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NEWS RELEASE

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Dubuque Prepares to Issue Revenue Bonds for Flood Mitigation Project

DUBUQUE, Iowa – Moody's Investors Service today released a credit report in advance of the City of Dubuque becoming the first community in Iowa to issue sales tax increment revenue bonds as part of the State of Iowa Flood Mitigation Program.

The report is a required step in preparation for the City to issue the sales tax increment revenue bonds. It focused on the City's fiscal year 2014 (July 1, 2013 – June 30, 2014) audit and included a review of Dubuque's general obligations bond rating as well.

Sales Tax Increment Bond Rating

Moody's assigned Dubuque's sales tax increment bonds a rating of A3. According to Moody's, "issuers or issues rated A present above-average creditworthiness relative to other U.S. municipal or tax-exempt issuers or issues." The rating was announced in advance of the City issuing approximately \$20 million in sales tax increment revenue bonds to provide funds for flood mitigation projects previously approved by the City Council as part of the \$200 million Bee Branch Watershed Flood Mitigation Project. More specifically, these bond sales will fund the construction of the Upper Bee Branch Creek Restoration phase of the project, which is scheduled to begin in 2015. The City plans to issue the bonds on May 18, 2015.

The State of Iowa Flood Mitigation Program was created in 2012. The Sales Tax Increment Fund consists of the increase in the state share of sales tax revenues from communities with qualifying applications. A community is only eligible to receive up to 70 percent of the incremental increase in state sales tax. To qualify for sales tax increment funding, federal financial assistance must have been

secured for the project. A local match is also required and the state sales tax increment cannot exceed 50 percent of the total project cost.

On December 4, 2013, the Iowa Flood Mitigation Board approved Dubuque's application and use of \$98.5 million in state sales tax increment funds for the Bee Branch Watershed Flood Mitigation Project. In February of 2014, the City Council adopted Resolution 31-14 authorizing the execution of an agreement with the Iowa Flood Mitigation Board binding the City to the terms of the agreement as required for the City's receipt of up to \$98.5 million in state sales tax increment funds for the Bee Branch Watershed Flood Mitigation Project.

The first debt issuance for the Bee Branch Watershed Flood Mitigation Project was issued as a Sales Tax Increment Revenue Bond backed by the full faith and credit of the City of Dubuque for \$7.2 million in May 2014. The second Sales Tax Increment Revenue bond issuance for an estimated \$20.4 million will be sold on May 18 and will be subject to annual appropriation by City Council and will not be backed by the full faith and credit of the City of Dubuque. In addition, a \$29 million U.S. EPA Clean Water State Revolving Fund (SRF) loan will also be issued with the loan finalized on May 18.

General Obligation Bond Rating

The report issued today (May 11, 2015) also includes a downgrade of Dubuque's general obligation (GO) bond rating from Aa2 to Aa3, the fourth-highest rating available. According to Moody's, "Obligations rated Aa are judged to be of high quality and are subject to very low credit risk."

As publicly discussed by the mayor, city council, and city manager, and reported by the media, this downgrade was anticipated, based on the negative outlook assigned in Moody's last rating. According to Moody's, the downgrade to Aa3 "reflects the City's recent declines in fund balance and cash reserves, which are expected to stabilize at lower levels going forward, as well as the City's very high debt burden relative to other Aa-rated entities." The rating acknowledged Dubuque's "sizable tax base and role as a regional economic center, and moderate exposure to unfunded pension liabilities."

This decline in the general fund reserve was 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).

Dubuque's GO bond rating was most recently reviewed in November 2014, when Moody's affirmed Dubuque's Aa2 rating with a negative outlook. Today's rating report included the removal of the negative outlook, reflecting Moody's "expectation that the City's available general fund balance and liquidity will stabilize at a level consistent with Aa3-rated entities." Previously, Moody's downgraded 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.

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.

As reviewed in late 2014, 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 were downgraded in 2014, including Ames, Bettendorf, Davenport, Des Moines, Jefferson, Sioux City, and Waverly.

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