

## CREDIT OPINION

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## City of Sioux City, IA

### Update to analysis

#### Summary

[Sioux City, IA](#) (Aa2) has a healthy credit profile driven by its large and growing tax base that serves as a regional economic center and healthy financial profile. The city maintains its reserves in compliance with its board policy and has some additional revenue raising flexibility. The city's biggest credit challenge is an elevated long-term leverage with significant debt expected over the next five years. However, the city has rapid amortization as a mitigating factor. Additionally, fixed costs for the city are elevated.

#### Credit strengths

- » Large economic base that serves as a regional hub
- » Healthy revenue raising flexibility with adequate reserves

#### Credit challenges

- » Elevated leverage and fixed costs with significant additional debt plans
- » Resident incomes below similarly rated peers

#### Rating outlook

Moody's does not usually assign outlooks to local governments with this amount of debt.

#### Factors that could lead to an upgrade

- » Significant reduction in overall leverage
- » Material increases to reserves or liquidity
- » Growth in resident incomes

#### Factors that could lead to a downgrade

- » Material declines in reserves or liquidity
- » Increases in leverage and fixed costs

## Key indicators

Exhibit 1

### Sioux City (City of) IA

	2019	2020	2021	2022	Aa Medians
<b>Economy</b>					
Resident income ratio (%)	95.8%	98.7%	95.7%	N/A	115.4%
Full Value (\$000)	\$5,317,944	\$5,382,615	\$5,882,464	\$6,199,161	\$2,728,197
Population	82,531	82,535	85,081	N/A	23,462
Full value per capita (\$)	\$64,436	\$65,216	\$69,140	N/A	\$108,666
Economic growth metric (%)	N/A	-0.2%	0.0%	N/A	-0.6%
<b>Financial Performance</b>					
Revenue (\$000)	\$187,412	\$194,724	\$199,653	\$205,129	\$50,065
Available fund balance (\$000)	\$45,723	\$46,678	\$78,942	\$80,678	\$25,773
Net unrestricted cash (\$000)	\$134,026	\$110,121	\$168,498	\$185,975	\$34,793
Available fund balance ratio (%)	24.4%	24.0%	39.5%	39.3%	51.2%
Liquidity ratio (%)	71.5%	56.6%	84.4%	90.7%	69.5%
<b>Leverage</b>					
Debt (\$000)	\$276,584	\$283,777	\$308,686	\$287,858	\$35,801
Adjusted net pension liabilities (\$000)	\$215,757	\$256,602	\$332,985	\$274,062	\$58,004
Adjusted net OPEB liabilities (\$000)	\$7,064	\$6,417	\$6,679	\$8,870	\$6,701
Other long-term liabilities (\$000)	\$12,661	\$11,286	\$14,978	\$15,340	\$1,659
Long-term liabilities ratio (%)	273.2%	286.6%	332.2%	285.7%	248.8%
<b>Fixed costs</b>					
Implied debt service (\$000)	\$19,850	\$20,166	\$20,322	\$21,651	\$2,504
Pension tread water contribution (\$000)	\$7,355	\$7,606	\$8,475	N/A	\$1,672
OPEB contributions (\$000)	\$324	\$217	\$280	\$277	\$193
Implied cost of other long-term liabilities (\$000)	\$1,760	\$923	\$808	\$1,051	\$113
Fixed-costs ratio (%)	15.6%	14.8%	15.0%	15.3%	11.2%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Sioux City, IA-NE-SD Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

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

## Profile

The City of Sioux City is located in northwestern [Iowa](#) (Aaa stable), approximately 150 miles northwest of [Des Moines](#) (Aa2 stable) and 90 miles north of [Omaha](#) (Aa2 stable). The city serves as the county seat of [Woodbury County, IA](#) (Aa3) and provides public safety (police and fire), public works, recreation and other governmental services.

## Detailed credit considerations

### Economy: large economic base serves as a regional hub

Sioux City's economic base will continue to grow given ongoing economic development. The city benefits from its location in northwest Iowa, on the border of states [Nebraska](#) (Aa1 stable) and [South Dakota](#) (Aaa stable). The city is home to a large community college, [Western Iowa Tech](#) (Aaa stable), which enrolls approximately 6,000 students. New development includes expansion at Sabre Industries and Cold-Link Logistics, as well as expansion of Oracle Aviation at the city airport, which will include a new hangar and introduction of a bachelor's of science in aviation-related fields. Resident incomes are below the national average at 90% of the nation.

### Financial operations: solid reserves supported by conservative budgeting

The city's financial operations are expected to remain sound given expectations of balanced budgets in future years and a history of strong budgetary performance. The city recently passed a balanced budget for fiscal 2024. Management expects to close fiscal 2023 with a general fund surplus of about \$4.7 million, driven by staffing vacancies. The city closed fiscal 2022 with \$80.7 million in fund balance across all funds, equivalent to 39% of revenue. Management maintains a fund balance policy for the general fund of between

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12% and 20% of expenditures. The city is currently above that range, and will likely allocate fund balance that exceeds policy amounts to one-time uses.

The city's general operating and emergency levies have been set at their statutory limits for several years, but property tax revenue has grown in recent years because of tax base growth. Additionally, the city maintains over \$10 million of unused capacity under its employee benefits levy. The city also collects local option sales tax revenue (LOST), worth about \$17.6 million in 2022.

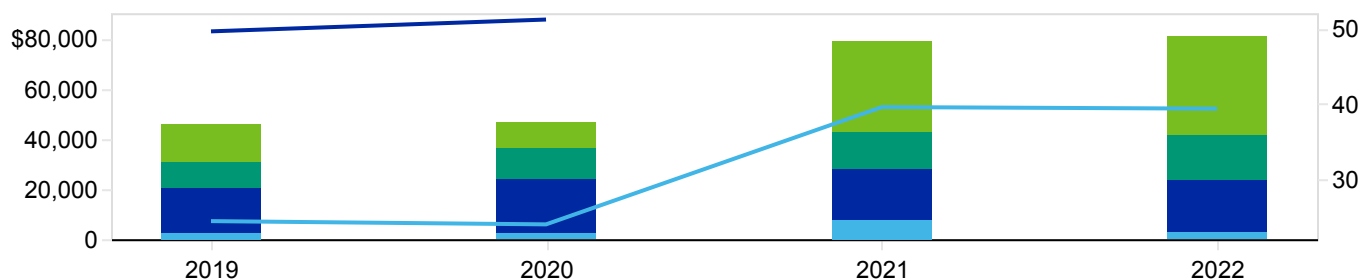
The city also operates enterprise funds for sewer, water, and solid waste. As shown in Exhibit 2, these funds had strong reserves in 2022. The city has had ongoing litigation involving its wastewater treatment plant. A suit filed in 2019 alleges that the plant exceeded the allowable discharge amount on various occasions. An adverse decision could result in up to \$4 million in fines, which reserves in the sewer fund (nearly \$13 million at the close of 2022) would be sufficient to cover. Relatedly, an outside firm recently concluded a comprehensive review of the wastewater treatment center and determined that the city will need to fully reconstruct the existing facility. The associated debt plans are discussed further in the leverage section. The city is instituting a three-year sewer rate increase beginning in 2024 to cover future debt service.

The city is exposed to a modest degree of contingent liability risk associated with its ownership of an expo center and an airport, which collectively had an expense budget of \$6 million in fiscal 2022. These facilities have historically relied on annual general fund transfers to support operations. In fiscal 2022, the expo center (presented as a component unit in the city's audit) did not receive any support from the governmental funds. The expo center component unit did have significant liabilities, with \$11.9 million in outstanding debt in 2022, equivalent to nearly 2,000% of its \$600,000 in gross revenue. The airport received about \$1.5 million in operating support, equivalent to less than 3% of governmental funds revenues. Notably, the general fund has maintained surplus operations and grown reserves despite the subsidy.

Exhibit 2

**Fund Balance**

■ General fund   
 ■ Other governmental funds   
 ■ Internal service funds   
 ■ Business-type activities  
— Available fund balance ratio (%)   
— Aa median available fund balance ratio (%)

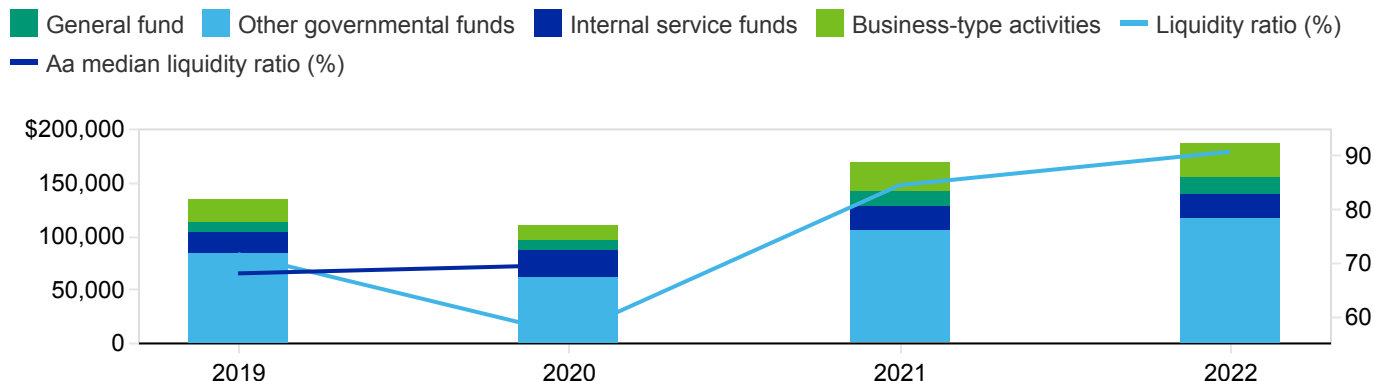


Source: Moody's Investors Service

**Liquidity**

The city closed fiscal 2022 with \$186 million in cash, equivalent to 91% of revenue. The difference between fund balance and cash is driven by a large portion of fund balance categorized as restricted in the city's audit.

Exhibit 3

**Cash**

Source: Moody's Investors Service

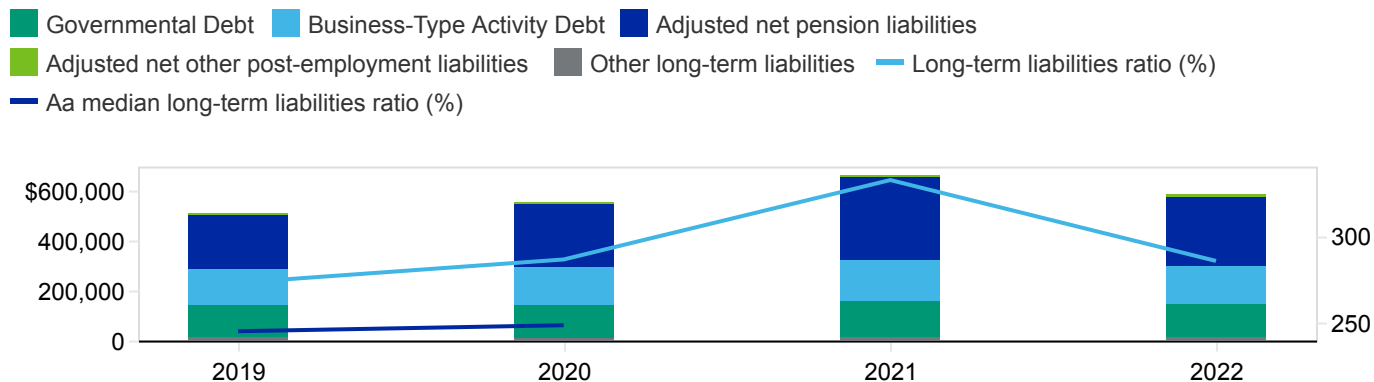
**Leverage: above average leverage with rapid debt amortization**

The city's leverage is expected to remain elevated given substantial future debt plans. The city closed fiscal 2022 with a long-term liability ratio of 285%. As shown in Exhibit 4, direct debt and the adjusted net pension liability each made up about half of the total liabilities. The city is currently issuing about \$19.7 million for regular capital improvement projects. Due to rapid amortization, we do not expect the current issuance to meaningfully impact the long-term liability ratio.

The city's capital improvement plan (CIP) calls for another \$163 million in general obligation debt over the next four years, though management notes that actual bond issues will likely be lower than the roughly \$40 million annually included in the CIP. In addition, the city will need to demolish and rebuild its wastewater facility over the same time period, at a total cost of \$470 million. Management expects to issue the debt for the wastewater project through the Iowa state loan revolving fund (SLRF) in two separate issuances. Our analysis of the aforementioned future debt and accompanying new revenues shows the city's long-term liability ratio could reach as high as 425% by fiscal 2027.

The city's fixed costs ratio is also elevated, representing 15% of revenue in 2022. We expect this ratio to grow over the next few years as the city issues more debt. Growth in leverage or fixed costs associated with the additional debt plans could pressure the rating in the medium-term.

Exhibit 4

**Total Primary Government - Long Term Liabilities**

Source: Moody's Investors Service

**Legal security**

Debt service on the city's general obligation unlimited tax (GOULT) bonds is backed by the city's GOULT pledge, which benefits from a dedicated property tax levy unlimited by rate or amount.

**Debt structure**

Following an upcoming sale, the city will have about \$144 million in outstanding GOULT debt. The city also has about \$82.3 million in SLRF debt backed by sewer revenues and \$49.6 million in SLRF debt backed by water revenues. Amortization of existing debt is rapid, with 100% of principal paid in the next 10 years.

**Debt-related derivatives**

The city is not a party to any derivative agreements.

**Pensions and OPEB**

The city participates in two defined benefit multi-employer cost sharing plans, the Iowa Public Employees' Retirement System (IPERS) and Municipal Fire and Police Retirement System of Iowa (MFPRSI). The city's statutorily-determined employer contribution in 2022 was \$8.7 million, equivalent to 4% of revenue.

The city's adjusted net OPEB liability was a low \$8.8 million in 2022. OPEB costs accounted for less than 1% of the city's fixed costs.

**ESG considerations**

The city's credit impact score is neutral to low (CIS-2), reflecting moderately negative impact in environmental risk and neutral to low impact in governance and social risks.

**Environmental**

The city's environmental issuer profile score is moderately negative (E-3), reflecting negative impact in water management and physical climate risks including flooding, and neutral to low exposure to carbon transition, natural capital, and waste and pollution. The Missouri, Big Sioux, and Floyd Rivers all run through the city and pose some flood risk. In 2011, the city suffered a particularly disruptive flood event. Additionally, the city's wastewater treatment plant allegedly exceeded the permitted discharge amount upward of 800 times since 2012, but is now in compliance.

**Social**

The city's social issuer profile score is neutral to low (S-2), reflecting neutral to low impact in all areas. The city and county benefit from a relatively young population with above-average educational attainment. Housing, health, and safety measures are all in line with peers, while resident incomes and wealth are slightly below Aa-rated peers.

**Governance**

The city's governance issuer profile score is positive (G-2), reflecting positive impact in institutional structure and transparency. The city maintains a fund balance policy of 16% to 20% of expenditures in the general fund, a policy which it currently exceeds. Management has a history of allocating excess general fund reserves to one-time projects. The city conducts regular variance reporting. 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.

## Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 5

### Sioux City (City of) IA

	Measure	Weight	Score
<b>Economy</b>			
Resident income ratio	95.7%	10.0%	A
Full value per capita	72,862	10.0%	A
Economic growth metric	0.0%	10.0%	Aaa
<b>Financial Performance</b>			
Available fund balance ratio	39.3%	20.0%	Aaa
Liquidity ratio	90.7%	10.0%	Aaa
<b>Institutional Framework</b>			
Institutional Framework	Aa	10.0%	Aa
<b>Leverage</b>			
Long-term liabilities ratio	285.7%	20.0%	A
Fixed-costs ratio	15.3%	10.0%	A
<b>Notching factors</b>			
No notchings applied			
Scorecard-Indicated Outcome			Aa3
<b>Assigned Rating</b>			<b>Aa2</b>

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

## Appendix

Exhibit 6

### Key Indicators Glossary

	Definition	Typical Source*
<b>Economy</b>		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
<b>Financial performance</b>		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
<b>Leverage</b>		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
<b>Fixed costs</b>		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

\*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service

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