

# RatingsDirect®

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## Summary:

# Chatfield, Minnesota; General Obligation

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## Table Of Contents

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Rationale

Outlook

Related Criteria And Research

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### Credit Profile

US\$1.725 mil GO bonds ser 2014A dtd 09/01/2014 due 02/01/2025

<i>Long Term Rating</i>	AA/Stable	New
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Chatfield GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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## Rationale

Standard & Poor's Ratings Services assigned 'AA' long-term rating to Chatfield, Minn.'s series 2014A general obligation (GO) bonds. At the same time, we affirmed our 'AA' long-term rating on the city's previously rated GO bonds. The outlook is stable.

The city's full faith and credit unlimited-tax GO pledge secures the bonds. Management will use bond proceeds to finance street improvement projects.

The 'AA' rating reflects our assessment of the following factors:

- Adequate economy;
- Very strong budgetary flexibility;
- Very strong liquidity;
- Strong management conditions;
- Adequate budgetary performance; and
- Very weak debt and contingent liability profile.

### Adequate economy

The city's economy is adequate, with projected per capita effective buying income at 89% of the national average and per capita market value at roughly \$58,000. The city serves an estimated population of 2,837 in Fillmore and Olmsted counties and is located approximately 20 miles southeast of Rochester. Because of its location, Chatfield residents have access to employment throughout the broad and diversified Rochester metropolitan statistical area.

Unemployment in the two counties has historically been well below national levels. With the expansion of the Mayo Clinic, the Rochester area economy is projected to grow at a very rapid pace, which could in turn have a positive impact on Chatfield's economy.

### Very strong budgetary flexibility

Chatfield's budgetary flexibility is, in our view, very strong, with available reserves exceeding 80% of adjusted operating expenditures during the past several years. As of fiscal year-end 2013 (Dec. 31), available reserves in the general and capital goods internal service funds were \$1.5 million, or 82% of general fund expenditures, including routine interfund transfers. We understand that the general fund makes annual transfers to other funds to partly support their operations, debt service payments, and capital spending. Although the capital goods fund is typically

used for acquiring capital equipment, management can use these reserves to support general operations when necessary. The city's general fund balance is in line with its formal fund balance policy of 40%-60% of budgeted revenue (including tax levy and state aid), and management anticipates that available reserves will likely remain at current levels for the next couple of years. We consider the city's consistent maintenance of available reserves in excess of 75% of expenditures a credit strength.

### **Very strong liquidity**

Supporting the city's finances is very strong liquidity, with total government available cash at 136% of adjusted total governmental funds expenditures and 9x debt service, excluding debt refinancing. Based on past issuance of debt, we believe that the city has strong access to capital markets to provide for liquidity needs if necessary.

### **Strong management conditions**

The city's management conditions are strong with "good" financial practices under our Financial Management Assessment (FMA) methodology. This means that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. We revised the FMA score to "good" from "strong" because we understand that the debt management policy does not restrict the amount of debt issuance apart from following state limitations. Management prepares financial and capital plans with 15- to 30-year projections but it does not necessarily update these documents at regular intervals.

### **Adequate budgetary performance**

Budgetary performance is adequate overall. Including routine interfund transfers and excluding one-time payments for debt refinancing, the city ended fiscal 2013 with a deficit of 1.4% for the general fund and a surplus of 6.5% for the total governmental funds. The city reported general fund deficits in the last three out of four years, which were mostly planned drawdowns to comply with the fund balance policy. Management anticipates stable operations for general and total governmental funds for fiscal years 2014 and 2015. We believe that budgetary performance could improve to a strong level if the city consistently achieves at least break-even operating results.

### **Very weak debt and contingent liability profile**

We consider the city's debt and contingent liability profile very weak. Adjusted total governmental funds debt service accounts for 15.1% of adjusted total governmental funds expenditures and net direct debt is 239% of total governmental funds revenue. Officials plan to repay 77% of direct debt in 10 years, which we view as a credit strength. However, the high overall net debt burden at 10.2% of market value is a negative credit factor. We anticipate that the debt profile will remain very weak for a couple of years because management plans to issue additional GO debt within six months.

The city makes its full annual required contributions to the Public Employees Retirement Fund and Public Employees Police and Fire Fund, which are cost-sharing, multi-employer retirement plans. The fiscal 2013 pension contribution of \$80,000 amounted to 2.5% of adjusted total governmental funds expenditures. The city does not offer other postemployment benefits to retirees.

### **Strong Institutional Framework**

We consider the Institutional Framework score for Minnesota cities with population greater than 2,500 strong.

## Outlook

The stable outlook reflects our view that the city will maintain its very strong budgetary flexibility and liquidity, supported by strong management conditions. We do not anticipate lowering the rating in the two-year outlook period because we believe that the city will likely report at least adequate budgetary performance for fiscal years 2014 and 2015 and that it will maintain very strong reserves above 75% of operating expenditures. At the same time, we do not expect to raise the rating in the next two years given our view that the very weak debt profile is unlikely to improve significantly. If reserves drop below 75% we could lower the rating.

## Related Criteria And Research

### Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### Related Research

S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

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