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## City Administrator Report to Mayor & City Council

April 25, 2014, Edition No. 125

### **WEEKLY UPDATE:**

1. Winter Operations: The City reacted to 26 snow events during the Winter: December = 7, January = 9, February = 7, March = 3. Our records for snow accumulation indicate 49".
2. Historical Commission: Please see the attached updates from Paul Carroll and particularly the signage component for area parking lots.
3. Blue Zones: Joni Axel will be attending our May 1st City Council meeting to provide a Blue Zones update. Per Joni: "The Community Policy Sector has met the certification requirements. The "Community Policy Bundle" was approved by the State Team, primarily Jon Werger, this morning. Thanks to Andrew Fangman's dedication in submitting the documentation to our team, the materials Jennifer Fish passed along were reviewed favorably without comments. Thank you to all the City Staff, Mayor and Council, Community Leaders. This is another high complement to our City's commitment to the Blue Zones Project Muscatine objectives." Joni Axel and the Team.
4. Moody's Call: Please see the attached powerpoint and 2012 credit report (I will forward 2013 when received). Nancy and I along with our PFM representative participated in a call with Moody's on April 23rd. The call went very well and we expect to hear back on our rating around Tuesday or Wednesday of next week. I did hear on the news this morning that both Cedar Rapids and Dubuque saw a decrease in their ratings with a new focus on debt and pensions and less emphasis on economic development.
5. Employment Law: I attended the 2014 Iowa Employment Law conference in Altoona on the 23rd and 24th of this week receiving 10 CLEs in a wide variety of municipal related programs.

## **Plan to develop the Alexander G, Clark Heritage District Park and Kiosks**

**Concept:** *A park and informational kiosks will be located to help visitors to understand Clark's significant in American history, and identify the numerous significant landmarks.*

**Desired outcome:** *Visitors with or without a tour guide will get information relating to the life and social impact of the leadership of Alexander G. Clark. Kiosks will identify and interpret the other Heritage District landmarks importance, which all can be seen from this welcoming and inviting informational park.*

The park is a narrow L-shaped strip of grass between the Alexander G. Clark parking plaza and the parking area Rivers Edge Gallery. Appropriate fencing and borders are already in existence. Also several trees are planted in the area.

The short-term development plan is to install a temporary informational kiosk on the time of the Alexander Clark Blues Fest which is scheduled for Saturday, August night.

The long-term plan to develop the area involves more landscaping including possible walkways, benches, and more professionally developed kiosks. Funding for this project is currently undetermined.

*For organization, funding, and implementation this "Alexander G. Clark Heritage District Park Project" will be treated as a separate project from the related downtown parking lot naming project.*

## **Historic Preservation Planning**

Several individuals from historical preservation groups as well as members of several of the friends groups have been discussing how to be more effective in protecting our historic buildings and landmarks. The consensus among several groups is that we all need to be working together to have more fact. Therefore several of us would like to facilitate a meeting of including:

- The Muscatine County Historic Preservation Commission
- The City of Muscatine Historic Preservation commission
- The Friends of Muscatine Historic Preservation
- The Friends of Pine Creek Gristmill
- The friends of the old Stone Church
- The Friends of Melpine School
- The Friends of the Old Barn
- The Muscatine County Genealogical Society
- The Friends of Greenwood Cemetery
- West Liberty Historic Preservation Groups
- Wilton Historic Preservation Groups
- Any other group who may be interested that should be invited to participate.

The goal of getting these groups together several times would be to develop a strategy to identify all landmarks and buildings countywide and have an up-to-date inventory of these. The next step could be to develop a plan to create a fund that could be granted to individuals or groups that are trying to save these properties. Another possibility would be to have a revolving loan fund.

Once these plans were developed we would go to several sources including the Musser Foundation to fund these endeavors.

# Plan to Assign Historical Names to Public Parking in Historic Downtown Muscatine

**Concept:** *Help give downtown Muscatine a more cohesive story feel by identifying parking lots with a name that relates to some story of a specific past utilization of that area. Lot names will be posted on entry points on wayfaring signs and a brief version story will be told on some type of kiosk.*

**Desired outcome:** *Visitors will find navigating our downtown easier by better identification of parking areas, and both our own citizens as well as visitors will get a better sense of Muscatine's unique history.*

## **Parking areas and possible names:**

### **City parking**

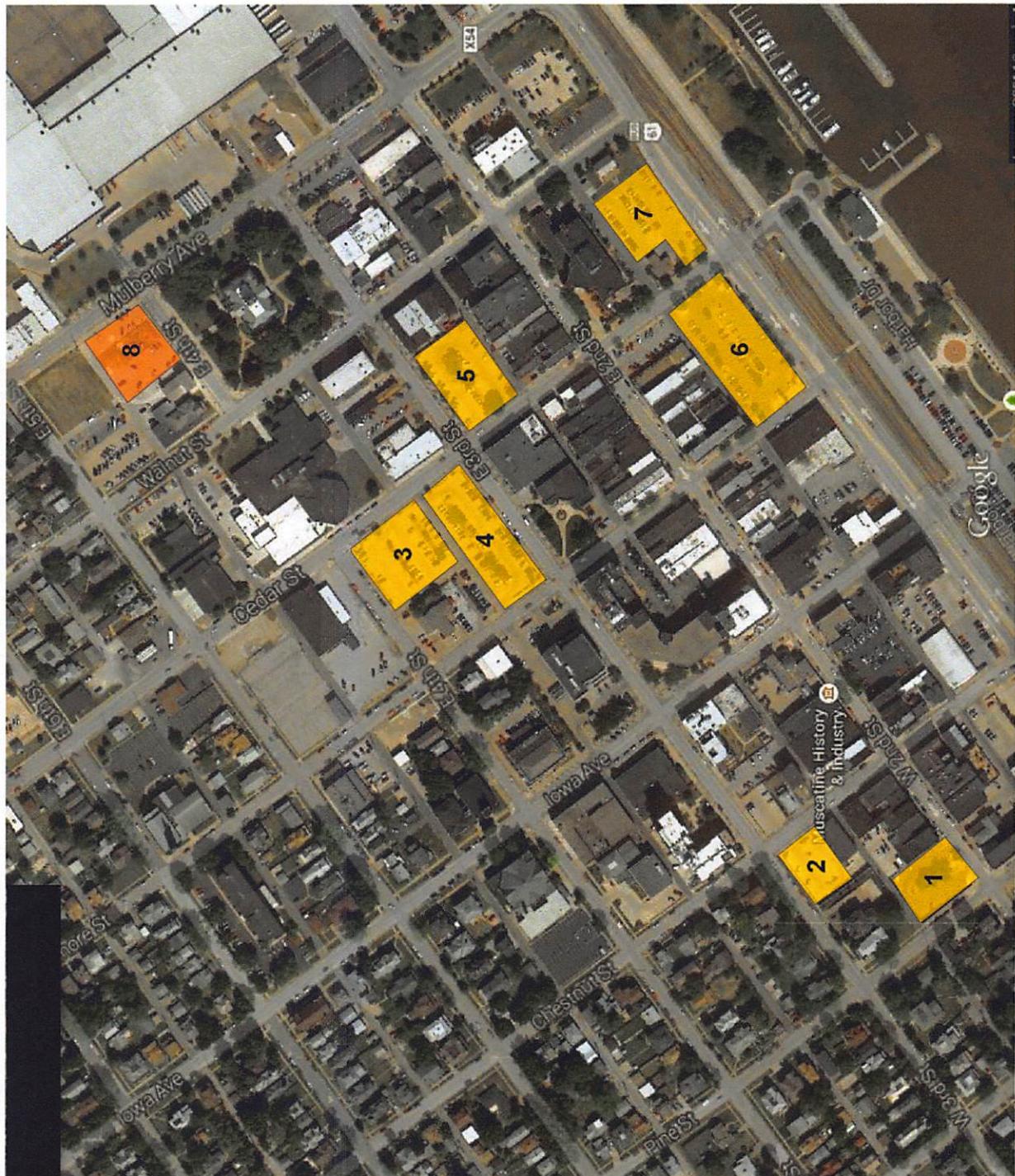
1. Northeast corner of 2nd and Pine	Redman Plaza, Cannery Plaza Iowa Pearl Button Company Plaza
2. Southwest corner of third and Chestnut	Alexander G Clark Plaza Freedom Plaza, Liberty Plaza Abolitionist Plaza
3. South side of 3rd between Chestnut and Iowa	Johnson Plaza
4. North side of 3rd between Sycamore and Cedar	Haymarket Plaza
5. Southeast corner of 3rd and Cedar	
6. North side of Miss Dr between Walnut and Cedar	Clemens Plaza
7. North Side of Miss Drive between Cedar and Walnut	Bowman Plaza

### **County parking**

8. Portion of entire block north of courthouse	Veterans Plaza
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Permanent signage and kiosk styles have not yet been determined. Therefore the implementation budgets and funding is currently undetermined, also

*For organization, funding, and implementation this "parking lot project" will be treated as a separate project from the related project of the Alexander G Clark Heritage District Park and kiosk.*



## Muscatine Business District Parking Lot Map

Lots shown in yellow are city property.  
Lots shown in red are county property.

# City of Muscatine, Iowa Credit Presentation

April 23, 2014

Public Financial Management, Inc.  
801 Grand Avenue, Suite 3300  
Des Moines, IA 50309  
515 243-2600 phone  
515 243-6994 fax  
[www.pfm.com](http://www.pfm.com)



\$2,575,000\*  
General Obligation Corporate  
Purpose Bonds,  
Series 2014

City of Muscatine, Iowa  
215 Sycamore Street  
Muscatine, IA 52761  
[www.muscatineiowa.gov](http://www.muscatineiowa.gov)



# Presentation Participants

## City of Muscatine – (563) 264-1550

- Gregg Mandsager, City Administrator  
[gmandsager@muscatineiowa.gov](mailto:gmandsager@muscatineiowa.gov)
- Nancy A. Lueck, Finance Director  
[nlueck@muscatineiowa.gov](mailto:nlueck@muscatineiowa.gov)

## Public Financial Management – (515) 724-5735

- Jenny Blankenship, Director  
[blankenshipj@pfm.com](mailto:blankenshipj@pfm.com)

## Moody's Investor Services – (312) 706-9971

- Cora Bruemmer, Analyst  
[cora.bruemmer@moodys.com](mailto:cora.bruemmer@moodys.com)



# G.O. Corporate Purpose Bonds, Series 2014

**Par Amount:** \$2,575,000\*

**Term:** June 1, 2015 - 2024

**Purpose:** The Series 2014 Bonds are being issued to pay costs of constructing street improvements, acquiring ambulance equipment, constructing improvements to the municipal airport, and constructing improvements to the municipal library.

**Source of Payment:** The Bonds are general obligations of the City and the unlimited taxing powers of the City are irrevocably pledged for their payment.

\* Preliminary; subject to change.



# Debt

## Anticipated Future Borrowing Needs:

- The City plans to issue G.O. bonds bi-annually for ongoing capital projects. No other G.O. debt is planned for this year.
- The City plans to issue a State Revolving Fund (SRF) sewer revenue loan in FY 2019 to assist in financing future phases of the remaining major sewer separation project mandated by a Consent Order with the EPA.
- The debt service levy for FY 2014 and FY 2015 is \$2.89. Future year debt service levies are not expected to exceed this rate.

## Direct Debt:

	G.O. Debt	Debt as a Percent of 100% Actual Valuation (\$1,238,312,164) <sup>1)</sup>	Direct Debt/ Operating Revenues (\$19,747,803) <sup>2)</sup>
Total General Obligation Debt	\$16,605,000	1.34%	0.84 x
Total TIF Revenue Debt	<u>\$925,000</u>		
Net Direct Debt	\$17,530,000	1.42%	0.89 x

1) Based on City's 1/1/2013 100% Actual Valuation; includes Ag. Land, Ag. Buildings, all Utilities, and Taxable TIF Increment.

2) Includes FY 2013 General Fund and Debt Service fund revenues.

## Total Overall Debt:

- City's total overall debt, including overlapping debt, is estimated to be \$26,169,509.
  - Represents 2.11% of the 1-1-2013 100% Actual Valuation and a \$1,143.47 per capita overall debt burden.



# Economy & Tax Base

<u>Assessment Year</u>	<u>Payable Fiscal Year</u>	<u>100% Actual Valuation</u>	<u>Net Taxable Valuation</u>	<u>TIF Increment Valuation</u>
2009	2010-11	\$1,193,428,431	\$740,436,638	\$21,620,691
2010	2011-12	1,213,313,348	759,702,874	22,447,993
2011	2012-13	1,220,460,654	781,443,576	23,452,229
2012	2013-14	1,227,291,078	798,621,557	25,669,741
2013 <sup>1)</sup>	2014-15	1,238,312,164	798,149,186	31,617,913

1) 1/1/2013 Valuations are now available from the State of Iowa and become effective July 1, 2014.

- 100% Actual Valuation and Net Taxable Valuation have remained stable over the last 5 years.
- 2013 full value per capita is \$54,108.
  - Based on the City's 2010 Census population of 22,886 and the City's 1-1-2013 100% Actual Valuation of \$1,238,312,164.



# Economy & Tax Base: Larger Taxpayers

<u>Taxpayer<sup>1)</sup></u>	<u>Type of Property/Business</u>	<u>1/1/2012 Taxable Valuation<sup>2)</sup></u>
Grain Processing Corp	Manufacturing - Corn Products	\$39,580,090
HNI Corporation	Manufacturing - Office Furniture	31,056,180
H.J. Heinz Company LP	Food Processors	10,888,030
Wal-Mart Real Estate Business	Commercial/Retail	10,202,870
Menard Inc.	Commercial/Retail	9,704,700
Interstate Power & Light Co.	Utility	8,662,191
Bridgestone Bandag Tire	Manufacturing - Re-Treading	8,551,510
Gridco LLC	Manufacturing - Sports/Event Lighting	7,611,700
Sodarock Properties LLC <sup>3)</sup>	Comm./Industrial Rent/Leasing	7,583,780
Cobblestone Apartments	Comm./Industrial Rent/Leasing	6,789,960

1) This list represents some of the larger taxpayers in the City, not necessarily the ten largest taxpayers.

2) The 1/1/2012 Taxable Valuation listed represents only those valuations associated with the title holder and may not necessarily represent the entire taxable valuation.

3) Sodarock Properties LLC, formerly known as River Bend Leasing LLC.

Source: Muscatine County Auditor's Office.



# Economy & Tax Base: Larger Employers

A representative list of larger employers in the City is as follows:

<u>Employer</u>	<u>Type of Business</u>	Approximate Number of Employees <sup>1)</sup>
HNI Corporation/The HON Co.	Manufacturing	3,400
Muscatine Foods	Manufacturing/Production Food Products	900
Muscatine Community School District	Education	844
Trinity of Muscatine	Healthcare	534
Musco Sports Lighting	Sports/Event Lighting	400
Monsanto Company	Herbicides, Pesticides	395
Hy-Vee Food Store	Grocery Store	358
Wal-Mart	Retail	337
H.J. Heinz LP	Food Processing	295
Muscatine Power and Water	Utility	285
The Raymond Corporation	Electric Lift Trucks	265
The Stanley Group	Engineering/Consulting/Construction	265
City of Muscatine	Government	222
Muscatine County	Government	203
Bridgestone/Bandag LLC	Tire Manufacturing/Re-Treading	200
Letica Corporation	Plastic Packaging	130

1) This number includes full-time, part-time, and seasonal employees.

Source: The City of Muscatine and the Muscatine Chamber of Commerce & Industry.



# Economy & Tax Base: Building Permits

City officials report the following construction activity as of February 28, 2014. Permits for the City are reported on a calendar year basis.

	<u>2010</u>	<u>2011</u>	<u>2012</u>	<u>2013</u>	<u>2014</u>
<b><u>Single Family Homes:</u></b>					
No. of New Homes:	8	11	15	10	1
Valuation:	\$1,113,325	\$2,244,560	\$2,144,865	\$2,525,540	\$137,740
<b><u>Home Remodeling, Improvements, &amp; Garages:</u></b>					
No. of Permits Issued:	207	256	325	259	11
Valuation:	\$1,916,322	\$1,983,475	\$2,754,000	\$1,784,904	\$174,470
<b><u>Multiple-Family Dwellings &amp; Duplexes:</u></b>					
No. of New Buildings:	5	2	0	5	0
Valuation:	\$982,320	\$1,638,643	\$0	\$2,280,540	\$0
<b><u>Commercial/Industrial/Other:</u></b>					
No. of New Buildings:	1	4	6	5	0
Valuation:	\$1,675,200	\$9,494,636	\$4,387,265	\$15,021,973	\$0
<b><u>Commercial/Industrial/Other Additions &amp; Alterations:</u></b>					
No. of Permits Issued:	88	127	47	76	4
Valuation:	\$3,780,982	\$9,907,203	\$30,432,120	\$12,490,299	\$797,217
<b>Total Permits</b>	<b>309</b>	<b>400</b>	<b>393</b>	<b>355</b>	<b>16</b>
<b>Total Valuations</b>	<b>\$9,468,149</b>	<b>\$25,268,517</b>	<b>\$39,718,250</b>	<b>\$34,103,256</b>	<b>\$1,109,427</b>



# Economic Development Initiatives

## Recently completed projects:

- **R. L. Fridley Theaters Inc.**
  - Fridley Theaters purchased 17.8 acres and constructed a 10-plex theater which opened in March 2013. The property includes five lots which can be marketed for commercial development. The City approved the rezoning of this property and a TIF agreement was used to assist in this development.
- **Wal-View Developments Limited**
  - In 2013 the City entered into a TIF agreement to assist Wal-View Developments in the construction of their new 567,000 square foot warehouse and distribution facility.
- **Annexation – Northeast Section of City**
  - This annexation, completed in 2013, added 1,200 acres to the City and 933 to the City's population. Sewers were extended to this area and the City also plans to extend water service to assist in development of this area.
- **Trinity-Muscatine Hospital Improvements**
  - This \$18.5 million renovation project included new emergency and operating rooms, radiology equipment, and lab improvements.

## Projects currently underway:

- **Colorado and Cedar Street Reconstruction**
  - The Colorado Street project involves major improvements to this street and will open additional areas for development. The Cedar Street project involves widening the street to a 3-lane street, adding signals at the high school, a trail on the north side of the street, and a roundabout at the Logan Street intersection.
- **Grain Processing Corporation (GPC) Plant Expansion/Improvements**
  - Construction is in progress on GPC's \$110 million project to expand and improve their existing plant and plant processes.
- **H. J. Heinz Company LP Expansion Project**
  - Heinz is investing \$24 million for construction and equipment to expand their facility and production operation in Muscatine. The City is providing TIF funding assistance and 106 new jobs will be created.
- **Other City Projects** – CDBG Downtown Revitalization project, Musser to Wiggins Road Recreational Trail, and planning for Pearl Project Phase III (recreational facilities expansion).



# General Fund Financial Projections

The City's financial policies through FY 2013 provided that the minimum General Fund balance be no less than 10% of General Fund expenditures. In recent years, City Council has been striving to incrementally increase the fund balance over this minimum level. The City's General Fund Balance Policy was formally updated in November 2013 to reflect a new minimum fund balance of 2 months of expenditures which is equivalent to 16.7%. The FY 2014 Re-estimated and FY 2015 Budget were based on the new 16.7% minimum fund balance policy.

	Audit FY 2009	Audit FY 2010	Audit FY 2011	Audit FY 2012	Audit FY 2013	Approved Budget FY 2014	Re-estimated Budget FY 2014	Budget FY 2015
<b>TOTAL REVENUES</b>	\$ 9,756,935	\$ 9,845,197	\$ 10,131,224	\$ 11,082,928	\$ 11,149,104	\$ 11,058,672	\$ 11,133,472	\$ 11,132,221
<b>TOTAL EXPENDITURES</b>	\$ 14,670,109	\$ 14,717,043	\$ 14,929,823	\$ 15,643,826	\$ 16,382,207	\$ 17,159,000	\$ 17,502,514	\$ 17,466,500
<b>OPERATING TRANSFERS IN</b>	5,326,224	5,548,311	5,599,718	6,036,475	5,932,686	6,314,377	6,527,247	6,619,958
<b>OPERATING TRANSFERS (OUT)</b>	(397,982)	(561,409)	(349,767)	(434,822)	(612,239)	(475,207)	(476,507)	(402,481)
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	\$ 15,068	\$ 115,056	\$ 451,352	\$ 1,040,755	\$ 87,344	\$ (261,158)	\$ (318,302)	\$ (116,802)
<b>BEGINNING FUND BALANCE</b>	\$ 1,745,643	\$ 1,760,711	\$ 2,088,696	\$ 2,540,048	\$ 3,580,803	\$ 3,196,942	\$ 3,668,147	\$ 3,349,845
<b>RESERVED FUND BALANCE</b>	119,222	155,132	398,514	261,484	594,735	269,820	324,192	241,242
<b>UNRESERVED FUND BALANCE</b>	1,641,489	1,720,635	2,141,534	3,319,319	3,073,412	2,665,964	3,025,653	2,991,801
<b>ENDING FUND BALANCE</b>	\$ 1,760,711	\$ 1,875,767	\$ 2,540,048	\$ 3,580,803	\$ 3,668,147	\$ 2,935,784	\$ 3,349,845	\$ 3,233,043
<b>UNRESERVED BALANCE % OF REVENUES</b>	16.82%	17.48%	21.14%	29.95%	27.57%	24.11%	27.18%	26.88%
<b>UNRESERVED BALANCE % OF EXPENDITURES</b>	11.19%	11.69%	14.34%	21.22%	18.76%	15.54%	17.29%	17.13%
<b>UNRESERVED BALANCE % OF TOTAL RECEIPTS</b>	10.88%	11.18%	13.61%	19.39%	17.99%	15.35%	17.13%	16.85%

- The FY 2011 beginning fund balance was restated with the implementation of GASB Statement 54. Beginning in FY 2011 the General Fund now includes funds formerly accounted for as Special Revenue funds including the Equipment Replacement, Computer Replacement, Emergency Tax Levy Reserve, and the Insurance Reserve. The City still maintains sub-funds for Equipment Replacement, Computer Replacement, the Emergency Tax Levy Reserve, and the Insurance Reserve. The balances in these sub-funds are included in the Reserved Fund Balances above.
- The percentage decrease in General Fund balance from 21.22% of Expenditures in FY 2012 to 18.76% in FY 2013 was a planned decrease for two significant capital expenditures. City Council budgeted to fund replacement of a fire engine (\$497,000) and new financial software (\$160,000) from the increased General Fund balance in FY 2012. Increased revenues in FY 2012 included those from automated traffic enforcement fines from traffic cameras installed at five major intersections in the spring of FY 2011.
- While the FY 2014 and the FY 2015 budgets show fund balance decreases, the City budgets conservatively and General Fund revenues traditionally have been higher than budgeted and actual expenditures have been less than budgeted. If there are deficits, it is expected that they will be less than the amounts shown above.



# Commitment to Fiscal Discipline

## Actual FY 2009 through Actual FY 2013:

- The City has increased the General Fund balance in each of the last five years.
- The ending balance as a percent of expenditures has increased from 11.19% to 18.76% during these years. (The decrease from FY 2012 to FY 2013 was a planned decrease.)

## FY 2014 Budget and Re-estimated Budget:

- While both the original budget and re-estimated budget show use of fund balance of \$261,158 and \$318,302, respectively, the actual use of fund balance is expected to be less than these amounts. The City has traditionally budgeted conservatively and revenues in most years have been higher than budgeted and expenditures less than budgeted.
- The original FY 2014 budget was developed with a targeted minimum ending balance of 15% of General Fund expenditures (15.54%). This was prior to the City updating its General Fund Balance Policy.
- The re-estimated ending balance for FY 2014 is 17.29% primarily due to the increased beginning fund balance.

## FY 2015 Budget:

- The City's FY 2015 Budget shows use of \$116,802. As noted above, it is expected that actual use of fund balance will be less than this amount due to conservative budgeting.
- This budget was developed with the targeted minimum ending balance of 16.7% of General Fund expenditures (17.29% budgeted) which is in line with the updated General Fund Balance Policy.



# Finances: Financial Flexibility

## Additional Revenue Flexibility:

- The City does not currently utilize the Emergency Levy.
  - \$215,628 available for FY 2014 if tax was levied.
  - \$215,500 available for FY 2015 if tax was levied.
- The City is currently funding less than 100% of the cost of general fund employee benefits eligible to be funded from the Special Revenue Employee Benefits levy.
  - \$527,005 available for FY 2014 if 100% of the tax was levied.
  - \$369,265 available for FY 2015 if 100% of the tax was levied.

## Other Revenue Sources:

- In FY 2010 the City implemented a Utility Franchise Fee on Alliant Energy, the provider of natural gas services in the community. The ordinance implementing this fee provides that the fee may be up to 5% of natural gas sales.
  - The rate is currently 1% which will generate approximately \$100,000 annually.
  - This rate can be increased up to 5% with 90 days notice to the Utility.
  - If the rate would be increased to 5%, an additional \$400,000 would be available annually.

## Additional Sources of Liquidity:

- In case of an emergency, the City could access funds in enterprise and internal service funds. Funds that could be accessed include sewer and sewer reserve funds totaling approximately \$6 million and health insurance funds of approximately \$1.7 million.



# Finances: Other Considerations

- **OPEB:**
  - The City operates a single-employer health care plan for its active and retired employees.
  - The current funding policy of the City is to pay health insurance premiums as they occur.
  - City's Net OPEB Obligation as of June 30, 2013 was estimated at \$402,105.
- **Union Contracts:**
  - The City has union contracts with the Police, Fire, and Blue/White Collar bargaining units which represent a total 122 fulltime and 34 part-time employees. The City recently completed negotiations with all three groups which include the following annual average wage increases:

Employee Group	FY 14 (7/1/13 – 6/30/14)	FY 15 (7/1/14 – 6/30/15)	FY 16 (7/1/15 – 6/30/16)	FY 17 (7/1/16 – 6/30/17)	FY 18 (7/1/17 – 6/30/18)	FY 19 (7/1/18 – 6/30/19)	Expiration Date
Fire (1)	2.90%	2.25%	2.50%	2.75%	2.90%	3.00%	6/30/2019
Police (1)	2.95%	2.25%	2.50%	2.75%	2.90%	3.00%	6/30/2019
Blue/White Collar (1) (2)	2.90%	2.25%	2.50%	2.75%	2.90%	3.00%	6/30/2019

- The contracts with all three groups also include health insurance changes increasing the deductibles and out-of-pocket maximums effective January 1, 2016 and increasing the employee contributions by 1% effective each January 1 in 2017, 2018, and 2019. The health insurance changes will also be implemented for non-union employees.



# Summary of Credit Strengths

- Diverse larger employers headquartered in the City.
- Financial position remains strong due to conservative budgeting by management.
- Affordable debt burden.
- General Fund has additional flexibility to raise revenues.
- City has healthy General Fund reserves which are expected to continue in the future.



## New Issue: MOODY'S ASSIGNS Aa2 RATING TO CITY OF MUSCATINE'S (IA) \$4.7 MILLION GO CORPORATE PURPOSE BONDS, SERIES 2012

Global Credit Research - 01 May 2012

### Aa2 RATING APPLIES TO \$18.7 MILLION OF POST- SALE GOULTE DEBT

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

#### Moody's Rating

ISSUE	RATING
General Obligation Corporate Purpose and Refunding Bonds, Series 2012	Aa2
<b>Sale Amount</b>	\$4,715,000
<b>Expected Sale Date</b>	05/03/12
<b>Rating Description</b>	General Obligation

Moody's Outlook NOO

#### Opinion

NEW YORK, May 01, 2012 --Moody's Investors Service has assigned a Aa2 rating to the City of Muscatine's (IA) \$4.7 million General Obligation Corporate Purpose Bonds, Series 2012. Concurrently, Moody's has affirmed the Aa2 rating on the city's outstanding general obligation debt, affecting \$18.7 million post-sale.

#### SUMMARY RATINGS RATIONALE

Debt service payments are secured by the city's unlimited tax pledge. Proceeds from the sale of bonds will finance various essential purpose capital projects including street, fire station and municipal airport improvements. Proceeds also will refund a single maturity of the City's outstanding Series 2003 bonds for expected interest savings. The Aa2 rating reflects the city's stable, moderately-sized tax base located along the Mississippi River; long-term trend of balanced financial operations; and average debt burden with limited future borrowing plans.

#### STRENGTHS

- Relatively stable economy with sizeable manufacturing and trade presence
- Annual growth in full value has continued despite the broader economic downturn of recent years

#### CHALLENGES

- Socio-economic indices lag state and national medians
- Tax base concentration, with top ten taxpayers comprising 19.0% of assessed valuation

#### MODERATELY-SIZED TAX BASE LOCATED ALONG MISSISSIPPI RIVER IN SOUTHEAST IOWA

We expect the city's tax base to remain stable due to the strength of its commercial and industrial presence and potential voluntary annexations of land adjacent to the city's borders. Located in southeast Iowa (long term issuer rated Aaa with stable outlook) along the Mississippi River, the city's tax base has grown modestly but consistently over the past four years, with 1.2% average annual growth bringing its full valuation to a moderate \$1.2 billion in 2011. While residential development has been limited in recent years, voluntary annexations continue to add homes

to the community. Officials note that two voluntary annexations took place recently and a third, currently in progress, is expected to add 1,200 acres and 900 residents in the near-term.

Commercial and industrial property comprised a significant 48% of the city's 2011 full value, and management notes that the city continues to experience industrial and commercial development. The city's tax base displays some concentration with the top ten taxpayers comprising 19.0% of assessed valuation in 2010. The corporate headquarters of HNI Corporation (also known as Hon Industries), the world's second largest office furniture manufacturer, are in the city. HNI is the city's largest employer with 3,200 employed and second largest tax payer, comprising 3.9% of taxable valuation. While the company laid off a portion of its local workforce in 2009, the Muscatine location has since benefited as closed manufacturing lines elsewhere have brought additional jobs to the headquarters. Grain Processing Corp (GPC) is the city's largest taxpayer, comprising 5.0% of taxable valuation. While GPC has started a \$110 million plant improvement project, indicating its commitment to operating in the community, we note that the company is currently subject to a class action lawsuit and separate litigation initiated by the state Attorney General related to plant emissions. Both lawsuits are in the early stages with no known material impact to operations. As of February 2012, Muscatine County's unemployment rate of 6.3% is on par with the state's 6.0% rate and well below the nation's rate of 8.7% for the same time period. Resident income levels are below average, with median family income (2006-2010 average) at 88.9% of national levels according to American Community Survey estimates.

#### LONG TERM TREND OF BALANCED FINANCIAL OPERATIONS EXPECTED TO CONTINUE

We expect the city's financial position to remain stable given the long trend of balanced operations and management's policy to conservatively budget revenues and expenditures. Despite this trend, the city's reserve and liquidity levels historically have been lower than their Aa2 peer cities, with General Fund reserve levels remaining under 14% of revenues and cash balance trending below 10% of revenues in recent years. In fiscal 2011, the city implemented a new goal of keeping a General Fund balance of at least 15% of expenditures, while retaining its existing target of 10% of expenditures as the minimum acceptable reserve level. Favorably, officials made necessary budgetary adjustments in fiscal 2011 to achieve the new target, including implementation of a 2% franchise fee for natural gas providers and installation of traffic intersection monitoring cameras. As a result, the city realized a \$451,000 operating surplus in fiscal 2011 that brought General Fund reserves to \$2.5 million, or a stronger 16.1% of revenues, and increased cash reserves by \$700,000 to \$2.0 million, or a satisfactory 12.9% of revenues.

The city's fiscal 2012 budget includes numerous staffing adjustments and cost reallocations that, along with continued levying of a 2% franchise fee, are expected to result in surplus operations. An operating surplus of \$273,000 is reflected in the city's re-estimated fiscal 2012 budget, which would bring General Fund reserves to \$2.8 million. The city's fiscal 2013 budget projects modest surplus operations, despite a 1% reduction in the city's franchise fee. Revenues generated due to new automatic traffic enforcement cameras have been in excess of budgeted amounts, and officials expect to use these excess revenues to make one time capital purchases in fiscal 2013.

Management's recent focus on building an additional financial cushion while diversifying revenue sources and containing expenses reflects their strong and prudent financial planning practices. Additionally, the city maintains strong financial flexibility. State statute allows the city to increase its natural gas franchise fee to 5.0%, which would result in several hundreds of thousands of dollars in additional revenue. The city also has available its Emergency Levy of up to \$0.27 per \$1,000 of assessed valuation, which could generate just over \$200,000 annually.

#### AVERAGE DEBT BURDEN WITH LIMITED FUTURE BORROWING

Given limited borrowing plans coupled with rapid amortization of principal at 100% in ten years, we believe the city's debt position will remain manageable over the long term. Inclusive of the current issue, the city's debt burden remains average at 2.3% of full value for overall debt and 1.6% direct. The city's debt service as a percent of operating expenditures was a modest 11.8% in fiscal 2011. The city tends to issue general obligation debt every two years to fund the city's share of street reconstruction projects and other public improvements. Accordingly, additional debt issuances are not expected until fiscal 2014. The city collects approximately \$2.5 million annually from a 1% local option sales tax and can fund future sewer and street capital projects with these proceeds, limiting the need to borrow. All of the city's debt is in fixed rate mode and the city is not party to any derivative or swap agreements.

#### WHAT COULD CHANGE THE RATING - UP

-Continued growth in reserves and cash balance, bolstering financial flexibility and liquidity

-Ongoing diversification of the economy including an improved socioeconomic profile and expanded tax base

#### WHAT COULD CHANGE THE RATING - DOWN

-Deterioration of General Fund reserves and liquidity

-Weakening of the local economy as evidenced by valuation declines, increased unemployment, and/or deterioration of the city's socio-economic profile

#### KEY STATISTICS:

2010 Census population: 22,886 (0.8% increase since 2000)

2011 full valuation: \$1.2 billion (1.2% four year average annual increase)

2006-2010 median family income (as % of US): 88.9%

Muscatine County Unemployment (February 2012): 6.3% (6.0% IA; 8.7% US)

Debt burden: 2.3% (1.6% direct)

Payout of principal (10 years): 100%

Fiscal 2011 General Fund balance: \$2.5 million (16.1% of General Fund revenues)

Fiscal 2011 General Fund cash balance: \$2.0 million (12.9% of revenues)

Post-sale general obligation debt outstanding: \$18.7 million

#### PRINCIPAL METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

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