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NEWS RELEASE

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Moody's Adjusts Water Bonds Rating

DUBUQUE, Iowa – Moody's Investor Services has downgraded the rating of the City of Dubuque's water revenue bonds to A2 from A1, affecting \$5.7 million in outstanding water debt secured solely by the net revenues from the City's water utility. This downgrade applies to just less than two percent of Dubuque's total city indebtedness. The City's bond rating for general obligation bonds continues to be the fourth-highest rating available, Aa3.

"This rating adjustment of water enterprise bonds is based on the previous fiscal year's audit and was expected," said Dubuque City Manager Michael Van Milligen. "Through the budgeting process earlier this spring, the Mayor and City Council adopted an approach to create a water enterprise reserve fund and meet the water bond covenant requirement in fiscal year 2016."

As of June 30, 2015, the City's water enterprise has \$24.9 million of outstanding revenue debt, of which \$5.7 million is rated by Moody's. Today's action by Moody's relates to water revenue bonds and the City's State Revolving Fund (SRF) water revenue notes, which require the City to produce net revenues in each fiscal year equal to at least 125 percent 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.

In the report rationale, Moody's said the A2 rating reflects the water enterprise's narrow reserve position and history of rate covenant violations including negative debt service coverage in fiscal year (FY) 2014. The report acknowledged the City's unlimited rate-setting authority, rate increases to meet expenses, satisfactory legal provisions, moderate debt profile, and a stable customer base. Moody's also acknowledged that the City will add to its liquidity in the water fund by virtue of previously adopted fiscal debt policies.

The report cited the water enterprise's senior lien debt service coverage which has fluctuated in recent years due to increasing debt service and increased operating expenses. The water enterprise's net revenues declined sharply in FY2014 (July 1, 2013, to June 30, 2014) due to higher than normal operating expenses from water main breaks stemming from a particularly cold winter. From FY2005-2013, the City averaged 61 water main breaks per year but the FY2014 winter saw 136 water main breaks.

FY2014 marked the second time in three years that the water enterprise fell below rate covenant. Based on current projections, the water enterprise is not expected to meet the covenant for FY2015, which ended June 30, 2015. The City Council voted in March to raise Dubuque water rates for FY2016 and subsequent years so the bond covenant is met.

Moody's indicated the water bond rating could go up if the City achieved multi-year, sustained trend of debt service coverage in excess of the water enterprise's rate covenant and restoration of liquidity and debt service coverage levels consistent with higher-rated systems.

Even though the City of Dubuque's water revenue bond rating has been downgraded, there is no financial impact to the City at this time. 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. Moody's includes 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.

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.

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