THE CITY OF DUBUQUE
Masterpiece on the Mississippi

Dubuque All-America City 2007 • 2012 • 2013

CONTACT:
Mike Van Milligen, City Manager
563-589-4110
Jenny Larson, Budget Director
563-589-4110

N E W S   R E L E A S E

April 11, 2014 – FOR IMMEDIATE RELEASE

Moody's Adjusts Dubuque Bond Rating

DUBUQUE, Iowa – Moody's Investors Service has adjusted Dubuque's general obligation bond rating one level, from the second-highest rating available (Aa1) to the third-highest (Aa2), following Moody's implementation of a new rating methodology. According to Moody's, "Obligations rated Aa are judged to be of high quality and are subject to very low credit risk."

Moody's Investors Service is an international provider of credit ratings, research, and risk analysis. Moody's uses gradations of creditworthiness indicated by rating symbols, with each symbol representing a group in which the credit characteristics are broadly the same. There are nine symbols used to designate least credit risk to that denoting greatest credit risk: Aaa, Aa, A, Baa, Ba, B, Caa, Ca, and C. Moody's also appends numerical modifiers (1, 2, and 3) to each generic rating classification.

Moody's report summary stated, "The downgrade to the Aa2 rating reflects the city's high debt burden with additional borrowing planned; moderate exposure to unfunded pension liabilities; and recent declines in fund balance and cash reserves which are expected to stabilize at satisfactory levels going forward. Additionally, the Aa2 rating incorporates the city's sizable tax base and role as a regional economic center in northeastern Iowa (Aaa stable) and trend of strong employment growth which is projected to continue."

Moody’s has upgraded the City of Dubuque’s general obligation bond rating twice since 2002. The last time, in April 2010, it was upgraded from Aa2 to Aa1 as a result of Moody’s moving its municipal ratings scale to its global ratings scale. In September 2012, Moody’s again reviewed Dubuque’s rating and confirmed the Aa1 rating. The Moody’s 2012 analysis said assignment of the Aa1 rating reflected the City's role as a regional service and retail provider in northeastern Iowa and neighboring states; satisfactory reserves despite recent cash funding of capital projects; and an above-average debt burden supported by alternate non-levy revenue sources.

Dubuque is one of 256 U.S. local governments placed under review by Moody’s several months ago as a result of Moody’s decision to change its rating methodology. Moody’s new methodology increases the weight in overall assessment on debt and pensions to 20percent from 10 percent, decreases the weight on economic factors to 30 percent from 40 percent, and introduces a scorecard for U.S. local governments to enhance the transparency of key rating considerations.

Dubuque was one of seven other Iowa cities and one county whose general obligation debt was placed under review for possible downgrade. As of March 31, the ratings of the following Iowa cities have been downgraded following the rating methodology change: Ames (Aaa to Aa1), Bettendorf (Aa1 to Aa2), Davenport (Aa2 to Aa3), Des Moines (Aaa to Aa1), and Sioux City (Aa1 to Aa2). The vast majority of Moody’s public finance rating changes in recent years have been downgrades, accounting for 79 percent in 2013 and 82 percent in 2012.

One of the major rating factors that Moody’s has added is a community’s pension liabilities. In the case of Dubuque, all employee pensions are part of the state-wide pension system, of which Dubuque has no control over the composition of the pension benefits, the amount the City or the employee pays into the pension system, or the investment practices of the pension system. State legislators determine the benefit levels and the allowed contribution levels and the Pension Board determines the investment practices. However, Moody’s new rating system holds individual communities liable for any underfunding in the state pension systems.

“This is an important process that we take very seriously," said City Manager Mike Van Milligen. “This one-level downgrade may have a minor effect on the interest rate of future borrowing for capital improvement projects.”

The City of Dubuque uses debt strategically for major projects with long-term community benefits. The City does not use debt for operating expenses and, in fact, is required by state code to have a balanced operating budget every year. In recent years, the City has taken on debt incrementally to fund major infrastructure projects for storm water management, wastewater treatment, parking improvements, water distribution, and economic development. The City believes that the debt incurred in the past was all for critical undertakings that could not be delayed. Recent debt issuances took advantage of historically low interest rates. Additionally, the completed projects support the City’s mission to deliver excellent municipal services that support urban living, a sustainable city plan for the community’s future, and facilitate access to critical human services, resulting in financially sound government and citizens getting services and value for their tax dollar.

# # #

SEE ATTACHED FOR MORE INFORMATION ON CITY OF DUBUQUE DEBT