New Issue: MOODY'S ASSIGNS Aa1 RATING TO CITY OF DES MOINES' (IA) $46.7 MILLION GO BONDS, SERIES 2011A

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Aa1 RATING APPLIES TO $358.1 MILLION IN POST-SALE GOULT DEBT

Municipality
IA

Moody's Rating

ISSUE	**RATING**
General Obligation Bonds, Series 2011A	Aa1

Sale Amount	$46,735,000
Expected Sale Date	05/25/11
Rating Description	General Obligation

Opinion

NEW YORK, May 23, 2011 -- Moody's Investors Service has assigned a Aa1 rating to the City of Des Moines' (IA) $46.7 million General Obligation Bonds, Series 2011A. Concurrently, Moody's has affirmed the Aa1 rating on the city's $358.1 million in post-sale general obligation debt.

SUMMARY RATINGS RATIONALE

The bonds are secured by the city's general obligation unlimited tax pledge. Assignment and affirmation of the Aa1 rating reflects the city's role as the state capital and dominant anchor in the state's primary economic and population center; satisfactory financial operations supported by an adequate level of General Fund reserves expected to improve in the near term; and above average debt profile offset by non-levy support for debt service payments. Proceeds of the Series 2011A Bonds will be used to finance the city's fiscal 2012 capital improvements plan, as well as to current refund the 2012 through 2018 maturities of the Series 2005A bonds for an estimated net present value savings of 4.7% of refunded par.

STRENGTHS

- State capital and primary economic hub for central Iowa (Aaa/stable outlook)

- Improving financial operations, bolstered by biennium budget process and ample revenue raising flexibility

CHALLENGES

- General Fund reserve levels below unreserved fund balance target of 10% of expenditures

- Above average debt profile, mitigated by use of non-levy sources for debt service payments

DETAILED CREDIT DISCUSSION

PRIMARY ECONOMIC HUB FOR CENTRAL IOWA BOLSTERED BY STABLE TAX BASE AND RECENT DEVELOPMENT

The city's tax base is expected to continue to exhibit moderate growth due to the stable nature of the economy and ongoing development plans. Des Moines is the state capital and its economy is anchored by the substantial government presence in addition to a diverse business environment that includes financial, insurance, health care, and manufacturing concerns. While the city's population is approximately 200,000, the greater Des Moines metropolitan area has a population of about 560,000. The city's tax base, valued at $11.2 billion in 2010, has grown at an average annual rate of 3.2% over the last five years. The downtown area has continued to experience solid commercial and residential development, including Wellmark Blue Cross Blue Shield's new $194 million downtown headquarters building that opened in 2010 and completion of three new loft and apartment buildings downtown in 2010. Additionally, officials were successful in retaining Aviva Investors (insurance financial strength rated Aa3/stable outlook), which expanded its downtown facilities, keeping 190 jobs in Des Moines, with100 new positions expected over the medium term.

Wells Fargo (senior unsecured debt rated A1/negative outlook; 11,700 employees), the city's largest employer, had announced lay-offs across the country in 2010. Positively, officials report that Des Moines' employment levels have remained relatively stable as Wells Fargo has shifted positions from other locations to its downtown Des Moines offices, in part to satisfy job retention requirements under economic incentives provided to the company by the city in previous years. Other major private employers and taxpayers include Principal Financial (senior unsecured debt rated Baa1/stable outlook; 6,700 employees; 3.4% of tax base), which is headquartered in Des Moines, and Nationwide Insurance (insurance financial strength rated A1/stable outlook; 4,370 employees; 2.8% of tax base). Principal is expected to see some modest decline in its employment levels in the near term, as it is phasing out its health insurance division, though officials expect the impact to be modest as the health insurance division is a relatively small component of Principal's operations. Despite the relatively stable nature of Des Moines' economy, unemployment levels were high at 8% in March 2011, compared to a state rate of 6.7%, though still below the national rate of 9.2% for the same time period. City income indices are slightly below state and national medians, with per capita income at 90.2% and median family income at 93.1% of U.S. levels in the 2000 census.

SATISFACTORY FINANCIAL OPERATIONS SUPPORTED BY BIENNIUM BUDGET PROCESS AND AMPLE FINANCIAL FLEXIBILITY

The city's satisfactory financial operations will likely continue to improve due to expected operating surpluses in fiscal years 2011 and 2012, as well as ample financial flexibility. The city's General Fund reserve levels have historically been relatively narrow, compared to the median fund balance for Aa1 rated cities at 30% of revenues. In fiscal 2009, the city experienced an operating shortfall of $1.5 million attributed to one-time personnel costs and lagging revenues in the second half of the year, including interest income and the franchise tax related to utility sales. This shortfall brought total fund balance down to $13.8 million, or a satisfactory 10.4% of revenues and unreserved fund balance to $9.4 million, or 7.1% of revenues. The difference between the city's total fund balance and unreserved fund balance is primarily due to a long-term $4 million advance to the golf course fund, which management expects will be repaid over several years. The advance is not expected to increase as the city entered a contract with a private operator to manage the municipal golf courses over the next ten to fifteen years, with a guaranteed revenue stream back to the city of approximately $150,000 to $200,000 per year, which will be used to repay the receivable due to the General Fund. For fiscal 2010, revenues continued to underperform expectations. Thus, officials implemented several mid-year expenditure reductions including a temporary hiring freeze and elimination of 55 positions in April 2010. These changes resulted in an essentially balanced budget, with a modest $57,000 operating surplus.

Going into fiscal 2011, the city switched to a biennium budget process, which involved making sufficient budgetary adjustments to reach balanced budgets in both fiscal years 2011 and 2012. Through this process, the city closed a projected $5.5 million budget gap for fiscal 2011 and $11.5 million budget gap for fiscal 2012. Year-end 2011 projections currently show a $1.3 million operating surplus based on year-to-date performance, which will bring General Fund unreserved fund balance to $10.7 million, or 7.9% of fiscal 2010 revenues. For fiscal 2012, the city is currently budgeting for a $1.2 million operating surplus, which will assist in rebuilding the General Fund balance to the city's goal of maintaining 10% of expenditures in undesignated reserves. The city is considering switching to a self-insured health insurance plan effective in fiscal 2012, which is expected to yield significant savings in fiscal 2013. Positively, ample financial flexibility remains upon which the city could draw to support future budget obligations. The city is currently levying at the state-imposed operating cap of $8.10; however, included under the cap is about $12 million in expenditures that could be transferred to the Trust and Agency Fund levy, which is unlimited as to rate or amount. Additionally, the city could impose the $0.27 emergency levy, which could generate an additional $1.8 million per year, and could reallocate $5 million in gaming revenues currently used for capital projects, to the General Fund. While we believe the city's financial position is likely to remain relatively narrow in the near term, available financial flexibility and management's commitment to rebuilding reserves, as evidenced by the new biennium budget process and the practice of budgeting for operating surpluses, provides credit strength to support the current rating level.

ABOVE AVERAGE DEBT BURDEN WITH ANNUAL BORROWING EXPECTED

The city's direct and overall debt levels of 3.3% and 4.3% of full value, respectively, are above average. Favorably, approximately 47% of general obligation debt service requirements are supported by non-levy sources, such as tax increment revenues and hotel/motel taxes. Annual borrowing for capital improvements of approximately $28.7 million per year is expected over the next three years. We expect the city's debt profile will continue to trend somewhat higher than its similarly rated peers, but will remain manageable as direct debt obligations are retired at a favorable 72% in ten years and moderate tax base growth is expected to continue. All of the city's debt is fixed rate and the city is not a party to any interest rate swap agreements.

What could change the rating - UP

- Favorable tax base growth and ongoing economic diversification, as well as a strengthened demographic profile

- Substantial and sustained improvement in General Fund reserve levels

What could change the long-term rating - DOWN

- Material declines in fund balances and liquidity

- Deterioration of the city's tax base, pressuring the city's major operating revenue stream

KEY STATISTICS:

2010 Population: 203,433 (2.4% increase since 2000)

2011 Full market valuation: $11.2 billion (3.2% average annual increase since 2006)

Estimated full value per capita: $54,878

Per capita income as % of U.S. (1999): 90.2% (98.9% of state)

Median family income as % of U.S. (1999): 93.1% (97.1% of state)

City of Des Moines unemployment rate (March 2011): 8.0%

FY2010 Total General Fund balance: $13.8 million (10.3 % of General Fund revenues)

FY2010 Unreserved General Fund balance: $9.4 million (7.0% of General Fund revenues)

Debt burden: 4.3% (3.3% direct)

Principal retirement (10 years): 72.0%

Post-sale long-term general obligation debt outstanding: $358.1 million

PRINCIPAL METHODOLOGY USED

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings, and public information.

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