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N E W S   R E L E A S E

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Moody's Adjusts Water Bonds Rating

DUBUQUE, Iowa – On December 23, 2013, Moody's downgraded the rating of the City of Dubuque's water revenue bonds to A1 from Aa3, affecting $6.5 million in outstanding water debt secured solely by the net revenues from the City's water utility. This downgrade applies to just over three percent of Dubuque's total city indebtedness. The City's bond rating for general obligation bonds continues to be the second-highest rating available, Aa1.

Moody's provides credit ratings and research covering debt instruments and securities. The purpose of Moody's ratings is to provide investors with a simple system to gauge future relative creditworthiness of securities. The firm uses nine rating classifications to designate least credit risk to greatest credit risk: Aaa, Aa, A, Baa, Ba, B, Caa, Ca, and C. Moody's appends numerical modifiers 1, 2, and 3 to each rating classification.

Today's action by Moody's relates to Series 2008D and 2010D water revenue bonds, and the City's SRF water revenue notes, which require the City to produce net revenues in each fiscal year equal to at least 125% of the debt service requirement on all water revenue bonds then outstanding for the year of computation. Net revenues are the gross revenues of the water system after payment of all operation and maintenance expenses, not including debt.

The fiscal year ended June 30, 2013 (Fiscal Year 2013) is not finalized at this time since the audit is not complete; however, based on preliminary financial information, the City will exceed the debt covenant requirements.

Prior to FY2012, the City always met the 125% debt service coverage covenant requirement in the years in which water revenue debt was outstanding. A1 is still a good rating for the city. The information is based on fiscal year ended June 30, 2012 financial information.

Even though the City of Dubuque's water revenue bond rating has been downgraded by Moody's to A1 from Aa3, there is no financial impact to the City at this time. The interest rates on the outstanding bonds will remain the same. There may be an impact on future bonds, if any, sold by the City payable from the water utility, as a lower rating generally equates to higher interest cost when issuing bonds. The City anticipates that it will continue to meet the debt service coverage covenant requirement of 125% of net revenues until the water revenue bonds reach maturity.

Moody's continues to (a) focus its annual ratings on audited results, which sometimes means that their analysis is very behind the actual happenings in a community as of the date of their analysis; (b) focus on a city's cash position and its trendline; and (c) focus on a city's willingness to meet their legal obligations as key criteria in their rating process. Moving forward, the City will add to its liquidity in the water fund by virtue of the recently adopted fiscal debt policies, which should allow the City to address liquidity in the water fund (and other funds) as new capital projects are contemplated.

Moody's does include all debt paid from the water fund in their analysis, which includes State Revolving Loan Fund (SRF) and General Obligation Bonds (GO), debt that the water fund is responsible for paying. According to Municipal Market Advisors, the vast majority of Moody's rating actions taken in 2013 were downgrades as opposed to upgrades. During that same period of time, the majority of S&P's ratings actions were upgrades, as opposed to downgrades. Moody's continues to refine their rating approach largely by focusing more and more of their analysis on cash balances and covenant compliance.

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