

CREDIT OPINION

10 November 2016

New Issue

Rate this Research >>

Contacts

Coley J Anderson 312-706-9961
Analyst
coley.anderson@moody.com

Matthew Butler 312-706-9970
Vice President
matthew.butler@moody.com

Bettendorf (City of), IA

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

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to Bettendorf, IA's \$11 million General Obligation Bonds, Series 2016C; \$1.4 million Taxable General Obligation Bonds, Series 2016D; \$17.4 million General Obligation Refunding Bonds, Series 2016E; and \$10.7 million General Obligation Refunding Bonds, Series 2016F. Moody's maintains a Aa2 rating on the city's previously issued general obligation unlimited tax (GOULT) debt.

The Aa2 rating reflects the city's large and growing tax base with above average resident income; ample reserve levels supported by healthy financial operations and substantial revenue raising flexibility; above average debt burden and manageable pension burden.

Credit Strengths

- » Large and growing tax base with above average resident income indices
- » Ample reserve levels supported by healthy financial operations and substantial revenue raising flexibility

Credit Challenges

- » Elevated debt burden and fixed costs

Rating Outlook

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

Factors that Could Lead to an Upgrade

- » Continued tax base expansion and further improvement of socioeconomic indices
- » Material growth in reserve levels
- » Moderation of the city's debt burden and fixed costs

Factors that Could Lead to a Downgrade

- » Declines in the tax base or deterioration of socioeconomic indices
- » Weakening reserve levels
- » Increased debt burden

Key Indicators

Exhibit 1

Bettendorf (City of) IA	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 3,080,721	\$ 3,138,451	\$ 3,214,598	\$ 3,292,539	\$ 3,499,640
Full Value Per Capita	\$ 93,850	\$ 94,115	\$ 95,154	\$ 96,141	\$ 105,357
Median Family Income (% of US Median)	136.9%	137.8%	140.4%	143.2%	143.2%
Finances					
Operating Revenue (\$000)	\$ 27,209	\$ 27,968	\$ 32,239	\$ 31,542	\$ 31,790
Fund Balance as a % of Revenues	21.5%	22.7%	26.2%	27.4%	22.1%
Cash Balance as a % of Revenues	19.3%	44.8%	24.6%	29.2%	23.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 106,010	\$ 119,045	\$ 107,920	\$ 122,030	\$ 110,650
Net Direct Debt / Operating Revenues (x)	3.9x	4.3x	3.3x	3.9x	3.5x
Net Direct Debt / Full Value (%)	3.4%	3.8%	3.4%	3.7%	3.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.6x	1.6x	1.8x	1.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.5%	1.6%	1.7%	1.6%

Source: Audited Financial Statements

Recent Developments

Since the city's last rating report on November 24, 2015, the fiscal 2015 audit reported a \$836,000 increase in General Fund reserves.

Detailed Rating Considerations

Economy and Tax Base: Large Tax Base in Eastern Iowa Experiencing Steady Growth

The city's tax base will likely remain a credit strength given ongoing economic development, population growth and above average resident income levels. Fully valued at \$3.5 billion in 2015, the city's tax base grew at an annual average rate of 3.3% over the past five years. Estimated growth of 2.8% in 2016 is indicative of the continued appreciation of residential property and ongoing commercial and residential development across the city. In 2015, the city issued \$119 million in building permits, inclusive of a \$60 million project undertaken by the city's second largest taxpayer, the Isle Of Capri casino, to relocate to a new 500,000 square foot land based facility. Permit activity in 2016 is also strong, but remains 33% off last year's pace as of September 30th.

Residents have access to employment throughout the Quad Cities region. The City of Moline (Aa3) is home to the world headquarters of Deere and Company (A2 negative) while Rock Island (Aa3) is home to the Rock Island Arsenal, the largest employer within the region. Deere and Company and the Rock Island Arsenal have cut jobs in recent years due to lower demand for goods. Despite the employment reductions, as of August 2016, the city's unemployment rate of 4.0% remains lower than the state's rate of 4.2% and the nation's rate of 5.0%. Resident wealth levels exceed those of the nation, with median family income equivalent to 143.2% of the national figure. Estimated full value per capita is a strong \$105,357, based on the city's estimated 2015 population of 33,217. Bettendorf's population increased 6.2% between the 2000 and 2010 census periods, which followed growth of 11.2% in the prior decade.

Financial Operations and Reserves: Ample Operating Reserves Supported by Sound Financial Operations

The city's financial profile is expected to remain healthy, given ample operating fund reserves, prudent financial management, and significant revenue raising flexibility. Inclusive of a \$836,000 General Fund surplus in fiscal 2015, available (combined assigned and unassigned amounts) General Fund reserves totaled \$6.7 million and a healthy 27.9% of General Fund revenues. Five years prior in fiscal 2010, available General Fund reserves totaled \$5 million and 25% of General Fund revenues. Across the city's operating funds (combined General, Debt Service, and Employee Benefits funds), available reserves totaled \$7 million and 22.1% of operating revenues.

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.

Unaudited results for fiscal 2016 reflect a modest General Fund surplus of \$43,000. The city anticipates balanced operations in fiscal 2017.

LIQUIDITY

The city's net cash position is sound, as the city held \$7.4 million in available cash or 23.3% of operating revenues at the close of fiscal 2015. The city anticipates maintaining similar levels of liquidity over the medium-term.

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

At 3.6% of full valuation and 3.9 times operating revenues, the city's direct debt burden is elevated. Inclusive of additional debt issued by overlapping units of local government, the city's overall debt burden is equivalent to 3.9% of full valuation. When excluding debt expected to be repaid by enterprise funds, the city's debt burden is 3.2% of full valuation. Due to diminishing capital needs, management expects the city's debt burden to moderate over the next five years. The city's capital improvement plan calls for \$10 million in annual bonding until 2022, when the amount is expected to decline to \$8 million annually. Debt service expenditures totaled \$9.8 million or a high 30% of operating fund revenues. The city's overall fixed costs (combined debt service, pension and other post-employment benefit expenditures) were equivalent to an elevated 37% of operating fund revenues. We believe the city's substantial revenue raising flexibility mitigates the high fixed costs.

DEBT STRUCTURE

All of the city's debt is fixed rate and long-term. Amortization of existing debt is average as 68% of principal is set to be retired over the next ten years.

DEBT-RELATED DERIVATIVES

The city has no derivative exposure.

PENSIONS AND OPEB

Bettendorf's three year average Moody's adjusted net pension liability (ANPL) is \$57.6 million and 1.7 times operating revenues and 1.6% of full valuation. Through fiscal 2014, the ANPL is based upon our allocation of the reported unfunded liabilities of the Iowa Public Employees Retirement System (IPERS) and Municipal Fire and Police Retirement System of Iowa (MFPRSI), two multi-employer cost-sharing pension plans, in proportion to the district's respective contribution to the plans. The plans allocated 2015 shares based on GASB 68 accounting requirements.

The city's pension plan contributions in fiscal 2015 totaled \$2.4 million or 7.7% of operating revenue. The city's contributions to IPERS and MFPRSI were equivalent to 104% and 152% of the plans' "tread water" indicators, which measures the annual employer contribution required to prevent the reported net pension liability from growing, under plan assumptions. 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 sponsors a single-employer health care plan that provides medical and prescription drug benefits to all active and retired employees and their eligible dependents. The plan is funded on a pay-as-you-go basis, with contributions totaling \$54,000 in fiscal 2015. As of July 1, 2014, the most recent actuarial valuation date, the plan reported an unfunded actuarial accrued liability of \$2.3 million and 0.1 times operating revenues.

Management and Governance: Prudent Management; Very Strong Institutional Framework

Management has demonstrated history of close financial oversight and conservative budgeting practices, as evidenced by the city's consistently balanced operations and growing reserves. At 73% in fiscal 2015, property taxes account for a majority of operating fund revenues. The city maintains substantial revenue raising flexibility as it currently levies \$5.07 of a possible \$8.10 within the General Fund. The city's untapped General Fund levy capacity is equivalent to \$6.4 million in additional property tax revenue. Across all funds, the city's total unused levying authority is equivalent to \$9 million in additional property tax revenue. The city's total tax levy of \$12.55 hasn't increased since 2008.

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. Many cities have elevated debt and pension burdens, but these liabilities are generally funded with unlimited tax levies.

Legal Security

The city's GOULT bonds, including the current issuances, are secured by a dedicated property tax levy, unlimited as to rate and amount.

Use of Proceeds

Proceeds from the city's Series 2016C Bonds will be used to finance various public improvement projects including but not limited to bridge, street and sidewalk improvements.

Proceeds from the city's Series 2016D Bonds will be used to finance property acquisition, demolition and various improvements to the city's downtown area.

Proceeds from the city's Series 2016E Bonds will be used to advance crossover refund certain maturities of the city's Series 2009A Bonds for an estimated net present value savings of \$1.2 million.

Proceeds from the city's Series 2016F Bonds will be used to advance crossover refund certain maturities of the city's Series 2011A Bonds for an estimated net present value savings of \$1.1 million.

Obligor Profile

Bettendorf is the northeastern-most city within the Quad Cities region, which includes the cities of Davenport, IA (Aa3), Rock Island, IL (Aa3) and Moline, IL (Aa3). As of 2010 the city's population totaled 33,217 and has steadily grown.

Methodology

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

Ratings

Exhibit 2

Bettendorf (City of) IA

Issue	Rating
Taxable General Obligation Bonds, Series 2016D	Aa2
Rating Type	Underlying LT
Sale Amount	\$1,400,000
Expected Sale Date	11/15/2016
Rating Description	General Obligation
General Obligation Bonds, Series 2016C	Aa2
Rating Type	Underlying LT
Sale Amount	\$11,045,000
Expected Sale Date	11/15/2016
Rating Description	General Obligation
General Obligation Refunding Bonds, Series 2016E	Aa2
Rating Type	Underlying LT
Sale Amount	\$17,400,000
Expected Sale Date	11/15/2016
Rating Description	General Obligation
General Obligation Refunding Bonds, Series 2016F	Aa2
Rating Type	Underlying LT
Sale Amount	\$10,710,000
Expected Sale Date	11/15/2016
Rating Description	General Obligation

Source: Moody's Investors Service

© 2016 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND CREDIT RATINGS AND RESEARCH PUBLICATIONS PUBLISHED BY MOODY'S ("MOODY'S PUBLICATIONS") MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's Publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody's.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1048252

Contacts

Coley J Anderson
Analyst
coley.anderson@moodys.com

312-706-9961

Matthew Butler
Vice President
matthew.butler@moodys.com

312-706-9970

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454