

CREDIT OPINION

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Indianola (City of) IA

Update to credit analysis

Summary

[Indianola, IA](#) (Aa2), benefits from its location in the [Des Moines](#) (Aa2 stable) metropolitan area, supporting tax base and population growth. The city's financial position is characterized by robust reserve levels and the stability of its property taxes - the city's largest operating revenue. Long-term leverage is above average, because of the city's continued growth. The city maintains some contingent risk associated with the ownership and operation of a fiber utility.

Credit strengths

- » Proximity to Des Moines metropolitan area
- » Healthy financial operations and strong reserves

Credit challenges

- » Resident income levels, while average compared to the nation, are low relative to rating category
- » Above average long-term leverage
- » Enterprise risk associated with city owned fiber network

Rating outlook

Moody's typically does not assign outlooks to local government with this amount of debt.

Factors that could lead to an upgrade

- » Material expansion of the tax base and strengthening of resident income levels

Factors that could lead to a downgrade

- » Significant declines in fund balance or liquidity
- » Material increase in the debt or pension burden

Key indicators

Exhibit 1

Indianola (City of) IA

	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value (\$000)	\$961,369	\$987,297	\$1,055,300	\$1,067,628	\$1,146,404
Population	15,489	15,653	15,802	15,921	15,921
Full Value Per Capita	\$62,068	\$63,074	\$66,783	\$67,058	\$72,006
Median Family Income (% of US Median)	104.1%	108.7%	105.2%	107.6%	107.6%
Finances					
Operating Revenue (\$000)	\$15,699	\$12,873	\$14,374	\$13,797	\$14,983
Fund Balance (\$000)	\$9,427	\$9,466	\$10,796	\$10,488	\$12,156
Cash Balance (\$000)	\$9,427	\$9,626	\$10,926	\$11,269	\$12,932
Fund Balance as a % of Revenues	60.0%	73.5%	75.1%	76.0%	81.1%
Cash Balance as a % of Revenues	60.0%	74.8%	76.0%	81.7%	86.3%
Debt/Pensions					
Net Direct Debt (\$000)	\$15,500	\$13,505	\$11,680	\$9,636	\$12,756
3-Year Average of Moody's ANPL (\$000)	\$21,217	\$22,912	\$24,032	\$25,515	\$30,962
Net Direct Debt / Full Value (%)	1.6%	1.4%	1.1%	0.9%	1.1%
Net Direct Debt / Operating Revenues (x)	1.0x	1.0x	0.8x	0.7x	0.9x
Moody's - ANPL (3-yr average) to Full Value (%)	2.2%	2.3%	2.3%	2.4%	2.7%
Moody's - ANPL (3-yr average) to Revenues (x)	1.4x	1.8x	1.7x	1.8x	2.1x

Sources: US Census Bureau, Indianola (City of) IA's financial statements and Moody's Investors Service

Profile

Indianola is located about 20 miles from downtown Des Moines and serves as the city seat for Warren County. The city provides public safety (police and fire), public works, recreation, sewer (collection and treatment) and general government services. Indianola municipal utilities, a component unit of the city, provides electric (distribution only), water (treatment and distribution), and communications (fiber, TV and phone) services to city residents. The population totals approximately 16,000 residents.

Detailed credit considerations

Tax base and local economy: growing tax base with economic ties to Des Moines

Indianola will continue to benefit from its location just south of the state capital and economic center of Iowa. Tax base growth, which has been driven by ongoing development and appreciation of existing property has averaged a healthy annual rate of over 5% over the last five years. The tax base is largely residential at just over 85% of total valuation. Still, the city is benefiting from new commercial investment in the area and expansion of existing businesses.

Resident income levels are average, though lower than similarly rated cities. Employment opportunities are prevalent throughout the greater Des Moines area. The city's population grew by a steady 13% from 2000 to 2010 and about 7% from 2010 to 2020. The city expects its current population of about 16,000 could approximate just shy of 20,000 by the next census (2030).

Financial operations and reserves: strong financial position

The city's financial profile is strong and stable, supported by substantial fund balance and the low volatility of its property taxes, its largest revenue source. Over the last five years, the city's general fund reserves have grown from \$5 million and 54% of revenue to \$10.1 million and 82% of operating revenue at the close of fiscal 2021. Across all operating funds, available reserves totaled \$12.2 million and a similarly healthy 81% of operating revenue. The growth in fund balance has been a result of strong revenue performance and tight expenditure control. The city has planned for modest draws on reserves in fiscal 2022 and 2023 to address certain capital needs.

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Property taxes are 35% of fiscal 2021 operating revenue, followed by intergovernmental revenues at 30%. Net transfers are the city's third largest operating revenue at 21%. These transfers are primarily from funds that are also property tax funded, including the employee benefits levy, the tax increment fund, which the city uses to support a portion of its debt service expense, and transfers from the city's utilities.

The general fund annually receives a transfer of approximately \$1 million from the sewer fund and the Indianola Municipal Utilities, a component unit of the city that provides water, electric and communications services. The transfers are a payment in lieu of taxes to cover the costs of administrative services provided to the utilities. Additional revenue is derived from a 1% local option sales tax (LOST) that was approved by city voters in 2016.

The Indianola Municipal Utilities (IMU) board is appointed by the mayor. Across all components of the utility, including water, electric and fiber operating revenue approximates \$20 million compared to governmental revenue of about \$28 million. By far the largest component of the utility is the electric fund, which accounts for approximately 80% of IMU revenue.

Cash across all components of IMU totaled \$16 million and 335 days of operations. The utility purchases electricity from the Municipal Energy Agency of Nebraska (MEAN) (A2 stable) under a long-term contract. IMU issued \$9.3 million in debt in 2017 to finance a fiber-optic communications network with debt service secured from the net revenues of the system. While IMU's debt does not carry a general obligation pledge, it is a contingent risk for the general government.

Liquidity

Net cash is strong and stable. At the close of fiscal 2021, net cash across city operating funds totaled \$10.2 million and 83% of revenue.

Debt and pensions: elevated leverage related to debt and pensions

The city's net direct debt is above average, because of ongoing tax base and population growth. After a recent sale in September 2022, net direct debt totals and totals \$35 million, equal to 2.3x revenue.

The city's pension burden is above average compared to the national medians for the rating category. The three-year adjusted net pension liability (ANPL) is equal to 2.1x operating revenue. Fixed costs, which include debt service, other post employment benefit (OPEB) and pension contributions have historically been above average at 20% of operating revenue. The fixed cost burden is somewhat mitigated by the city's unlimited debt service and employee benefits levies. If these costs rise or property valuations decline, the city has the legal flexibility to adjust its levy as necessary.

Legal security

The city's GOULT debt secured by a dedicated property tax levy, unlimited as to rate or amount.

Debt structure

The city's GOULT debt is fixed rate and long term. The city maintains two bank loans totaling about \$8 million for its fiber optic system that carries an interest rate of 4% and 5% and will change in 2024 to reflect the 250 basis points over the 7-Year US Treasury and 350 basis points over the 7-Year US Treasury, respectively. The city is in the process of refunding these bonds for savings. Net revenue coverage on the fiber notes is expected to be 1.7x in fiscal 2022 up from 1.4x in 2021.

Debt-related derivatives

The city has no derivative exposure.

Pensions and OPEB

The city is a member of the Iowa Public Employees' Retirement System (IPERS) and also has a single-employer health benefit plan which provides medical and prescription drug benefits for employees, retirees and their spouses. The three year average adjusted net pension liability (ANPL), our measure of a city's pension burden is slightly elevated at \$21.3 million, 2.9% of full value and 2.1x operating revenue.

ESG considerations

Environmental

Indianola, IA's Environmental Issuer Profile Score is (E-2), reflecting neutral to low exposure to environmental risks across all categories, including physical climate risk, carbon transition, natural capital, waste and pollution. The city has some exposure to heat stress, which

has the potential to challenge agricultural productivity in the future. However, these risks are not expected to have a meaningful impact on the city's credit profile in the foreseeable future.

Social

Indianola, IA's Social Issuer Profile Score is (S-2) reflecting neutral to low exposure to social attributes overall, including healthy demographic trends such as inward migration and net growth supported by its location near Des Moines and labor trends, health and safety metrics, educational attainment and access to basic services similar to peers.

Governance

Indianola, IA's Governance Issuer Profile Score is (G-2) reflecting neutral to low exposure to governance considerations overall. The city benefits from a strong institutional structure and substantial revenue raising flexibility under various property tax levies which can be increased with board approval. The primary revenue source of most Iowa cities is property taxes which are mostly stable. The city's budgetary management is also sound as demonstrated by its 5 year operating forecasts and capital improvement plan. The city's transparency and disclosure practices represent a moderate risk given the city's utilization of a cash basis audit, which do not provide insight into receivables, payables and accrued items.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Rating Factors	Measure	Score
Economy/Tax Base (30%)[1]		
Tax Base Size: Full Value (in 000s)	\$1,146,404	A
Full Value Per Capita	\$72,006	Aa
Median Family Income (% of US Median)	107.6%	Aa
Finances (30%)		
Fund Balance as a % of Revenues	81.1%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	31.6%	Aaa
Cash Balance as a % of Revenues	86.3%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	36.8%	Aaa
Management (20%)		
Institutional Framework	Aaa	Aaa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Baa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	3.1%	A
Net Direct Debt / Operating Revenues (x)	2.3x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	2.7%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	2.1x	A
	Scorecard-Indicated Outcome	Aa2
	Assigned Rating	Aa2

Note: City operating history score is impacted negatively by previous debt refundings

[1] Economy measures are based on data from the most recent year available. [2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology. [3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Sources: US Census Bureau, {OrgName}'s financial statements and Moody's Investors Service

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