MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns A2 to Clinton IA's $5.3M GO Capital Loan Notes, Ser. 2015C

Global Credit Research - 29 Jul 2015

A2 rating applies to $24.1M of Moody's rated debt

CLINTON (CITY OF) IA
Cities (including Towns, Villages and Townships)
IA

Moody's Rating

ISSUE	RATING
General Obligation Capital Loan Notes, Series 2015C	A2
Sale Amount $5,340,000	
Expected Sale Date 08/05/15	
Rating Description General Obligation	

Moody's Outlook NOO

NEW YORK, July 29, 2015 --Moody's Investors Service has assigned an A2 rating to the City of Clinton IA's $5.3 million General Obligation (GO) Capital Loan Notes, Series 2015C. Concurrently, Moody's maintains the A2 rating on the city's outstanding rated general obligation unlimited tax (GOULT) debt. Post-sale, the city will have, $32.3 million of general obligation unlimited tax (GOULT) debt outstanding, of which $24.1 million is rated by Moody's.

SUMMARY RATING RATIONALE

The A2 rating incorporates the city's moderately-sized and concentrated tax base in eastern Iowa; below average income levels; adequate operating fund reserves and somewhat narrow cash balance as a result of advances to the city's solid waste enterprise. The rating also takes into consideration the city's above average debt burden and unfunded pension liabilities.

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

-Sustained growth of the city's tax base or improvement in the demographic profile

-Trend of stable financial operations and increased operating fund reserves

-Positive operating trend in the Solid Waste Enterprise leading to stronger cash balances in the General Fund and Solid Waste Fund

WHAT COULD MAKE THE RATING GO DOWN

-Deterioration of the city's tax base and/or weakening of the demographic profile

-Narrowing of operating fund reserves or lack of financial improvement in the city's solid waste enterprise

-Material growth in the city's debt burden

STRENGTHS

-Revenue raising flexibility through the implementation of the $0.27 emergency property tax levy

-Management's demonstrated willingness to more closely align city revenues with expenditures

CHALLENGES

-Concentrated tax base coupled with recent appeals by one of the largest taxpayers, Archer-Daniels-Midland Company (ADM; A2 stable)

-Improving but still somewhat narrow General Fund cash balance

-Deficit position in the city's solid waste enterprise following years of operational imbalance

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

TAX BASE AND ECONOMY: MODESTLY- SIZED, CONCENTRATED TAX BASE IN EASTERN IOWA

The city's tax base will likely remain stable going forward despite recent declines associated with an appeal successfully filed by the second largest taxpayer, ADM. The city's 2014 full valuation of $1.6 billion has remained largely stable. Two ADM facilities account for 10% of the city's current taxable valuation. In 2013, as a result of a property tax appeal, ADM's taxable value was reduced and the company was granted $2.7 million in tax credits against future property tax liabilities for overpayment in prior years. A portion of the tax credits were applied fiscal 2014, and the remaining tax credits outstanding that are applicable to the city are estimated to be $289,871 in fiscal 2015 and $305,037 in fiscal 2016, based on fiscal 2016 tax rates. Favorably, management reports that the fiscal 2015 budget was adjusted to accommodate the loss in tax revenue. The largest taxpayer is Interstate Power and Light, which comprises 12% of the city's taxable value. The top ten taxpayers represent a concentrated 36.5% of Clinton's taxable valuation.

In addition to ADM, which employs approximately 800 local residents, principal employers include Mercy Medical Hospital (1,015 employees), Custom Pak, Inc. (676 employees), and the Clinton Community School District (752 employees). Ashford University, who employs 150 local residents, recently announced the closing of their Clinton Campus in 2016. Favorably, the Thompson Prison, which is located 10 miles from the city and was built by the State of Illinois in 2001, is expected to open in 2016. The prison will create roughly 1,100 jobs and will likely have a positive impact on the city's economy given its close proximity. Recent commercial developments within the city include First Wealth Financial, Deere Harvester Credit Union, and Community Health Care Incorporated. Additionally, the city and the Clinton Regional Development Corporation recently purchased 465 acres of land for the development of the Lincolnway Industrial Rail and Air Park.

City population has steadily declined over the past four decades, a trend that includes a 3.2% drop recorded in the 2010 US Census. The city's unemployment rate of 5.3% in April 2015 continued to surpass state and national figures of 3.6% and 5.1%, respectively. Median family income within the city is below average at 87% of the U.S. according to the American Community Survey 2008-2012 estimates.

FINANCIAL OPERATIONS AND RESERVES: IMPROVING LIQUIDITY AND AMPLE REVENUE RAISING FLEXIBILITY; OPERATING PRESSURE REMAINS

The city's financial position is expected to remain satisfactory though operational pressures remain. At the close of fiscal 2014, the city's General Fund held available reserves of $1.7 million and 8.5% of operating fund (combined General and Debt Service funds) revenues. While still somewhat narrow, it represents a sizeable improvement from fiscal 2011, when the city's General Fund had an available deficit fund balance position of $863,000. Although the improvement in reserves is largely attributable to the selling of the city's municipal dock and subsequent transfer from the Municipal Dock Fund of $2.1 million, the city has made various expenditure reductions and revenue enhancements to stabilize its financial profile moving forward. The city closed fiscal 2014 with a modest General Fund deficit of $52,000 driven primarily by higher than anticipated legal fees from the contracted city attorney and increases in public safety expenditures. Unaudited figures for fiscal 2015 reflect a sizeable $501,000 operating surplus resulting from personnel reductions and other employee related efficiency improvements. The city has budgeted for an $166,000 operating surplus in fiscal 2016.

As of fiscal 2014, the Solid Waste Fund had a deficit unrestricted net position of $940,000, which represents an improvement from the deficit unrestricted position of 984,000 at the close of fiscal 2013. The fund's cash position was recorded as $0, but the fund had $1.6 million due to other funds; the advances are split between the city's General Fund and the Transit Fund. As of fiscal 2014, inclusive of a $51,000 repayment, the Solid Waste Fund owed the General Fund $366,000. The city intends to restore the financial health of the fund through a proposed rate increase plan and gradually repay its interfund loans.

Property taxes comprised over 80% of the city's operating revenues in fiscal 2014 inclusive of transfers from the Employee Benefits Fund, which is funded with a dedicated property tax levy. The city levies the statutory maximum of $8.10 per $1,000 of assessed valuation for the General Fund. In fiscal 2015, the city did not levy its $0.27 emergency levy. While the city did not access the levy in fiscal 2015, it would have generated an estimated $274,000. The city has budgeted for the use of the emergency levy in fiscal 2016. The city could also implement a franchise fee of up to 5% on gas and electric utilities. Currently, there is no plan to do so, but the fee would generate close to $3.8 million in annual revenue if the full 5% were implemented. The city also collects a 1% local option sales tax (LOST) that generates approximately $3 million annually and does not sunset. LOST revenues are dedicated for property tax relief (50%) and street, sewer, and storm sewer projects (50%).

Liquidity

The city's liquidity has improved significantly from 2011; however, imbalanced operations within the city's Solid Waste Fund have required cash advances from the General Fund to cover its negative cash position. At the close of fiscal 2014, General Fund cash totaled $1.6 million and a satisfactory 9.4% of General Fund revenues, that marks a significant improvement from the prior year with the city's General Fund cash totaled $775,000 and a narrow 4.7% of revenues. The increased General Fund liquidity is a result of the elimination of an interfund receivable from the Debt Service Fund and Local Option Sales Tax Fund as well as a $51,000 reduction of the interfund receivable from the Solid Waste Fund.

DEBT AND PENSIONS: ABOVE AVERAGE DEBT BURDEN WITH RAPID AMORTIZATION; ELEVATED UNFUNDED PENSION LIABILITIES

Inclusive of the current offering, the city's direct debt burden is an elevated 2.0% of full valuation. Over the next two fiscal years, the city anticipates borrowing $11.9 million for a combination of sewer projects and its annual capital improvement projects. The city plans to use LOST revenues to support the debt service on the sewer related debt, reducing the burden on property tax payers. Debt service comprised a sizeable 20% of operating expenditures in fiscal 2014, though it was partially supported by local option sales taxes.

Debt Structure

All of the city's debt is fixed rate and amortizes over the long-term. The city's debt service schedule is rapid with 83% of principal repaid within ten years.

Debt-Related Derivatives

The city has no derivative exposure.

Pensions and OPEB

Clinton's fiscal 2014 Moody's adjusted net pension liability (ANPL) is $44.4 million, equivalent to an elevated 2.8% of full valuation and 2.2 times operating revenue. The ANPL is based upon our allocation of the reported unfunded liabilities of two multi-employer cost-sharing pension plans, the Iowa Public Employees Retirement System (IPERS) and the Municipal Fire and Police Retirement System of Iowa (MFPRSI). Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. The actuarial valuation dates for the plans are June 30, 2014. The city's fiscal 2014 contribution to the plan was $1.9 million, or 10% of operating expenditures.

MANAGEMENT AND GOVERNANCE: IMPROVED MANAGEMENT PRACTICES AND AMPLE REVENUE RAISING ABILITY

Iowa cities have an institutional framework score of 'Aaa' or very strong. Cities have strong revenue raising capability, despite a property tax cap on general and emergency levies, due to an unlimited trust and agency levy and tort levy as well as several other limited, special purpose levies or fees. The majority of cities' revenues come from property taxes which are predictable. Expenditures are also largely predictable, and cities have the ability to reduce expenditures as needed.

Clinton's new management team has shown a willingness to reduce operating expenditures to more closely align with revenues and improve interfund borrowing practices.

KEY STATISTICS

2014 Full valuation: $1.6 billion

Estimated full value per capita: $59,092

2008-2012 Median Family Income as a % of the US: 87%

2014 Operating Fund Balance as a % of Revenues: 8.5%

Five-Year Dollar Change in Fund Balance as % of Revenues: 6.7%

2014 Cash Balance as a % of Revenues: 8.0%

Five-Year Dollar Change in Cash Balance as % of Revenues: 5.3%

Institutional Framework: Aaa

Operating History (Five-Year Average of Operating Revenues/Operating Expenditures): 0.98x

Net Direct Debt/Full Value: 2.0%

Net Direct Debt/Operating Revenues: 1.6x

Three-Year Average of Moody's ANPL/Full Value: 3.0%

Three-Year Average of Moody's ANPL/Operating Revenues: 2.4x

OBLIGOR PROFILE

Clinton is a modestly-sized community located in eastern Iowa and is home to approximately 26,000 residents.

LEGAL SECURITY

Debt service on the bonds is secured by the city's GOULT pledge which benefits from a dedicated property tax levy not limited by rate or amount.

USE OF PROCEEDS

Proceeds from the current issuance will be used to make various infrastructure improvements and fund the acquisition of police, fire and sanitation equipment.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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