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NEWS RELEASE

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Moody's Affirms Dubuque Bond Rating

DUBUQUE, Iowa – Moody's Investors Service has affirmed the City of Dubuque's Aa2 rating. 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.

The rating was announced in advance of the City issuing \$26.4 million in General Obligation (GO) debt. Proceeds will fund various city improvements, including water and sanitary sewer expansions, road improvements, acquisition of software and equipment, and urban renewal projects.

Moody's affirmed the Aa2 rating on the City's outstanding debt but the rating outlook has been revised to negative. In announcing the affirmation of Dubuque's Aa2 rating, Moody's noted that the City's general fund balance/reserve declines. The general fund reserve is a contingency fund and a percentage of operating expenses held in reserve for unforeseen, one-time expenses that may arise. Dubuque's general fund reserve declined from 22 percent of general fund revenues in fiscal year (FY) 2013 to 14.8 percent in FY 2014. This decline in the general fund reserve is due to planned capital expenditures of \$4.1 million in FY 2014. The expenditures included a variety of projects, such as: public safety enhancements (equipment/vehicle replacement, computer software, facility

improvements); parks maintenance and improvements (pavilions, parking lots, trails, green spaces); public facility improvements and maintenance (Five Flags audio/visual equipment, City-wide computer replacements); street/infrastructure improvements (curb/catch basins, sidewalk program, street lights, traffic signals, security cameras, property acquisitions); riverfront maintenance (harbor dredging and maintenance); franchise fee litigation; and housing and community development programs (maintenance of vacant/abandoned properties, homeownership grants).

Moody's prefers Aa2-rated organizations to have a general fund reserve greater than 20 percent. The City of Dubuque's fund reserves policies require a 10 percent general fund reserve and states the City may continue to add to the minimum balance when additional funds are available until 20 percent is reached.

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

The summary ratings rationale continued, "The negative outlook reflects the projected sizable declines in the available General Fund balance for fiscal 2014 compared to prior projections as well as a \$1 million budget gap that is currently projected for fiscal 2015. Such declines in available fund balance would bring the city's reserve levels below the average for similarly rated entities. The negative outlook also incorporates our expectation that the city's fixed costs are expected to grow as sizable additional borrowing is expected in 2015."

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. Seven other Iowa cities have been downgraded so far in 2014, including Ames, Bettendorf, Davenport, Des Moines, Jefferson, Sioux City, and Waverly.

Previously, Moody's adjusted Dubuque's general obligation bond rating one level in April 2014, from the second-highest rating available (Aa1) to the third-highest (Aa2). This change followed Moody's implementation of a new rating methodology. At that time, Dubuque was one of 256 U.S. local governments placed under review by Moody's as a result of the change in its rating methodology.

The new methodology increased the weight in overall assessment on debt and pensions to 20 percent from 10 percent, decreases the weight on economic factors to 30 percent from 40 percent, and introduced a scorecard for U.S. local governments to enhance the transparency of key rating considerations.

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.

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.

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