</td>
<td>5%</td>
</tr>
<tr>
<td>Debt/Pensions</td>
<td>Debt to Revenue</td>
<td>5%</td>
</tr>
<tr>
<td>Debt/Pensions</td>
<td>Moody's ANPL (3-year average) to Full Value</td>
<td>5%</td>
</tr>
<tr>
<td>Debt/Pensions</td>
<td>Moody's ANPL (3-year average) to Revenue</td>
<td>5%</td>
</tr>
</tbody>
</table>
City GO Bonds Aa1

Credit Strengths:

- Large and growing tax base that serves as a regional economic center for portions of Eastern Iowa
- Sound financial position

Credit Challenges:

- Modest resident income levels compared to similarity rated entities
- Enterprise risk posed by the ownership of a hotel and convention center
- Above average debt and pension liability
Rating Outlook:
- Stable outlook reflects our expectation that the City’s healthy financial profile will be maintained and its long-term leverage, while elevated, will remain manageable.

Factors that could lead to an upgrade:
- Improvement of resident income indices
- Moderation of the City’s long-term leverage and fixed costs

Factors that could lead to a downgrade:
- Deterioration in operating reserves of liquidity
- Growth in the City’s debt or pension burden
- Weakened operating performance of City-owned hotel or convention center that raises the need of governmental support.
City Water Revenue Bonds Aa2

Credit Strengths:
- Stable system liquidity
- Unlimited rate setting authority

Credit Challenges:
- Customer base exhibits elevated concentration
- Debt service coverage is projected to decline over the near-term due to increased debt service expenditures
Rating Outlook:
- Outlooks are generally not assigned to local government credits with this amount of debt.

Factors that could lead to an upgrade:
- Expansion and diversification of the customer base
- Material improvement of annual debt service coverage

Factors that could lead to a downgrade:
- Contraction of the system’s customer base or increased customer concentration
- Reductions in cash reserves or debt service coverage
Credit Strengths:

- Continued expansion of the customer base
- Ample system liquidity
- Unlimited rate setting authority

Credit Challenges:

- Customer base exhibits elevated concentration
- Recent declines in debt service coverage from increased debt service expenditures
Rating Outlook:

- Outlooks are generally not assigned to local government credits with this amount of debt.

Factors that could lead to an upgrade:

- Significant growth and diversification of the customer base
- Material improvement of annual coverage of total debt service

Factors that could lead to a downgrade:

- Contraction of the system’s customer base or increased customer concentration
- Reductions in cash reserves or debt service coverage