

New Issue: Moody's assigns Aa3 to Grimes' (IA) \$8.5M GO Bonds, Ser. 2015

Global Credit Research - 15 May 2015

Maintains Aa3 on \$24.6M of GOULT post-sale debt

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

Moody's Rating

ISSUE	RATING
General Obligation Corporate Purpose Bonds Series 2015	Aa3
Sale Amount	\$8,500,000
Expected Sale Date	05/28/15
Rating Description	General Obligation

Moody's Outlook NOO

NEW YORK, May 15, 2015 --Moody's Investors Service has assigned a Aa3 rating to the City of Grimes IA's \$8.5 million General Obligation (GO) Corporate Purpose Bonds, Series 2015. Concurrently, Moody's maintains its Aa3 rating on the city's outstanding general obligation unlimited tax (GOULT) debt. The city will have \$24.6 million in GOULT debt outstanding after the current sale.

SUMMARY RATING RATIONALE

The Aa3 rating reflects the city's rapidly growing tax base favorably located within the Des Moines (Aa2 stable) metropolitan area; above average socioeconomic indices; healthy financial profile; elevated debt profile and modest pension liabilities.

OUTLOOK

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

WHAT COULD MAKE THE RATING GO UP

- Continued expansion of the city's tax base
- Growth in operating fund reserve levels
- Moderation of the city's debt burden

WHAT COULD MAKE THE RATING GO DOWN

- Depreciation of the city's tax base
- Reduction of operating fund reserves below that of similarly rated entities
- Material growth of the city's debt burden

STRENGTHS

- Rapidly growing tax base favorably located within the Des Moines metropolitan area
- Above average socioeconomic indices

- Healthy financial profile characterized by ample operating reserve levels and moderate revenue raising flexibility

CHALLENGE

- Elevated debt profile

RECENT DEVELOPMENTS

Recent developments have been incorporated into the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: RAPIDLY GROWING TAX BASE LOCATED WITHIN DES MOINES METROPOLITAN AREA

We expect the city's tax base will experience continued growth into the medium-term due to its favorable location within the Des Moines metropolitan area. The City of Grimes is located approximately 10 miles northwest of the Iowa (Aaa stable) state capital of Des Moines with easy access to the Interstate 80 and Interstate 35 transportation corridors. The city's moderately-sized \$847 million tax base is primarily residential and has grown at a rapid average annual rate of 5.3% over the past five years. The city's population increased 61.7% to 8,246 between 2000 and 2010, mirroring similarly rapid population increases in recent decades. The city is bordered to the north and west by unincorporated land available for annexation. While development within the city continued throughout the recent recession, building permit activity accelerated significantly in 2014. Residential and commercial building permits totaled 356 and were valued at \$121 million in calendar year 2014. Five years prior in 2009, building permits totaled 150 and were valued at \$41 million. Although building permit activity in 2014 represented historic highs for the city, development is expected to remain strong in 2015. A 400 acre mixed use development is expected to be completed over the next five years, adding 3,000 residents by 2020.

The city's tax base is somewhat concentrated as the top ten taxpayers accounted for 14% of 2013 taxable valuations. The concentration will likely be reduced over the medium-term as tax base expansion continues. The largest taxpayer, Mid American Energy, represents 2.5% of the city's 2013 taxable valuation and operations are reportedly stable. Resident income levels exceed that of the nation, as median family income is estimated at 132% of the nation. While employment opportunities exist within the city, residents benefit from easy access to numerous employment centers located within the metropolitan area. As of March 2015, the county unemployment rate of 4.1% approximates the state's figure and remains well below the national rate of 5.6%, over that same period.

FINANCIAL OPERATIONS AND RESERVES: FINANCIAL PROFILE EXPECTED TO REMAIN STABLE

The city's financial profile is expected to remain healthy, despite a planned reserve draw in fiscal 2015, due to prudent management and strong revenue performance. The city has recorded six General Fund operating surpluses in as many years dating back to fiscal 2009. In fiscal 2014, the city recorded an operating fund (combined General and Debt Service funds) surplus of \$537,000, which increased available operating reserves to \$7.0 million and a very strong 80% of operating fund revenues. Operating fund reserves include \$4.4 million in General Fund reserves and \$2.6 million within the city's Debt Service Fund. Reserves within the city's Debt Service Fund are restricted for the retirement of outstanding debt. Five years prior at the close of fiscal 2009, the city held available operating reserves of \$3.6 million and a still sound 66% of operating fund revenues. The operating surplus in fiscal 2014 was a result of conservative budgeting practices and strong property tax and permit revenue performance. The city has budgeted for a \$2.8 million reserve draw in fiscal 2015 for one-time capital purchases including a fire engine, land, and the renovation of existing city buildings. Favorably, the General Fund will be reimbursed the entire amount over the next three fiscal years from bond proceeds and the Road Use Tax Fund. The city has passed a balanced budget in fiscal 2016, and notes that conservative revenue assumptions will likely lead to surplus operations.

Property taxes are the city's primary revenue source, accounting for approximately 60% of operating fund revenues in fiscal 2014. Public safety comprises the largest portion of operating fund expenditures, accounting for 20% of disbursements. Grimes contracts with Polk County for law enforcement services. Grimes levies the full state-imposed property tax cap of \$8.10 per \$1,000 of assessed valuation and fully utilizes the \$0.27 Emergency Levy. The city also utilizes separate levies for debt service and employee benefits; although management notes that the city has approximately \$372,000 of flexibility under the employee benefits levy. In addition to moderate property tax revenue raising flexibility, city council may elect to increase or broaden the scope of its franchise fee, which currently stands at 1% for cable providers.

Liquidity

Available liquidity has increased steadily within city operating funds in recent years. As of fiscal 2014, city operating funds held available liquidity of \$7.0 million and a healthy 80% of operating revenues. Five years prior, at the close of fiscal 2009, the city held unrestricted liquidity of \$3.6 million and a still ample 66% of operating fund revenues. Aside from the draw in fiscal 2015, management anticipates maintaining similar levels of liquidity over the medium-term.

DEBT AND PENSION LIABILITIES: ELEVATED DEBT PROFILE WILL REMAIN MANAGEABLE

The city's elevated debt profile will likely remain manageable due to rapid amortization of existing debt and limited plans for additional debt over the near-term. At 2.9% of full value and 2.8 times operating fund revenues, the city's debt burden is above average. Debt service costs accounted for an above average 34% of operating fund expenditures in fiscal 2014. Aside from state revolving fund loans, paid from water and sewer enterprise revenues, the city has no near-term debt plans.

Debt Structure

All of the city's debt is fixed rate. Principal amortization is above average as 70% of principal is set to be retired over the next ten years.

Debt-Related Derivatives

The city has no derivative exposure.

Pensions and OPEB

Grimes' three year average Moody's adjusted net pension liability (ANPL), though fiscal 2014 is \$4.3 million, equivalent to 0.5% of full valuation and 0.51 times operating revenue. The ANPL is based upon our allocation of the reported unfunded liabilities of one multi-employer cost-sharing pension plan, the Iowa Public Employees Retirement System (IPERS). 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 cost sharing plan is June 30, 2014. The city's fiscal 2014 contribution to the plans was \$154,000, or 2% of operating revenues.

MANAGEMENT AND GOVERNANCE: VERY STRONG INSTITUTIONAL FRAMEWORK

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.

Management utilizes a five-year capital plan and conservatively budgets for operating fund revenues and expenditures.

KEY STATISTICS

- 2014 Full valuation: \$847 million
- Estimated full value per capita: \$102,000
- 2008-2012 Median Family Income as a % of the US: 132%
- 2014 Operating Fund Balance as a % of Revenues: 80.3%
- Five-Year Dollar Change in Fund Balance as % of Revenues: 38.9%
- 2014 Cash Balance as a % of Revenues: 80.3%
- Five-Year Dollar Change in Cash Balance as % of Revenues: 38.9%
- Institutional Framework: Aaa

- Operating History (Five-Year Average of Operating Revenues/Operating Expenditures): 1.03x
- Net Direct Debt/Full Value: 2.9%
- Net Direct Debt/Operating Revenues: 2.8x
- Three-Year Average of Moody's ANPL/Full Value: 0.5%
- Three-Year Average of Moody's ANPL/Operating Revenues: 0.5x

OBLIGOR PROFILE

Grimes is a moderately sized and rapidly growing community in central Iowa. As of the 2010 Census, the city had a population of 8,246 residents.

LEGAL SECURITY

Debt service on the Series 2015 bonds is secured by the city's GOULT pledge, which benefits from a dedicated property tax levy that is unlimited by rate or amount.

USE OF PROCEEDS

Proceeds from the Series 2015 bonds will be used to finance various capital projects, including city street and park improvements.

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.

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Analysts

Coley Anderson
Lead Analyst
Public Finance Group
Moody's Investors Service

Genevieve Nolan
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA



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