

ISSUER COMMENT

11 June 2019

RATING

General Obligation (or GO Related) ¹

Aa2 No Outlook

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City of Indianola, IA

Annual Comment on Indianola

Issuer Profile

The city of Indianola is the county seat of Warren County, located in south central Iowa, approximately 20 miles south of downtown Des Moines. The county has a population of 48,630 and a low population density of 85 people per square mile. The county's median family income is \$84,355 (1st quartile) and the April 2019 unemployment rate was 2% (1st quartile) ². The largest industry sectors that drive the local economy are local government, retail trade, and health services.

Credit Overview

Indianola's credit position is strong. Its Aa2 rating is slightly above the median rating of Aa3 for cities nationwide. Key credit factors include a robust financial position, a moderate debt burden and a somewhat inflated pension liability. It also reflects an above average wealth and income profile and a modestly sized tax base.

Finances: Indianola has a robust financial position, which is slightly strong when compared to the assigned rating of Aa2. The fund balance as a percent of operating revenues (67.3%) is above the US median. Moreover, the city's cash balance as a percent of operating revenues (68.7%) is superior to the US median.

Debt and Pensions: The debt and pension liabilities of Indianola are mid-ranged overall, and are slightly weak in relation to its Aa2 rating. The net direct debt to full value (1.4%) is slightly higher than the US median. In addition, the Moody's-adjusted net pension liability to operating revenues (2.0x) is slightly above the US median.

Economy and Tax Base: Indianola has a satisfactory economy and tax base, which are relatively weak when compared to city's Aa2 rating. The median family income equals 104.1% of the US level. Moreover, the full value per capita (\$63,742) is slightly below the US median. However, it rose between 2014 and 2018. Lastly, the total full value (\$987 million) is weaker than other cities we rate nationwide.

Management and Governance: Iowa cities have an Institutional Framework score ³ of Aaa, which is high compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. 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. Unpredictable revenue fluctuations tend to be minor. Across the sector, fixed and mandated costs are generally moderate. However, Iowa has public sector unions, which can limit the ability to cut expenditures. Expenditures mostly consist of personnel costs, which are highly predictable.

Sector Trends - Iowa Cities

Iowa cities will benefit from strong demographic trends and an expanding economy as Iowa led all Midwest states in employment growth in 2017. The expanding economy will result in increased tax revenues, supported by a favorable business climate and talented labor pool. Rural areas with a high degree of concentration in agriculture may lag behind the state as performance in agriculture sectors remains weak. Ample crop supply globally has pushed farm commodity prices down, as a result, many farmers are projected to face tight margins again this year. Growing operating revenues from an expanding economy coupled with significant revenue raising flexibility for most cities, will support expected pension contribution increases to service the unfunded liabilities of the state-managed plans.

EXHIBIT 1

Key Indicators ⁴ ⁵ Indianola

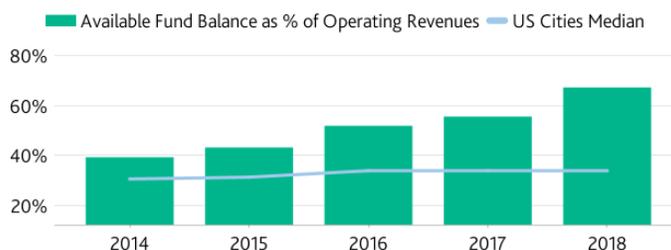
	2014	2015	2016	2017	2018	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$880M	\$865M	\$882M	\$961M	\$987M	\$1,867M	Improved
Full Value Per Capita	\$58,652	\$57,054	\$57,490	\$62,068	\$63,742	\$89,200	Improved
Median Family Income (% of US Median)	107%	101%	103%	104%	104%	113%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	39.3%	43.2%	51.9%	55.6%	67.3%	33.9%	Improved
Net Cash Balance as % of Operating Revenues	39.4%	43.2%	51.9%	55.6%	68.7%	36.9%	Improved
Debt / Pensions							
Net Direct Debt / Full Value	2.7%	2.3%	2.0%	1.6%	1.4%	1.1%	Improved
Net Direct Debt / Operating Revenues	2.19x	1.76x	1.50x	1.10x	1.15x	0.88x	Improved
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	2.0%	2.1%	2.2%	2.2%	2.3%	1.8%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.61x	1.58x	1.62x	1.51x	1.95x	1.51x	Stable
	2014	2015	2016	2017	2018	US Median	
Debt and Financial Data							
Population	15,014	15,165	15,343	15,489	15,489	N/A	
Available Fund Balance (\$000s)	\$4,352	\$4,981	\$6,191	\$7,831	\$7,909	\$7,419	
Net Cash Balance (\$000s)	\$4,363	\$4,981	\$6,191	\$7,831	\$8,069	\$8,404	
Operating Revenues (\$000s)	\$11,069	\$11,520	\$11,918	\$14,074	\$11,746	\$21,930	
Net Direct Debt (\$000s)	\$24,190	\$20,300	\$17,825	\$13,505	\$13,505	\$18,580	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$17,858	\$18,191	\$19,299	\$21,217	\$22,912	\$32,507	

Source: Moody's Investors Service

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.

EXHIBIT 2

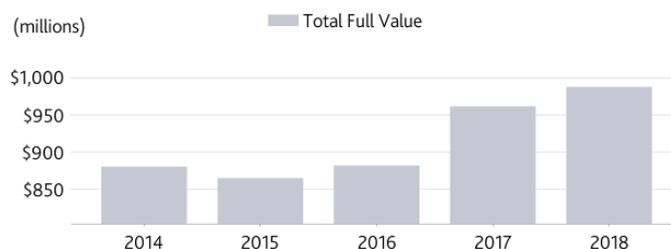
Available fund balance as a percent of operating revenues increased from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

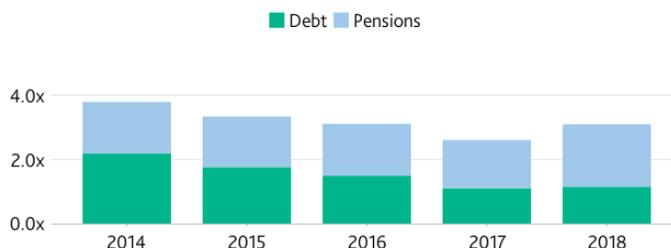
Full value of the property tax base increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
 - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
 - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
 - The medians come from our most recently published local government medians report, [Medians - Property values key to stability, but pension burdens remain a challenge \(March 2018\)](#) which is available on Moodys.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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