Comparable Communities
During the May 8, 2012, City Council meeting, our longtime financial advisors Ehlers Associates presented a financial overview of the city. Much of it focused on using financial indicators as benchmarks to assess a community's financial position. And Evansville was doing very well when compared to other cities on key indicators.

Ehlers provided comparisons to several similarly sized cities which had recently had rated bonds: Milton, Prairie Du Sac, New London, Columbus, Saukville, and Ripon as well as median averages for A1 and Aa3 rated communities.

In the comparisons, Evansville's debt burden and debt per capita were low, but the percentage of our debt which was scheduled to be paid within ten years was also low. An extremely strong indicator was our maintenance of healthy reserve funds. These reserves provide liquidity and also enable the city to address unforeseen circumstances. They show that we plan for the long-term in our budgeting and financial management.

Observing that the comparison communities had been rated by independent credit rating firms, the City Council asked about having Evansville rated the next time we issued debt. This would provide a third-party measure of the city's financial position, demonstrate the city's stability during the recession, and may help with lower interest rates. Ehlers noted that we were not currently rated and had not issued much debt in the past couple years. But they said if we had a bond issue of $800,000 or more in the future, then there may well be a value in getting rated.

Financial Policies
In anticipation of a future bond rating, the City Council considered several financial policies this August and September. In addition to the rating consideration, each policy was prudent in its own right and was consistent with the city's recent emphasis on professionalism and best management practices.

The city adopted our Fund Balance Policy in 2010. But it needed a few updates due to changes in accounting terminology and to clarify the reserves in the Enterprise Funds (utilities). The update also reduced the reserves in the Enterprise Funds to 8-12% of operating expenses (4-6 weeks). This reflected our actual practice, better matched cash flow needs, and was consistent with Public Service Commission regulations.

The city has always been responsible for monitoring and complying with federal tax-exempt bonding requirements; however, the last few years the IRS has stepped up enforcement of these requirements, including stressing the importance of having a written compliance policy. The Post-Issuance Compliance Policy for Tax-Exempt and Tax-Advantaged Obligations was prepared by our bond counsel Quarles & Brady to accomplish this.

For several years, our independent auditor Johnson Block & Company had recommended adoption of an Investment Policy. The policy formalized our existing unwritten practices and provided for better diligence to our investments. It appropriately stated the priority

order of safety, liquidity, and yield. When drafting the policy, we discussed internal controls and procedures, identification of authorized institutions, and identification of types of acceptable collateral with Ehlers and with Union Bank & Trust.

State law limits general obligation debt to 5% of equalized value. On Ehlers' advice, for years the city had informally set a more conservative limit of 50% of the legal debt capacity. In consideration of an upcoming bond rating, Ehlers had recommended adopting a formal, written Debt Management Policy which also included additional measures of debt, debt structuring practices, and debt issuance and management practices. The measures were based on Ehlers knowledge of other municipalities and bonding, the comparison communities discussed at the City Council meeting last May, and Evansville's current financial position.

Bond Issue

The 2013 budget was approved on November 13. It included plans to reconstruct Garfield Avenue between North Madison and North Third Streets. The area had undersized watermains and a history of sewer repairs. This high traffic street was among the worst for pavement conditions. Much of the project would be paid with cash reserves, a portion would be financed with a bond issue, and some of the costs would be assessed according to the city's assessment policy.

By early December municipal bond yields had reached record lows. A finance newsletter described it this way, "In fact, the last time municipal bond yields were this low was in 1965, when Billboard's top song of the year was Wooly Bully by Sam the Sham and the Pharaohs."

Rather than waiting until spring, we began lining up the bond sale at the December 6 Finance Committee and December 11 City Council meetings. An initial resolution was passed to provide for the sale of $2,795,000 million in general obligation bonds.

Since we were going to market anyway, there was no reason to leave money on the table. We included several small existing debt instruments to be refunded. Essentially, this means they would be refinanced to take advantage of lower interest rates. The refunding was estimated to save just under $60,000 in interest payments over the next eight years.

The pending bond issue also included the Garfield Avenue project itself and various issuance costs, including the rating fee.

Rating Call

With a third-party credit rating, we expected to see better interest rates than if we went without a rating. Moody's and Standard & Poors are the two major rating agencies. We chose S&P for the service because we had not been rated before and S&P tends to analyze more smaller communities than Moody's.

In advance of the rating call, copies of our budget, audited financial statements, the financial policies we had formalized earlier in the year, and local economic and

demographic data were sent to S&P. Ehlers provided us with a short list representative of the types of questions we might expect and advised saying, "We'll look it up and get back to you," if we were unsure about an answer.

Last week on December 20, the rating call consisted of our advisers from Ehlers in Milwaukee, representative of S&P in Chicago, and Mayor Sandy Decker and me here in Evansville. The conference call lasted about forty-five minutes.

S&P asked about the bond sale itself, in particular the refunding of existing loans as well as some expenses being paid with cash on hand. We also explained that much of the debt service would be covered by utility revenues, but would be backed by a pledge of the city's taxing authority.

Then S&P asked a number of questions about the local economy. They asked about employment and commuting patterns (our Smart Growth Plan had included a survey indicating 45% of households had a member who worked in Madison, 33% in Evansville, and 13% in Janesville).

They asked about Evansville's larger employers. We were proud to note that although Stoughton Trailers had closed just before the recession, they had re-opened about eighteen months ago.

They asked about housing construction (a low of eight houses in 2008 but steadily increasing to seventeen new homes this year) and housing prices (down 20-26% from pre-recession levels). They asked about commercial development, and we noted the expansions at Piggly Wiggly, Varco Pruden, and Symdon Chevrolet. We also noted several shops and services filling vacant spaces downtown over the past year.

S&P asked numerous questions about the city's finances. They asked about the interplay between development and property tax rates. They asked about revenue and expenditure comparisons (through October this year our general fund revenues were right on with expenditures running around ten percent under budget). We discussed the city's healthy fund balance.

There were questions about our union contracts and personnel costs, cuts to intergovernmental revenues and contingency plans, maintaining city service levels, and the impact of property tax levy limits.

They asked about our budget management. We distribute budget-to-actual statements to department heads on a monthly basis and to the City Council quarterly. We explained our handling of budget amendments during the year if or when they are needed. We discussed our five-year capital improvement plan.

They asked about our Fund Balance, Investment, and other financial policies. They even noted that many cities do not have a Debt Management Policy like we do.

We had not been through a rating before, so we were not quite sure what to expect. But we knew the city was in sound financial shape, so we knew that overall it would go well.

Bond Sale
S&P will issue its report, giving Evansville a credit rating. Then the competitive bond sale will occur on January 8, 2013. The results of the sale will then be brought to the City Council for approval at its meeting that evening. At this point, we don't know what our rating will be or the interest rates on the bond sale, but everything looks like we are very well positioned.

As one of our alderpersons commented after discussing bond structure and interest rates at the December meeting, "This is exciting and important stuff."