

June 1, 2009

Summary:

Des Moines, Iowa; General Obligation

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Credit Profile		
US\$25.775 mil GO bnds ser 2009EFG due 06/01/2029		
<i>Long Term Rating</i>	AAA/Stable	New
Des Moines		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Des Moines GO		
<i>Unenhanced Rating</i>	AAA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Rationale

In Standard & Poor's Ratings Services' opinion, the 'AAA' long-term rating assigned to Des Moines, Iowa's series 2009E, 2009F, and 2009G general obligation (GO) bonds and the 'AAA' long-term rating and underlying rating (SPUR) on the city's previously issued debt reflect the city's:

- Status as the center of a growing economy and diverse employment base;
- Revenue raising flexibility;
- Proactive management and sound policies; and
- Moderate debt burden that should remain stable due to an articulated debt policy.

The city's unlimited-tax, full faith and credit GO pledge secures the bonds. The city is contemplating issuing the 2009E bonds under the Build America Bond direct subsidy program. The city has informed us that it plans to abate the debt service levy securing the bonds before the annual subsidy payment is received from the federal government, which, if the subsidy is delayed or discontinued, would require the city to rely on its own liquidity to cover a shortfall until the next time it sets its levies. The expected subsidy is roughly \$262,000 for fiscal 2010, and the city has ample liquidity to cover a delay in subsidy receipts.

With a population of nearly 200,000, Des Moines is the state's largest city. The metropolitan area serves as a major center for the insurance industry, home to the headquarters of 50 insurance companies and regional offices of more than 100 firms. The city is also considered a regional finance, health care, and service center. As the state capital and Polk County's seat, the city also has a large number of government sector jobs, which also stabilizes the employment base. Although management detects a slowdown in the economy, there is still some forward movement as evidenced by permit activity: The city reports \$113 million total valuation in permits issued for the first six months of fiscal 2009 and several development projects in planning stages.

The Des Moines metropolitan area's 2008 unemployment rate averaged 3.9%, slightly below the state average of 4.1%; unemployment is consistently below the national average due to the diverse employment base. Taxable valuation has grown steadily. The assessment for 2008, at \$6.0 billion, is 2.8% higher than the 2007 valuation. Overall, the tax base has grown an average of 3% annually for the past four years. The leading 10 taxpayers account for a diverse 15.6% of taxable valuation. Estimated market value is \$10.7 billion, or an adequate \$53,898

per capita. In our opinion, median household effective buying income for Des Moines residents was adequate at 86% of the national average in 2008.

Management tells us it carefully manages its budget to maintain a stable financial position and avoid property tax increases. Des Moines reported a slight \$66,114 general fund shortfall on a \$132 million expenditure budget for fiscal year-end June 30, 2008, and an unreserved general fund balance of \$10.9 million (a strong 8.3% of expenditures). The fiscal 2009 \$135.8 million adopted budget calls for an essentially break-even result after transfers, with no increase in the overall tax rate, and aided by sustainable expenditure controls such as reductions in staff and privatizing certain functions, such as custodial services and lawn mowing.

By holding the tax rate flat again, the city faced a roughly \$6 million budget gap for fiscal 2010. The \$137.2 million recommended 2010 budget relies upon expenditure reductions to close the gap, such as staff reductions and reductions in discretionary expenditures. The city expects to again, for the 12th consecutive year, maintain taxing flexibility by avoiding reliance on the emergency levy, as well as continue to levy below the maximum rates in various other areas. The margin equates to approximately \$18 million of additional revenues. Standard & Poor's considers the city's financial management practices "good" under its Financial Management Assessment (FMA). An FMA of good indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

The city will use the series 2009E, 2009F, and 2009G bond proceeds to pay for various capital improvement projects, urban renewal projects, and improvements at its golf course, zoo, and other community facilities. In our opinion, the city's overall debt burden is moderate at \$2,343 per capita and 4.3% of market value. The city's capital improvement plan (CIP) calls for \$237 million in tax-supported projects and \$147 million in enterprise fund projects (airport, parking, storm water, and sanitary sewer) debt issuance over the next six years. Management tells us the next planned issue will occur later in calendar year 2009 and will consist of sanitary sewer and storm water revenue bonds totaling roughly \$34 million.

Outlook

The stable outlook reflects Standard & Poor's expectation of a continuation of solid financial management and operations. Stability is enhanced by the city's overall economic base, which we observe continues to see steady growth, and is aided by a diverse array of major employers.

Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006

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