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Evaluating Your City's Financial Condition – Municipal Bond Ratings and Other Matters

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Agenda

➢ Moody's Rating Process

➢ Moody's General Obligation (GO) Methodology

➢ Moody's 2015 Outlook for US Local Governments

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Moody's Rating Process

STEP 1: ASSIGNMENT	STEP 2: METHODOLOGY	STEP 3: ANALYSIS	STEP 4: DISCUSSIONS	STEP 5: COMMITTEE	STEP 6: PUBLICATION

➢ Notification of sale and assignment of an analyst

➢ Selection of a methodology based on security pledged to repay the debt

➢ Analysis

- Review of sale-related documents, audited financial data, other Moody's and publicly available information

➢ Discussions

- In-person or telephone meeting to discuss relevant issuer information

➢ Rating committee

- Ratings are determined by committee, not individual analysts

➢ Publication

- Rating communicated with unpublished report for issuer review

- Rating and report released

Moody's GO Methodology

Moody's GO Methodology

Scope of the GO Methodology:

➢ Applies to all U.S. local governments issuing debt secured by a general obligation pledge

➢ Includes cities, counties, school districts, some community colleges and special districts

Goals of the GO methodology and scorecard factors:

➢ Enhance the transparency of our rating process

➢ Quantify factors that Moody's previously evaluated in qualitative ways

➢ Formally incorporate historical trend analysis

➢ Capture the key considerations that correspond to particular rating categories

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Scorecard Factors

➢ Factor 1: Economy/Tax Base – 30%

- Full value (10%) – market value of taxable property

- Full value per capita (10%) – provides a resources per resident metric

- Median Family Income (10%) – measures of strength and resiliency of a tax base

	Very Strong	*Strong*	*Moderate*	*Weak*	*Poor*	*Very Poor*
	Aaa	**Aa**	**A**	**Baa**	**Ba**	**B & Below**
ECONOMY/TAX BASE (30%)						
Tax Base Size: Full Value (in 000s)	> $12B	$12B ≥ n > $1.4B	$1.4B ≥ n > $240M	$240M ≥ n > $120M	$120M ≥ n > $60M	≤ $60M
Full Value Per Capita	> $150,000	$150,000 ≥ n > $65,000	$65,000 ≥ n > $35,000	$35,000 ≥ n > $20,000	$20,000 ≥ n > $10,000	≤ $10,000
Socioeconomic Indices: MFI	> 150% of US median	150% to 90% of US median	90% to 75% of US median	75% to 50% of US median	50% to 40% of US median	≤ 40% of US median

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Scorecard Factors (cont.)

➢ Factor 2: Finances – 30%

- ▪ Fund Balance (10%) – typically assigned and unassigned General Fund balance

- ▪ Cash Balance (10%) – measures liquidity; excludes accruals, interfund loans, etc.

- ▪ 5-Yr. $ Change in Fund Balance and Cash Balance as % of Revs (each 5%)

	Very Strong	Strong	Moderate	Weak	Poor	Very Poor
	Aaa	**Aa**	**A**	**Baa**	**Ba**	**B & Below**
FINANCES (30%)						
Fund Balance as % of Revenues	> 30.0% > 25.0% for School Districts	30.0% ≥ n > 15.0% 25.0% ≥ n > 10.0% for SD	15.0% ≥ n > 5.0% 10.0% ≥ n > 2.5% for SD	5.0% ≥ n > 0.0% 2.5% ≥ n > 0.0% for SD	0.0% ≥ n > -2.5% 0.0% ≥ n > -2.5% for SD	≤ -2.5% ≤ -2.5% for SD
5-Year Dollar Change in Fund Balance as % of Revenues	> 25.0%	25.0% ≥ n > 10.0%	10.0% ≥ n > 0.0%	0.0% ≥ n > -10.0%	-10.0% ≥ n > -18.0%	≤ -18.0%
Cash Balance as % of Revenues	> 25.0% > 10.0% for School Districts	25.0% ≥ n > 10.0% 10.0% ≥ n > 5.0% for SD	10.0% ≥ n > 5.0% 5.0% ≥ n > 2.5% for SD	5.0% ≥ n > 0.0% 2.5% ≥ n > 0.0% for SD	0.0% ≥ n > -2.5% 0.0% ≥ n > -2.5% for SD	≤ -2.5% ≤ -2.5% for SD
5-Year Dollar Change in Cash Balance as % of Revenues	> 25.0%	25.0% ≥ n > 10.0%	10.0% ≥ n > 0.0%	0.0% ≥ n > -10.0%	-10.0% ≥ n > -18.0%	≤ -18.0%

Scorecard Factors (cont.)

➢ Factor 3: Management – 20%

- Institutional Framework (10%) – legal ability to match revenues with expenditures

Iowa	Institutional Framework Score
Cities	Aaa – Very Strong
Counties	Aaa – Very Strong
School Districts	Aa – Strong
Community Colleges	Aa – Strong

- Operating History (10%) – 5-yr average ratio of operating revenues to expenditures

	Very Strong	*Strong*	*Moderate*	*Weak*	*Poor*	*Very Poor*
	Aaa	**Aa**	**A**	**Baa**	**Ba**	**B & Below**
MANAGEMENT (20%)						
Institutional Framework	Very strong legal ability to match resources with spending	Strong legal ability to match resources with spending	Moderate legal ability to match resources with spending	Limited legal ability to match resources with spending	Poor legal ability to match resources with spending	Very poor or no legal ability to match resources with spending
Operating History: 5-Year Avg of Op Rev / Op Expend	> 1.05x	1.05x ≥ n > 1.02x	1.02x ≥ n > 0.98x	0.98x ≥ n > 0.95x	0.95x ≥ n > 0.92x	≤ 0.92x

Scorecard Factors (cont.)

➤ Factor 4: Debt/Pensions – 20%

  ▪ Debt: Full Value (5%) & Operating Revenues (5%) – measures debt relative to resources

  ▪ 3-Year Average Moody's Adjusted Net Pension Liability (ANPL): Full Value (5%) & Operating Revenues (5%)

    ▪ Moody's allocates the liabilities of cost-sharing plans (IPERS and MFPRSI) in proportion to the municipality's contributions to the plan

    ▪ We expect GASB 67/68 to have a minimal impact on our ratings

	Very Strong	Strong	Moderate	Weak	Poor	Very Poor
	Aaa	**Aa**	**A**	**Baa**	**Ba**	**B & Below**
DEBT/PENSIONS (20%)						
Net Direct Debt / Full Value	< 0.75%	0.75% ≤ n < 1.75%	1.75% ≤ n < 4.00%	4.00% ≤ n < 10.00%	10.00% ≤ n < 15.00%	> 15.00%
Net Direct Debt / Operating Revenues	< 0.33x	0.33x ≤ n < 0.67x	0.67x ≤ n < 3.00x	3.00x ≤ n < 5.00x	5.00x ≤ n < 7.00x	> 7.00x
3-Year Average ANPL/ Full Value	< 0.90%	0.90% ≤ n < 2.10%	2.10% ≤ n < 4.80%	4.80% ≤ n < 12.00%	12.00% ≤ n < 18.00%	> 18.00%
3-Year Average ANPL/ Op Revenues	< 0.40x	0.40x ≤ n < 0.80x	0.80x ≤ n < 3.60x	3.60x ≤ n < 6.00x	6.00x ≤ n < 8.40x	> 8.40x

GO Scorecard – Notching Factors

Adjustments/Notching Factors	
Description	_Direction_
Economy/Tax Base	
Institutional presence	up
Regional economic center	up
Economic concentration	down
Outsized unemployment or poverty levels	down
Other analyst adjustment to Economy/Tax Base factor (specify)	up/down
Finances	
Outsized contingent liability risk	down
Unusually volatile revenue structure	down
Other analyst adjustment to Finances factor (specify)	up/down
Management	
State oversight or support	up/down
Unusually strong or weak budgetary management and planning	up/down
Other analyst adjustment to Management factor (specify)	up/down
Debt/Pensions	
Unusually strong or weak security features	up/down
Unusual risk posed by debt/pension structure	down
History of missed debt service payments	down
Other analyst adjustment to Debt/Pensions factor (specify)	up/down
Other	
Credit event/trend not yet reflected in existing data sets	up/down

Publicly Rated US Local Government Medians

Medians by Rating - US Cities (All)

Selected Indicators	US Local Government Medians					
	Aaa	Aa	A	Baa	Ba	B
Total General Fund Revenues (000)	$59,130	$27,048	$8,416	$15,614	$118,889	$20,635
General Fund Balance as % of Revenues	32.05%	30.42%	29.99%	10.28%	2.59%	3.52%
Available General Fund Balance as % of Revenues	29.97%	27.70%	26.27%	8.24%	-2.43%	3.35%
Direct Net Debt as % of Full Value	0.81%	1.17%	1.66%	2.75%	1.48%	7.88%
Overall Debt Burden (Overall Net Debt as % Full Value)	2.16%	2.74%	3.25%	4.42%	3.75%	9.11%
Total Full Value (000)	$6,972,374	$2,379,844	$707,516	$793,995	$2,048,785	$1,423,516
Population 2010 Census	37,080	21,253	8,545	11,600	17,353	31,925
Full Value Per Capita	$170,754	$97,140	$63,447	$55,143	$50,652	$42,799
Ten Largest Taxpayers as % of AV	7.30%	8.05%	11.19%	10.33%	16.14%	N/A
MFI as a % of US (2012 ACS)	181.67%	126.99%	94.64%	79.84%	80.12%	80.10%

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Common Credit Factors for Iowa Cities

➢ Tax Base and Economy

  ▪ Tax base size tends to be smaller relative to the rating category

  ▪ Full value per capita and MFI tend to be lower, reflecting the low cost of living

➢ Finances

  ▪ Fund balances and cash balances are similar to the nation

  ▪ 5 year dollar change in fund and cash balances have been slightly stronger

➢ Management

  ▪ Iowa cities have the strongest score for institutional framework

  ▪ Only five other states also have a Aaa score for cities

➢ Debt and Pensions

  ▪ Debt tends to be higher relative to the nation, Iowa medians are twice as high as the national median in some rating categories

  ▪ Median Moody's adjusted net pension liabilities for Iowa cities are modestly higher than the national medians

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Ratings Affected by the GO Methodology

➢ In the U.S., 256 ratings were placed on review out of over 8,300 GO ratings (3%)

  ▪ Approximately one third of the 256 were confirmed at their previous rating

  ▪ Of the remainder, more were upgraded than downgraded

➢ No further rating changes will be made as a result of the new methodology

➢ Future rating changes are a result of changes in credit fundamentals

➢ Overall ratings have remained stable

  ▪ In fourth quarter of 2014, Moody's upgrades outpaced downgrades for the first time since the fourth quarter of 2008

 ▪ During 2014, there were only 924 rating revisions out of over 13,000 public finance obligors, or 7.3%

Moody's 2015 Outlook for US Local Governments

Outlook Remains Stable in 2015

➤ Revised to stable from negative in 2014

➤ Outlook Horizon: 12-18 months

➤ Key drivers:

- Property tax receipts are on a steady growth trajectory

- State funding arrangements have mostly stabilized

- Local governments are controlling costs, though pension burdens are a drag for many

- Reserve fund balances have stayed healthy

➤ The stable outlook applies to most of the sector, but pockets of credit pressure remain

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Pockets of Pressure Remain

➢ Though fewer pressured sectors than last year

Trends in Iowa Support Credit Stability

➤ Iowa's housing market was less impacted by foreclosures compared to the Midwest and the nation and prices have risen above their previous peak

Median single family home price, 2000 Q1= 100
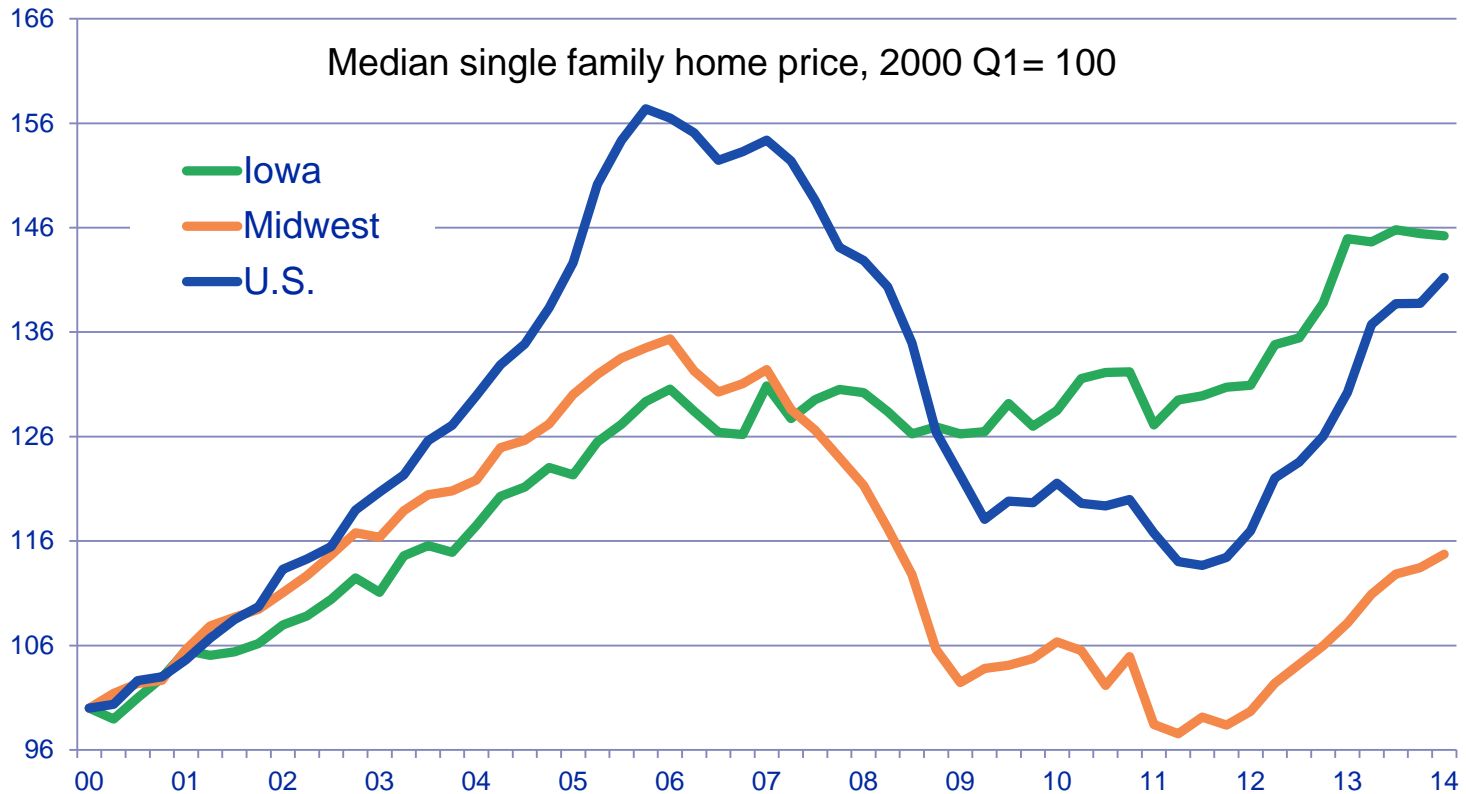
Iowa
Midwest
U.S.

Trends in Iowa Support Credit Stability

➢ Iowa's recession was relatively mild compared to the Midwest and the nation

➢ The state's labor market is expanding, having recouped all of its cyclical job cuts

➢ Most labor force growth is related to non-farm jobs (education, health services, government, and construction)

Total employment, January 2005 = 100

Legend: Iowa, Midwest, U.S.
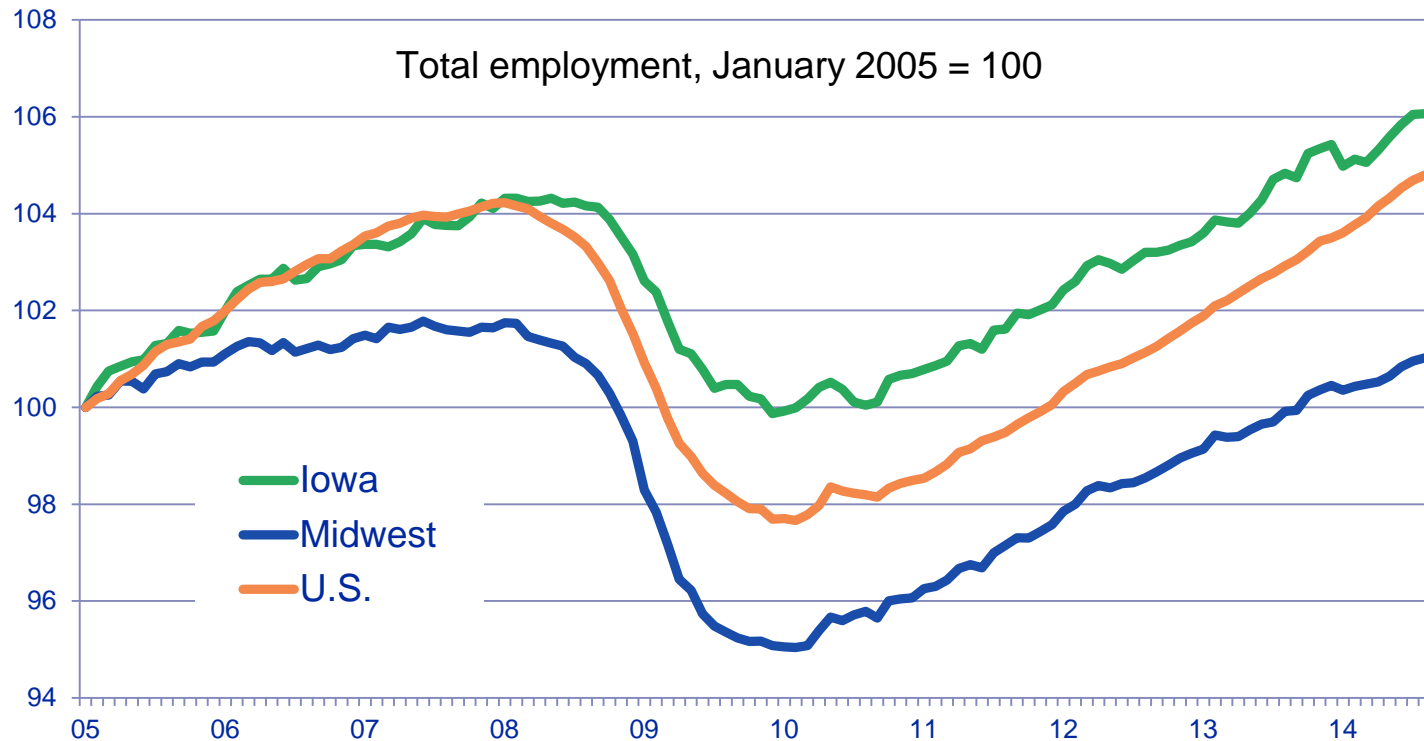
Areas to Watch

➢ Demographics

  ▪ Migration from rural to urban areas

  ▪ Effects of aging population on demand for services and pension and health care benefits funding

➢ Infrastructure

  ▪ Deferred capital expenditures and future debt issuances

  ▪ New bank debt structures or Public-Private Partnerships (P3s)

➢ Agriculture and Environment

  ▪ Declines in the agricultural sector after several years of strong growth

  ▪ Impact of flooding and/or droughts

  ▪ Trends in renewable energy

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