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

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

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.moodys.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**

Ratings

Exhibit 2

Bettendorf (City of) IA

<table>
<thead>
<tr>
<th>Issue</th>
<th>Rating</th>
<th>Rating Type</th>
<th>Sale Amount</th>
<th>Expected Sale Date</th>
<th>Rating Description</th>
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<tr>
<td>Taxable General Obligation Bonds, Series 2016D</td>
<td>Aa2</td>
<td>Underlying LT</td>
<td>$1,400,000</td>
<td>11/15/2016</td>
<td>General Obligation</td>
</tr>
<tr>
<td>General Obligation Bonds, Series 2016C</td>
<td>Aa2</td>
<td>Underlying LT</td>
<td>$11,045,000</td>
<td>11/15/2016</td>
<td>General Obligation</td>
</tr>
<tr>
<td>General Obligation Refunding Bonds, Series 2016E</td>
<td>Aa2</td>
<td>Underlying LT</td>
<td>$17,400,000</td>
<td>11/15/2016</td>
<td>General Obligation</td>
</tr>
<tr>
<td>General Obligation Refunding Bonds, Series 2016F</td>
<td>Aa2</td>
<td>Underlying LT</td>
<td>$10,710,000</td>
<td>11/15/2016</td>
<td>General Obligation</td>
</tr>
</tbody>
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Source: Moody's Investors Service
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Contacts

Coley J Anderson
Analyst
coley.anderson@moodys.com

Matthew Butler
Vice President
matthew.butler@moodys.com

CLIENT SERVICES

Americas
1-212-553-1653

Asia Pacific
852-3551-3077

Japan
81-3-5408-4100

EMEA
44-20-7772-5454