

COUNCIL ACTION FORM

SUBJECT: SALE AND ISSUANCE OF ESSENTIAL CORPORATE PURPOSE GENERAL OBLIGATION AND REFUNDING BONDS SERIES 2020A ISSUE IN AN AMOUNT NOT TO EXCEED \$20,105,000

BACKGROUND:

The FY 2020/21 adopted budget includes General Obligation (G.O.) Bond-funded capital improvement projects in the amount of \$10,681,900. The City Council held a public hearing on the issuance of these bonds and for the refunding of bonds on February 25, 2020 as part of the budget process. Council action is now required to authorize the sale.

Projects to be funded by this bond issue include the following:

Fire Apparatus Replacement	\$ 1,375,000	
Cherry Avenue Extension	510,000	
Arterial Street Pavement Improvements	900,000	
Collector Street Pavement Improvements	1,400,000	
Concrete Pavement Improvements	2,300,000	
Asphalt Street Pavement Improvements	1,400,000	
CyRide Route Pavement Improvements	600,000	
Seal Coat Pavement Improvements	750,000	
U.S. Highway 69 Improvements	230,000	
South Dayton Improvements	700,000	
Intelligent Transportation System	141,900	
Bridge Rehabilitation Program	375,000	
Subtotal Tax Supported Bonds	\$ 10,681,900	
Refunding Bonds	9,175,000	
Issuance Cost and Allowance for Premium	248,100	
Grand Total – 2020/21 G.O. Issue	\$20,105,000	

On the morning of August 25, 2020, the City will accept bids for the bonds per the terms of our offering statement. The bids will be evaluated by our financial advisor, the City’s Bond Counsel, and by City staff to recommend award to the bidder with the lowest cost. A report of bids will be provided to Council at the August 25, 2020 meeting. The City Council will then be asked to adopt a resolution accepting bids and authorizing award of the sale of bonds to the chosen bidder.

The credit rating agency Moody’s Investor Services has affirmed the City’s Aa1 credit rating (attached). The rating is one notch below the highest rating of Aaa.

ALTERNATIVES:

1. Adopt a resolution accepting bids and authorizing the sale and issuance of Essential Corporate Purpose General Obligation and Refunding Bonds in an amount not to exceed \$20,105,000 to the chosen bidder.
2. Reject the bond sale resolution and delay the capital projects.

CITY MANAGER'S RECOMMENDED ACTION:

Issuance of these bonds is necessary in order to accomplish the City's approved capital improvements during this fiscal year and realize the savings expected from bond refunding.

Therefore, it is the recommendation of the City Manager that the City Council accept Alternative No. 1, thereby adopting a resolution accepting bids and authorizing the sale and issuance of Essential Corporate Purpose General Obligation and Refunding Bonds in an amount not to exceed \$20,105,000.

CREDIT OPINION

18 August 2020

 Rate this Research

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Ames (City of) IA

Update to credit analysis

Summary

[Ames, IA](#) (Aa1) has a very strong credit profile that benefits from institutional presence of [Iowa State University of Science and Technology](#) (Aa2 stable). The city's finances are strong with ample revenue raising ability and healthy reserves. While Ames has a moderate debt burden and high fixed costs, this is offset with rapid debt payout. The city's ownership of [Mary Greeley Medical Center](#) (A2 stable) presents a degree of enterprise risk.

We regard the coronavirus outbreak as a social risk under our ESG framework, given the substantial implications for public health and safety. We do not see any material immediate credit risks for Ames. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Ames changes, we will update our opinion at that time.

Credit strengths

- » Institutional stability from Iowa State University
- » Substantial revenue raising flexibility
- » Healthy reserves

Credit challenges

- » Enterprise risk from Mary Greeley Medical Center, whose operating expenditures are nearly three times the size of the city's revenues
- » Elevated fixed costs

Rating outlook

Outlooks are generally not assigned to local governments with this amount of debt.

Factors that could lead to an upgrade

- » Reduction in the debt burden
- » Elimination of enterprise risk associated with the city-owned medical center

Factors that could lead to a downgrade

- » Narrowing of operating reserves
- » Weakened credit profile of the medical center

» Tax base deterioration

Key indicators

Ames (City of) IA	2015	2016	2017	2018	2019
Economy/Tax Base					
Total Full Value (\$000)	\$4,058,344	\$4,186,874	\$4,639,809	\$4,844,915	\$5,028,924
Population	62,815	64,073	65,005	65,937	65,937
Full Value Per Capita	\$64,608	\$65,345	\$71,376	\$73,478	\$76,269
Median Family Income (% of US Median)	118.9%	115.4%	120.9%	113.9%	113.9%
Finances					
Operating Revenue (\$000)	\$48,052	\$48,934	\$51,458	\$51,955	\$54,633
Fund Balance (\$000)	\$22,917	\$24,087	\$26,066	\$25,558	\$27,072
Cash Balance (\$000)	\$21,416	\$22,652	\$24,386	\$24,209	\$25,295
Fund Balance as a % of Revenues	47.7%	49.2%	50.7%	49.2%	49.6%
Cash Balance as a % of Revenues	44.6%	46.3%	47.4%	46.6%	46.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$64,110	\$68,825	\$68,230	\$65,480	\$63,290
3-Year Average of Moody's ANPL (\$000)	\$71,853	\$66,040	\$66,907	\$62,380	\$87,222
Net Direct Debt / Full Value (%)	1.6%	1.6%	1.5%	1.4%	1.3%
Net Direct Debt / Operating Revenues (x)	1.3x	1.4x	1.3x	1.3x	1.2x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.8%	1.6%	1.4%	1.3%	1.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.5x	1.3x	1.3x	1.2x	1.6x

Tax base data is displayed on a levy year basis, while financial information is based on a fiscal year basis.

Source: Moody's Investors Service, Ames audited financial statements, U.S. Census Bureau

Profile

The City of Ames is located in central Iowa's (Aaa stable) Story County, approximately 40 miles north of the state capital of Des Moines (Aa2 stable). The city's current population is approximately 66,000 residents. The city provides traditional municipal services and owns and operates a water, sewer, and electric utility.

Detailed credit considerations

Economy and tax base: strong tax base anchored by Iowa State University

The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to tourism, hospitality, healthcare, retail and oil and gas could suffer particularly severe impacts.

The city's tax base is expected to remain strong due to several stabilizing institutions. The city is home to Iowa State University, with enrollment of over 30,000 students and employing more than 17,000 people. In addition to higher education the city benefits from an established health care and public sector employment base with major employers including the Mary Greeley Medical Center and the Iowa Department of Transportation.

The city's current valuation of \$5.0 billion has seen strong growth, with the last 5 years having an annual growth of 5.8%. The city has a myriad of economic development which should continue to have positive impact on the city's valuation. The city's median family income is 113.9% of the national median, slightly below rated peers, but skewed down due to a large student population. Ames June 2020 unemployment rate was 6.2%, which is well below the state and national unemployment rates.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Financial operations and reserves: healthy financial performance; strong reserves

The city's financial position will remain strong given prudent fiscal management, strong available reserves and significant revenue raising flexibility. Due to planned capital expenditures, the city estimates that its available operating fund balance will decline by \$1.9 million, ending at a still strong \$25 million or 46.1% of revenue. The city ended fiscal 2019 with an available fund balance of \$27.1 million, or a very healthy 49.6% of revenue. With the expected decline in fund balance for fiscal 2020, the city will still have over 45% fund balance. For the current fiscal year, the city has a budget with a modest \$160,000 surplus.

Ames has significant revenue raising flexibility. The city does not currently levy the full general levy, does not levy a franchise fee, does not utilize the emergency levy, and does not utilize the employee benefits levy. In total, if the city used all available levies, it would generate more than \$14 million in additional annual revenue.

Mary Greeley Medical Center, which is presented as an enterprise fund in the city's financial statements, is a 220 bed regional hospital in Ames. The medical center has a separate, publicly-elected board of trustees that governs its operations. Operations of the hospital are sizeable relative to operations of the city. In fiscal 2019, operating expenses of the hospital were over three times larger than the city's total governmental revenues. While the financial operations of the hospital are strong, significant reductions in Medicaid and Medicare reimbursements could adversely affect its financial position. Because the city owns the hospital, it is indirectly exposed to its financial operations and the broader pressures facing the not-for-profit health care sector. Notably, the city has not provided any financial support to the hospital for operations and does not plan to do so going forward.

Liquidity

At the close of fiscal 2019, the city had \$25.3 million in liquidity, or a strong 46.3% of revenue.

Debt and pensions: moderate debt and pension liabilities

The city's debt and pension burden will likely remain moderate despite planned annual borrowings given continued tax base and revenue growth. Net direct debt totals \$75.2 million, equal to a moderate 1.5% of full value and 1.4x operating revenue. The city plans to borrow \$10-12 million annually over the next four years to finance projects included in its current five year capital plan.

Moody's three year average adjusted net pension liability (ANPL), our measure of a local government's pension burden, was \$87.2 million through fiscal 2019, equal to a somewhat above average 1.6x operating revenue and 1.7% of full value. Fixed costs, comprised of annual debt service requirements and retirement contributions, consumed a significant 39% of operating fund revenue in fiscal 2019.

Legal security

The city's GOULT debt is secured by the city's general obligation pledge and authorization to levy property taxes unlimited as to rate or amount to pay debt service.

Debt structure

All of the city's debt is fixed rate with a rapid ten-year principal payout of 92.7%.

Debt-related derivatives

The city is not a party to any debt-related derivatives.

Pensions and OPEB

The city participates in two defined benefit multi-employer cost sharing plans, the Iowa Public Employees' Retirement System (IPERS) and Municipal Fire and Police Retirement System of Iowa (MFPRSI). On an annual basis, each plan establishes local government retirement contributions as a share of payroll based on actuarial requirements. The city has routinely made its full statutory contributions to the plans. The city's total fiscal 2019 contribution to both plans totaled \$10.7 million or 19.5% of operating revenue.

IPERS and MFPRSI contributions were 96% and 113% of tread water in fiscal 2019. Despite IPERS contributing below tread water, the plan level net pension liability for IPERS fell approximately 9% from fiscal 2018 to 2019 because of pension asset performance exceeding the plan's assumed investment return. Because of a 12-month balance sheet reporting lag, the reduction in the plan's unfunded liabilities in 2019 will not be reflected in local government balance sheets until fiscal 2020.

The city operates a medical and dental plan for retired employees and their beneficiaries through a single-employer, defined benefit plan. Retired employees who choose to participate pay the full premium with no adjustment for the generally higher cost for retiree plans creating an implied subsidy for retiree health. The plan is funded on a pay-as-you-go basis and benefits terminate upon attaining Medicare eligibility. The plan reported a liability of \$6.5 million, or a modest 0.2x operating revenues.

ESG considerations

Environmental

Environmental considerations have a limited impact on the city's credit profile. Data from Moody's affiliate Four Twenty Seven indicate that Story County has a high exposure to heat stress compared to counties nationally. Rising temperatures could affect the region's agriculture production over the long term. Story County has medium exposure to water and extreme rainfall.

Social

Social factors are a consideration for the city. Resident incomes are above the state and national figures. Population growth has been strong over the last decade. The coronavirus outbreak is a social risk under our ESG framework, given the substantial implications for public health and safety

Governance

Iowa cities have an Institutional Framework score of "Aaa," which is very strong. Even with property tax caps on general and emergency levies, cities have strong revenue-raising flexibility because of various additional levies, including an unlimited levy for employee benefits. Unpredictable revenue fluctuations tend to be minor given the stability of the sector's primary revenue source, which are property taxes. Expenditures mostly consist of personnel costs, which are highly predictable. Iowa's public employee collective bargaining law limits the scope of bargaining to base wages for non-public safety employees. Across the sector, fixed costs are generally elevated and driven mainly by debt.

Rating methodology and scorecard factors

The [US Local Government General Obligation Debt](#) methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching adjustments dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Scorecard Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$5,028,924	Aa
Full Value Per Capita	\$76,269	Aa
Median Family Income (% of US Median)	113.9%	Aa
Notching Adjustments: ^[2]		
Institutional Presence		Up
Finances (30%)		
Fund Balance as a % of Revenues	49.6%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	12.7%	Aa
Cash Balance as a % of Revenues	46.3%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	12.4%	Aa
Notching Adjustments: ^[2]		
Outsized Contingent Liability Risk		Down
Other Scorecard Adjustment Related to Finances: significant revenue raising flexibility		Up
Management (20%)		
Institutional Framework	Aaa	Aaa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	1.5%	Aa
Net Direct Debt / Operating Revenues (x)	1.4x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.7%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.6x	A
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aa1

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the [GO Methodology Scorecard](#) Inputs publication.

Source: Moody's Investors Service, Ames audited financial statements, U.S. Census Bureau

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Rating Action: Moody's assigns Aa1 to Ames, IA's GO Bonds

17 Aug 2020

New York, August 17, 2020 -- Moody's Investors Service assigns a Aa1 rating to the City of Ames, IA's \$20.1 million General Obligation Corporate Purpose and Refunding Bonds, Series 2020A. Moody's maintains a Aa1 rating on the city's outstanding general obligation unlimited tax (GOULT) debt. Post-issuance, the city will have \$75.2 million in GOULT debt outstanding.

RATINGS RATIONALE

The Aa1 rating reflects the city's healthy tax base and economy that is anchored by Iowa State University of Science and Technology (Aa2 stable). The city has had a history of strong financial performance that is supported by strong reserves and ample revenue raising flexibility. The rating is constrained by enterprise risk associated with the city's ownership of Mary Greeley Medical Center (A2 stable); however, this is offset by the hospital's strong liquidity and operating margins, and leading market position.

The coronavirus outbreak is a social risk under our environmental, social, governance framework, given the substantial implications for public health and safety. The coronavirus crisis is not a key driver for this rating action. We do not see any material immediate credit risks for the city. The situation surrounding coronavirus is rapidly evolving, however, and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of the city changes, we will update the rating and/or outlook at that time.

RATING OUTLOOK

Outlooks are generally not assigned to local governments with this amount of debt.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Reduction in the debt burden
- Elimination of enterprise risk associated with the city-owned medical center

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Narrowing of operating reserves
- Weakened credit profile of the medical center
- Tax base deterioration

LEGAL SECURITY

The city's GOULT debt, including the Series 2020A bonds, are secured by the city's general obligation pledge and authorization to levy property taxes unlimited as to rate or amount to pay debt service.

USE OF PROCEEDS

The bonds will refund the city's 2010A, 2011B, and 2012 bonds, all of which were originally financed capital projects, as well as finance capital improvement projects across the city.

PROFILE

The City of Ames is located in central Iowa's (Aaa stable) Story County, approximately 40 miles north of the state capital of Des Moines (Aa2 stable). The city's current population is approximately 66,000 residents. The city provides traditional municipal services and owns and operates a water, sewer, and electric utility.

METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in

July 2020 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1230443. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

Moody's general principles for assessing environmental, social and governance (ESG) risks in our credit analysis can be found at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_1133569.

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