

CREDIT OPINION

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New Issue

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Grimes (City of), IA

New Issue - Moody's Assigns Aa2 to Grimes, IA's GO Bonds

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 to the City of Grimes, IA's General Obligation Refunding Bonds, Series 2017. Moody's maintains the Aa2 rating on the city's previously issued general obligation unlimited tax (GOULT) debt. Post-sale, the city will have \$26 million of rated debt outstanding.

The Aa2 rating reflects the city's rapidly growing and affluent tax base favorably located within the Des Moines (Aa2 stable) metropolitan area; healthy financial profile; above average debt burden and low unfunded pension liabilities.

Credit Strengths

- » Rapidly growing and affluent tax base favorably located within the Des Moines metropolitan area
- » Healthy financial profile characterized by healthy reserve levels and prudent management
- » Modest unfunded pension burden

Credit Challenges

- » Elevated debt burden and above average fixed costs
- » Tax base size remains small relative to similarly rated entities

Rating Outlook

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

Factors that Could Lead to an Upgrade

- » Significant tax base growth
- » Moderation of the city's debt burden
- » Further bolstering of operating fund reserves

Factors that Could Lead to a Downgrade

- » Depreciation of the city's tax base
- » Reduction in operating fund reserves or available liquidity

» Material growth of the city's debt or pension burden

Key Indicators

Exhibit 1

Grimes (City of) IA	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value (\$000)	\$ 742,200	\$ 788,095	\$ 848,288	\$ 976,818	\$ 1,076,922
Full Value Per Capita	\$ 88,982	\$ 90,826	\$ 93,868	\$ 102,726	\$ 113,253
Median Family Income (% of US Median)	132.4%	137.9%	148.2%	147.2%	147.2%
Finances					
Operating Revenue (\$000)	\$ 7,291	\$ 7,841	\$ 8,736	\$ 9,378	\$ 10,065
Fund Balance as a % of Revenues	63.7%	70.9%	82.1%	61.0%	68.1%
Cash Balance as a % of Revenues	80.9%	84.3%	82.1%	61.0%	89.4%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 15,176	\$ 19,669	\$ 17,925	\$ 24,927	\$ 28,879
Net Direct Debt / Operating Revenues (x)	2.1x	2.5x	2.1x	2.7x	2.9x
Net Direct Debt / Full Value (%)	2.0%	2.5%	2.1%	2.6%	2.7%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.4x	0.5x	0.5x	0.4x	0.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.4%	0.5%	0.5%	0.4%	0.4%

Source: Audited Financial Statements; US Census

Recent Developments

Since our last rating report published about the city was published, audited results for fiscal 2016 have become available and reflect an increase in General Fund reserves of \$1.1 million. Tax base growth of 10.7% in the most recent year, increased the city's full valuation to \$1.1 billion.

Detailed Rating Considerations

Economy and Tax Base: Growing Tax Base Favorably Located in the Des Moines Metro Area

We expect the city's tax base to continue to grow given its favorable location in the Des Moines metropolitan area. The city 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 \$1.1 billion tax base is primarily residential and has grown at a rapid average annual rate of 8.6%. The city's population increased 62% to 8,246 between 2000 and 2010, mirroring similarly rapid population increases in recent decades. A special census conducted in December of 2015 reflected a population of 11,423. The city is bordered to the north and west by unincorporated land available for annexation. Recent tax base growth has been driven by increased development activity and appreciation of existing residential housing stock. The value of building permits issued in 2016 was \$132 million or 168% higher than the city's average over the last ten years. The city has a number of residential building projects currently underway that officials expect will help increase the city's population by another 5,000 residents over the next three years.

The city's tax base has some moderate concentration as the ten largest taxpayers accounted for 12.6% of taxable valuations in 2015. The city's largest taxpayer Mid American Energy accounted for 2.5% of taxable valuation and reportedly maintains stable operations.

Resident income levels exceed that of the nation and have steadily improved in recent years. As of 2015, median family income within the city was estimated at 147.2% of the national figure. Fifteen years prior in 1999, median family income within the city was estimated at 122% of the nation. At 3.3% as of December 2016, the city's unemployment rate is lower than the state and national figures of 3.6% and 4.5% respectively, highlighting resident access to multiple employment centers located within the metropolitan area.

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: Prudent Management and Ample Reserves Underpin Financial Stability

The city's financial profile will likely remain a credit strength over the near-term due to favorable operating trends and healthy operating fund reserve levels. The city has posted five General Fund operating surpluses over the last six years. The lone deficit was in fiscal 2015 driven by a one-time capital draw. The city closed fiscal 2016 with an increase in General Fund reserves of \$1.1 million to \$3.8 million and 57.2% of General Fund revenues. Across city operating funds (combined General, Debt Service and Employee Benefit Funds), available reserves totaled \$6.9 million and 68.1% of operating fund revenue. For fiscal 2017, the city expects to close the year with a General Fund surplus of \$660,000, inclusive of a \$400,000 repayment from the Road Use Tax Fund to compensate for capital project costs in prior years. The city has budgeted for a similarly sized surplus in fiscal 2018.

LIQUIDITY

As of fiscal 2016, city operating funds held net cash of \$9.0 million and a sound 89.4% of revenues. Net of \$2.1 million in cash held for a crossover advance refunding in the summer of 2017, available cash totaled \$6.9 million and 68.3% of operating revenues.

Debt and Pensions: Elevated Debt Burden; Low Unfunded Pension Liabilities

The city's elevated debt profile will likely remain manageable given limited plans for additional debt over the near-term. Net of debt expected to be repaid by the city's self-supporting water enterprise, the city's direct debt burden is equivalent to an above average 2.2% of full valuation and 2.4 times operating revenues. At 5.4%, the city's overall debt burden is also high and largely reflects debt issued by area school districts. The city's near-term debt plans are limited and include approximately \$10 million in potential bonding within the next two fiscal years for infrastructure improvements.

Moody's three-year adjusted net pension liability (ANPL), our measure of a local government's pension burden, is \$4.5 million is 0.4 times operating revenue and 0.4% of full valuation. The city's fixed costs (combined pension, other post-employment benefit and debt service expenditures) totaled \$3.9 million and 38% of operating revenues in fiscal 2016.

DEBT STRUCTURE

All of the city's debt is fixed rate and long-term. Amortization of existing debt is healthy, as 71% of principal is set to be retired over the next 10 years.

DEBT-RELATED DERIVATIVES

The city has no derivative exposure.

PENSIONS AND OPEB

The city participates in the Iowa Public Employees' Retirement System (IPERS), a single defined benefit multi-employer cost sharing plan. The city paid \$176,000 to the plan in 2016, an amount equal to 1.8% of operating revenue. Statewide contribution to the plans in fiscal 2015 were equivalent to 104% of the plan's "tread water" indicator, which measures annual employer contributions required to prevent reported net pension liabilities from growing, assuming other plan assumptions hold. After accounting for employee contributions, annual government contributions that tread water equal the sum of employer service cost and interest on the reported net pension liability at the start of the fiscal year.

The city operates a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. The plan is funded on a pay-as-you-go basis. In fiscal 2015, the city contributed \$307,000 or 3% of operating revenue.

Management and Governance: Very Strong Institutional Framework

Iowa cities have an institutional framework score of "Aaa," or very strong. Property taxes, which are the primary revenue stream, are highly predictable despite recent property tax reform. Even with property tax caps on general and emergency levies, cities have strong revenue-raising flexibility due to various additional levies, including an unlimited levy for employee benefits. Expenditures mostly consist of personnel costs, which are highly predictable. Cities have a moderate ability to reduce expenditures due to the presence of employee unions. A recently passed collective bargaining law in Iowa, is expected to increase collective bargaining flexibility for Iowa local governments. Many cities have elevated debt and pension burdens, but these liabilities are generally funded with unlimited tax levies.

Grimes' management team has a history of positive budget to actual variances for both operating revenues and expenditures. Management maintains sufficient revenue raising flexibility and has a strong history of balancing operating revenues and expenditures. Property taxes are the city's primary revenue source. The city levies at the full state-imposed property tax cap of \$8.10 per \$1,000 of assessed valuation. The city also utilizes separate levies for debt service and employee benefits; however, the city has approximately \$500,000 in revenue raising flexibility under the Employee Benefits and Insurance levies. In addition to the city's 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.

Legal Security

The city's GOULT debt, including the current issuance, is secured by a dedicated property tax levy, unlimited as to rate and amount.

Use of Proceeds

Proceeds from this current issuance will be used to refund the city's General Obligation Corporate Purpose, Taxable Build American Bonds, dated November 1, 2009, for an expected net present value savings.

Obligor Profile

The City of Grimes is located approximately 10 miles northwest of Des Moines, in Polk County. As of December 2015, the city's population was 11,423.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

Grimes (City of) IA

Issue	Rating
General Obligation Refunding Bonds, Series 2017	Aa2
Rating Type	Underlying LT
Sale Amount	\$5,610,000
Expected Sale Date	03/27/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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