MOODY'S
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January 20, 2015

Mr. Lon Pluckhahn
City of Marion
1225 6th Avenue, Suite 110
Marion, IA 52302

Dear Mr. Pluckhahn **:**

We wish to inform you that on January 13, 2015, Moody's Investors Service reviewed and assigned a rating of

- **Aa1** to MARION (CITY OF) IA, General Obligation Urban Renewal Bonds, Series 2015C

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If there is a conflict between the terms of this rating letter and any related Moody's rating application, the terms of the executed rating application will govern and supercede this rating letter.

Should you have any questions regarding the above, please do not hesitate to contact me or the analyst assigned to this transaction, Cora Bruemmer at 312-706-9971.

Sincerely,

Rachel Cortez

Rachel Cortez

CC:

Ms. Tionna Pooler
Independent Public Advisors, LLC

MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa1 to City of Marion IA's GO Bonds, Ser. 2015C

Global Credit Research - 13 Jan 2015

Maintains Aa1 on $58.7M of GO debt post-sale

MARION (CITY OF) IA
Cities (including Towns, Villages and Townships)
IA

Moody's Rating

ISSUE		RATING
General Obligation Urban Renewal Bonds, Series 2015C		Aa1
Sale Amount	$1,785,000	
Expected Sale Date	02/03/15	
Rating Description	General Obligation	

Moody's Outlook NOO

NEW YORK, January 13, 2015 --Moody's Investors Service has assigned a Aa1 rating to the City of Marion, IA's $1.8 million General Obligation Urban Renewal Refunding Bonds, Series 2015C. Debt service on the bonds is secured by city's general obligation unlimited tax (GOULT) pledge which benefits from a dedicated levy, unlimited as to rate or amount. Proceeds from the Series 2015C bonds will refund the city's Series 2007B bonds for estimated savings of 3% of par. Concurrently, Moody's maintains Aa1 rating on the city's outstanding GOULT debt. Post-sale, the city will have $58.7 million of outstanding GOULT debt.

SUMMARY RATINGS RATIONALE

The Aa1 rating reflects the city's relatively small but growing tax base and stable economy; strong financial operations with solid reserves despite rapid growth; above average debt burden; and moderate exposure to unfunded pension liabilities.

STRENGTHS

- Growing tax base and stable economy, favorable proximity to Cedar Rapids (Aa1 stable)

- Revenue raising flexibility, including full availability of $0.27 emergency levy and franchise fees

- Strong General Fund reserves and conservative budgeting practices

CHALLENGES

- Above average debt burden

- Rapidly growing community with additional borrowing planned for capital needs

DETAILED CREDIT DISCUSSION

GROWING COMMUNITY LOCATED NEAR CEDAR RAPIDS

The City of Marion's tax base is expected to remain stable given its adjacency to the city of Cedar Rapids and trend of growth. The city's full valuation of $2.3 billion has grown at a favorable average annual rate of 3.3% over the last five years. The city's population has rapidly increased in recent decades, growing by 28.9% from 1990 to 2000 and another 32.2% from 2000 to 2010. The city is in the process of annexing two subdivisions with a combined 450 residents. Management reports that new housing starts were somewhat below expectations at 145 new homes in 2014, largely due to a limited number of available plats; however, the value of the new homes was greater than prior years because of the more upscale nature of the homes. Management expects the number of new homes to grow in 2015 as over 450 lots were platted in 2014. The city is mostly residential (76% of taxable value) but management reports that the city continues to develop its commercial and industrial sectors which combined comprise 23% of taxable value. Several new industrial companies have relocated to or started operations in Marion, including ELPLAST, which is a food packaging company, Arctic Insulation, Kingler Paint/DAR Pacing, Fiberight, and Hupp Electric. Phase 4 of the Lincolnview Square redevelopment, a $22.5 million, 16 acre retail and office development, is currently under construction. Additionally, two new projects in Uptown Marion recently opened adding a total of 32,000 square feet of commercial and mixed use space.

Residents of the city also benefit from employment within the larger Cedar Rapids metropolitan area. Rockwell Collins, Inc. (A3 stable) is the area's largest employer with over 9,000 employees. As a major defense contractor, operations of the company may be modestly affected by reduced federal spending, but the company is expected to maintain a major economic role in the region going forward. Additional major employers include Hy-Vee Food Stores, Transamerica Life Insurance Company (A1 stable), St. Luke's Hospital, and Cedar Rapids Community School District (Aa3 negative). The city's wealth indices exceed those of the state and nation, with its median family at 120.3% of the nation according to the 2008-2012 American Community Survey estimates. Favorably, the city's unemployment rate, at 3.1% in October 2014, remains well below both the national rate of 5.5% and the state's rate of 3.9% for the same time period.

SOUND FINANCIAL POSITION WITH CONSERVATIVE BUDGETING PRACTICES

Marion's financial position is expected to remain healthy over the near-term due to management's historically conservative budgeting practices, financial flexibility, and sound reserve levels. The city has historically been well in excess of its goal to maintain a General Fund cash balance of 35% of expenditures. The city ended fiscal 2013 with an $835,000 operating surplus, growing the General Fund cash balance to $12.3 million, or 74% of General Fund revenues. The available General Fund balance was a similarly strong $12 million, or 72% of General Fund revenues. City officials report that surplus results were driven by conservative budgeting and positive budgetary variances across all funds. In fiscal 2014, the city budgeted to reduce General Fund reserves by about $700,000 in order to keep reserves closer to the city's fund balance goal. However, estimated results for fiscal 2014 indicate that the General Fund balance declined by a modest $16,000, again due to conservative budgeting. In fiscal 2015, the city has budgeted to use $1.5 million of General Fund reserves. The use of reserves will primarily be used for one-time expenditures, including a special census and equipment replacement. Given the city's history of conservative budgeting, we believe a more modest reduction in reserves is likely.

The city currently levies the statutory $8.10 limit per $1,000 of assessed valuation for operations, but maintains financial flexibility through its currently untapped $0.27 Emergency Levy, which could generate $367,000 for operations. Additionally, the city has the ability to implement gas and electric franchise fees of up to 5% which could generate an additional $4.5 million of revenues annually. Marion's 1% local option sales tax (LOST) was recently renewed by voters through the end of fiscal 2024. The LOST generates over $4 million annually and is dedicated for capital improvement and redevelopment projects.

ABOVE AVERAGE DEBT BURDEN WITH SOME ADDITIONAL BORROWING PLANNED

The city's debt burden is above average, but is expected to remain manageable due to expected continued growth in the city's tax base and the recent renewal of the city's LOST which will support capital projects. Currently, the city maintains a policy limiting its debt burden to no greater than 50% of the statutory limit; however, the policy may be modified to increase this limit to 60%. The city's debt burden is currently at 50% of the statutory debt limit. The city's direct debt burden of 2.5% of full valuation is above the national median for similarly rated entities. Over 40% of the city's $58.6 million of outstanding GO debt is supported by tax increment financing (TIF) revenues, somewhat reducing the burden on taxpayers. Principal amortization is average with 66.2% of principal retired within 10 years. In the near term, the city expects to issue $5 to $6 million in fiscal 2016 for capital improvement projects. The additional issuance would increase the city's debt burden to approximately 2.8% of full value, or 55% of the statutory limit, if there is no further growth in the city's tax base. Going forward, the city expects to issue $6 to $7 million in debt every other year for capital projects. The city is also considering the construction of a new library but plans to finance most, if not all, of the project through LOST revenues and a capital fundraising campaign. All of the city's debt is fixed rate and it does not have exposure to interest rate swap agreements.

MODERATE EXPOSURE TO UNFUNDED PENSION LIABILITIES

Marion's three year average Moody's adjusted net pension liability (ANPL) through fiscal 2013 is $42.1 million, equivalent to 1.8% of full valuation and 2.1 times operating revenue. The ANPL is based upon our allocation of the reported unfunded liabilities of two multi-employer cost-sharing pension plans, the Iowa Public Employees Retirement System (IPERS) and the Municipal Fire and Police Retirement System of Iowa (MFPRSI). Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities. The actuarial valuation dates for the plans are June 30, 2013. The city's fiscal 2013 contribution to the plan was $1.7 million, or 8% of operating revenues.

WHAT COULD CHANGE THE RATING UP

- Substantial tax base expansion and an improved socioeconomic profile

- Maintenance of strong General Fund reserves

- Moderation of the city's debt burden

WHAT COULD CHANGE THE RATING DOWN

- Significant deterioration of taxable values, pressuring the city's largest source of operating revenue

- Reduction in reserves to a level no longer commensurate with its rating category

- Sizeable increase in the city's debt burden or fixed costs

KEY STATISTICS:

Tax Base Size - 2013 Full Value: $2.3 billion

Full Value Per Capita: $67,000

Socioeconomic Indices - MFI: 120.3% of the US

Fiscal 2013 Available Operating Funds Balance: 59.0% of revenues

5-Year Dollar Change in Available Operating Fund Balance as % of Revenues: 17.4%

Fiscal 2013 Operating Funds Cash Balance: 60.6% of revenues

5-Year Dollar Change in Cash Balance as % of Revenues: 19.6%

Institutional Framework: Aaa

Operating History: 5-Year Average of Operating Revenues / Operating Expenditures: 1.04x

Net Direct Debt / Full Value: 2.5%

Net Direct Debt / Operating Revenues: 2.89x

3-Year Average of Moody's Adjusted Net Pension Liability / Full Value: 1.8%

3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues: 2.07x

RATING METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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