# Rating Agencies Perspectives

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# City of Metropolis

The City’s outstanding general obligation, unlimited tax bonds are rated Aa/AA/AA.

# The City enters into a lease-purchase agreement with Beehive Bank to finance a replacement courthouse

**Legal Structure:**

- Annual appropriation lease for essential facility.
- Payable from all legally available funds, including general funds. Payment obligation is not contingent upon occupancy or beneficial use.

**Decision Rationale**:

Replacement courthouse is built, but is ultimately closed due to environmental problems at the site. The City decides not to appropriate funds for lease debt service payment.

# The City enters into a lease agreement with Beehive Bank to build an ice-skating rink due to the popularity of hockey in the area.

**Legal Structure:**

- Annual appropriation lease for non-essential facility.
- Payable from all legally available funds, including general funds. Payment obligation is not contingent upon occupancy or beneficial use.

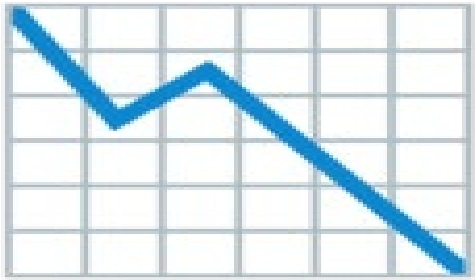
**Decision and Rationale:**

- It’s primarily for residents (parks and rec budget) and payable from all legally available funds (including general funds).
- City Council expects debt service and O&M to be covered by user fees.
- Revenue falls short and taxpayers are firmly against a tax increase to cover debt service and O&M.
- City decides not to appropriate and fails to make lease payment

# The City finances its roads, sidewalks and bridges with bonds secured by sales tax revenues.

**Legal Structure:**

- City-wide sales tax bond
- The City has no obligation beyond pledging sales taxes (i.e. assigning revenues to the trustee) at the time of issuance.
- Infrastructure projects are completed.



**Decision and Rationale:**

- Sales tax revenues plummet and the City defaults on bond payments.

The State Department of Economic Development asked the City to host a new manufacturing facility for ACME Explosives.

The City agreed, hoping it would create over 200 jobs for its residents.

**Legal Structure:**

- The project was financed with tax-exempt bonds.
- The City guarantees the bond payments through maturity date (moral obligation).

**Decision and Rationale :**

- ACME goes bankrupt during the construction period, jobs never created.
- City decides to not make debt payments they guaranteed.

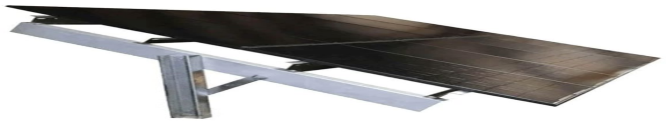
The City enters into a lease-purchase transaction to finance energy conservation measures at City Hall and the next door annex.

**Legal Structure:**

- Lease payments are not contingent upon equipment acceptance or energy savings, and are payable from any legally available funds (including general funds).
- The lease was certificated and sold as public COPs.
- Vendor projections indicate positive cash flow (i.e. energy savings are expected to exceed lease-purchase debt payments).

**Decision and Rationale:**

- Vendor goes bankrupt 2 years after the lease financing.
- The ECMs were installed prior to the bankruptcy; however, the City later discovers that the work was shoddy. Savings are minimal.
- The City non-appropriates and instructs the lessor to come and get the (worthless) equipment.



The City issues a tax increment bond for the development of downtown Metropolis.

**Legal Structure:**

Tax increment bond issued for downtown area.

- Established coverage, but reliance upon mall for most of the TIF increment.

**Decision and Rationale**

- Mall goes out of business.
- Bond defaults.