

# RatingsDirect®

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## Summary:

# Chatfield, Minnesota; General Obligation

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### Credit Profile

US\$5.505 mil GO crossover rfdg bnds ser 2016A dtd 02/15/2016 due 02/01/2028

*Long Term Rating* AA/Stable New

Chatfield GO

*Long Term Rating* AA/Stable Affirmed

Chatfield GO disp sys rfdg bnds ser 2011A dtd 01/01/2011 due 02/01/2012-2026 2028

*Long Term Rating* AA/Stable Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Chatfield, Minn.'s series 2016A general obligation (GO) crossover refunding 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, as do revenues from the city sewer utility. We rate to the city's general obligation, which we view to be the stronger pledge. Management will use bond proceeds to crossover refinance the 2018-2026 maturities of the 2010A bonds and the 2019-2028 maturities of the 2011A bonds for interest costs savings.

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

- Weak economy, with market value per capita of \$60,079 and projected per capita effective buying income at 90.3% of the national level;
- Strong management, with "good" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2014 of 78% of operating expenditures;
- Very strong liquidity, with total government available cash at 122.9% of total governmental fund expenditures and 9.1x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 13.5% of expenditures and net direct debt that is 179.8% of total governmental fund revenue, and significant medium-term debt plans, but rapid amortization, with 81.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### Weak economy

We consider Chatfield's economy weak. The city, with an estimated population of 2,864, is located in Fillmore and Olmsted counties. The city has a projected per capita effective buying income of 90.3% of the national level and per capita market value of \$60,079. Overall, the city's market value grew by 5.4% over the past year to \$172.1 million in

2015. The weight-averaged unemployment rate of the counties was 3.9% in 2014.

The city is located approximately 20 miles southeast of Rochester. As a result, Chatfield residents have access to employment throughout the broad and diversified Rochester metropolitan statistical area. With the expansion of the Mayo Clinic, the Rochester area economy is projected to grow at a very rapid pace, which in turn, is expected to have a positive impact on Chatfield's economy.

### **Strong management**

We view the city's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Highlights include the monthly reporting to city council on budget-to-actual performance, along with quarterly investment reports. The city maintains a multiple-year financial plan that is not updated annually, as well as a multiple-year capital plan that is updated frequently. The city has debt management policy, an investment policy, and a reserve policy of maintaining 40% to 60% of expenditures, which it is adhering to.

### **Adequate budgetary performance**

Chatfield's budgetary performance is adequate in our opinion. The city had deficit operating results in the general fund of negative 4.8% of expenditures, but a surplus result across all governmental funds of 4.5% in fiscal 2014.

The city has indicated that it ended fiscal 2015 with a small general fund surplus and at least break-even total governmental funds results. Given the city's historical and projected results, we expect its performance to remain adequate. The city is expecting tax receipts and local government aid to remain stable. Also, it expects to benefit from two new revenue sources, a decertified tax increment area and state aid to small cities. For 2016, the city is budgeting at least break-even results in the general fund and total governmental funds.

### **Very strong budgetary flexibility**

Chatfield's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2014 of 78% of operating expenditures, or \$1.6 million. We expect the available fund balance to remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The available fund balance includes \$893,000 (43.2% of expenditures) in the general fund and \$711,000 (34% of expenditures) that is outside the general fund but legally available for operations.

Given the city's budgeted performance, we expect the flexibility to remain very strong. As of fiscal year-end 2014 (Dec. 31), available reserves included the general fund and capital goods internal service funds. Although the capital goods fund is typically used for acquiring capital equipment, management can use these reserves to support general operations when necessary. However, the district is close to the 75%-of-expenditure level, and should reserves dip below this level, the rating may be affected.

### **Very strong liquidity**

In our opinion, Chatfield's liquidity is very strong, with total government available cash at 122.9% of total governmental fund expenditures and 9.1x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

Given the city's financial projections, we expect its liquidity to remain very strong. We do not view the city's investments as risky, as they are held in deposits, certificates of deposit, U.S. government bonds, municipal bonds, and money market funds.

### **Weak debt and contingent liability profile**

In our view, Chatfield's debt and contingent liability profile is weak. Total governmental fund debt service is 13.5% of total governmental fund expenditures, and net direct debt is 179.8% of total governmental fund revenue. Negatively affecting our view of the city's debt profile is its significant medium-term debt plans. Approximately 81.4% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The city plans to issue approximately \$450,000 of GO debt within the next year to upgrade its water meters.

Chatfield's pension contributions totaled 2.4% of total governmental fund expenditures in 2014. The city made its full annual required pension contribution in 2014.

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 city does not offer other postemployment benefits to retirees.

### **Strong institutional framework**

The institutional framework score for Minnesota cities with a population greater than 2,500 is 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 changing the rating within the two year outlook horizon.

### **Upside scenario**

A higher rating would reflect improved economic indicators and a lower debt burden.

### **Downside scenario**

The rating could come under pressure should the city's operating performance weaken and reserves drop below 75% of expenditures.

## **Related Criteria And Research**

### **Related Criteria**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

## **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Minnesota Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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