MOODY'S ASSIGNS A3 RATING TO CITY OF GRINNELL'S (IA) $2.3 MILLION GO URBAN RENEWAL REFUNDING BONDS, SERIES 2010

A3 RATING APPLIES TO $18.2 MILLION OF POST-SALE GOULT DEBT

Moody's Investors Service has assigned an A3 rating to the City of Grinnell's (IA) $2.3 million General Obligation Urban Renewal Refunding Bonds, Series 2010. Proceeds from the bonds, which are secured by the city's general obligation unlimited tax pledge, will currently refund the city's General Obligation Urban Renewal Bonds, dated January 1, 2005, for an estimated net present value savings of 3%. Concurrently, Moody's has affirmed the A3 rating on the city's outstanding general obligation unlimited tax debt, affecting $15.9 million. Assignment and affirmation of the A3 rating reflects the city's modestly sized tax base experiencing steady growth and supported by the operations of Grinnell College (revenue bond rating Aaa), solid cash balance reserves, and an above average but manageable debt profile.

STEADY TAX BASE GROWTH CONTINUES WITH POSITIVE ECONOMIC IMPACT FROM COLLEGE

Located in Poweshiek County (general obligation rating A2) near Interstate 80 midway between Des Moines (general obligation rating Aa2) and Iowa City (general obligation rating Aaa), Grinnell's tax base has grown at a manageable average increase of 4.7 percent annually over the past five years to $478 million in fiscal 2009. Although excluded from the city's tax base, Grinnell College provides favorable economic impact as a nationally prominent liberal arts institution with an enrollment of 1,500 students. The college is the city's largest employer (employing 659) and serves as an anchor of stability for the region. Moody's expects modest future tax base growth to result from the full build-out of Prairie Point Estates, a 40 acre residential development comprised of single-family homes and an assisted living facility, as well as from annexation opportunities. Development within the city's boundaries is nearly complete; however, annexations could occur south of Interstate 80, the major thoroughfare that traverses the state. The city plans to annex the Grinnell Mutual Reinsurance Agency property in the fall of 2010, which will add an estimated $6.8 million of taxable value to the city's tax base. Although college towns generally experience lower socioeconomic indicators, Grinnell's per capita income and median family income approximate state levels at 91.2% and 102%, respectively. In addition, at 6.5%, the November 2009 unemployment rate for the county is comparable to the state's (6.4%) and remains favorably below the national rate of 9.4% for the same time period.

SOUND FINANCIAL OPERATIONS SUPPORTED BY SOLID CASH RESERVES

Historically the city has operated with healthy reserves, ending each fiscal year with a cash balance in excess of 20% of General Fund receipts, and Moody's expects the city to continue to do so as modest tax base growth is expected to continue. In fiscal 2008, the city's General Fund had a $453,000 operating surplus due primarily to reimbursement of 2007 snow and ice removal expenditures from the Federal Emergency Management Agency. The city ended fiscal 2008 with a $1.5 million cash-basis General Fund balance, or a strong 39.6% of receipts. In 2009, the city saw a $316,000 operating deficit due to higher operating expenditures from new hires and from salary increases resulting in a $1.2 million cash-basis General Fund balance (unaudited). Although the $1.2 million in cash-basis reserves is a solid 38% of General Fund receipts, Moody's notes that on a nominal basis, the amount of reserves is limited, and preservation of the existing reserves will be a key factor in maintenance of the city's overall credit quality. The city has implemented a hiring freeze and made changes to employees' health insurance benefits in order to keep operating expenditures within budget in 2010. The city is halfway into fiscal 2010 and continues to project a balanced budget for the year. While the city does not have a General Fund balance policy, an internal operating benchmark consists of maintaining 4 to 6 months of operating expenditures in reserves, which the city currently meets. Snow and ice removal is currently slightly over its budget for the year, but city officials do not expect tapping General Fund revenues to subsidize this expense as the Road Use Fund currently has sufficient funds to cover further expected costs.

Property taxes comprise the majority of the city's operating revenues at 62.3% of unaudited fiscal 2009 receipts. The stability of this revenue source somewhat offsets the lack of flexibility city officials have to increase the General Fund levy above the 8.10 mill levy limit currently in place. In addition to the general operating levy, the city levies the maximum 0.27 mill emergency levy to support General Fund operations, the Tort levy for insurance costs, and the Trust & Agency levy for employee benefits. Favorably, the city has implemented scheduled rate increases of 5% for the next five years in its sewer enterprise to support needed improvements to the city's wastewater treatment facility. Additionally, the city is implementing a 5% rate increase in its water enterprise effective July 2010 which will restore structural balance to the water fund.

ABOVE AVERAGE BUT MANAGEABLE DEBT BURDEN; MITIGATED BY ALTERNATE REVENUE SOURCES ALLOCATED TO DEBT SERVICE

Moody's expects the city's above average debt levels to remain affordable given the city has no additional near-term borrowing needs and has alternate revenue sources to contribute to debt service. At 3.8% and 5.5% of full value, respectively, the city's direct and overall debt burdens are above average. Of the city's $18.2 million in outstanding general obligation debt, $10.2 million represents local option sales tax (LOST) bonds. While the LOST bonds are ultimately secured by the city's unlimited tax pledge, revenues collected from the local option sales tax are sufficient to provide for 100% coverage on the debt service with surplus revenue remaining. When factoring in the debt service offset by this alternate revenue, the debt ratios decline to a more moderate 1.6% of full value for direct debt and 3.4% for overall debt. Favorably, the city also plans to use tax increment financing revenues and private donations pledged for the construction of the new library and swimming facility to offset remaining debt service. Amortization is average with 67.8% of principal retired in ten years. All of the city's outstanding debt is in fixed rate mode, and the city is not a party to any interest rate swap agreements.

KEY STATISTICS:

2000 Population: 9,105 (2.3% increase since 1990)

2008 Estimated Population: 9,167 (0.7% increase since 2000)

2009 Full market valuation: $478 million

Estimated full value per capita: $52,169

Per capita income as % of U.S. (1999): 83%

Median family income as % of U.S. (1999): 98%

Poweshiek County unemployment rate (November 2009): 6.5%

FY2008 General Fund balance (cash-basis): $1.47 million (39.6% of General Fund receipts)

FY2009 Unaudited General Fund balance (cash-basis): $1.2 million (38% of General Fund receipts)

Debt burden: 5.5% (3.8% direct)

Post-sale general obligation debt outstanding: $18.2 million

The principal methodology used in rating the City of Grinnell (IA) was Moody's General Obligation Bonds Issued by U.S. Local Governments, published in October 2009 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action and report published with respect to the city of Grinnell (IA) was on September 10, 2009 when the city's long term general obligation rating was affirmed at an A3.

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