Chatfield, Minnesota

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Credit Profile

US$1.435 mil GO cap imp plan rfdg bnds ser 2010A dtd 05/01/2010 due 12/01/2010-2026

Long Term Rating	AA/Stable	New

Rationale

The 'AA' long-term rating assigned to Chatfield, Minn.'s general obligation capital improvement plan refunding bonds series 2010A reflects Standard & Poor's Ratings Services' opinion of the city's:

- Participation in the Rochester, Minn. metropolitan economy;
- Very strong reserves with balanced general fund operations, supported by good financial management;
- Good income and strong market value per capita levels; and
- Moderate debt burden.

Tempering these strengths is the city's need to refinance and extend the maturity of the debt issued in 2005 to construct a new wastewater treatment plant. Although the debt currently is almost entirely supported from utility revenues, development has not kept up with the original schedule, and management expects it will be necessary to restructure the debt in order to maintain self-support in light of the bonds' increasing debt service schedule.

The city's full faith and credit secure the bonds. The city will use the bond proceeds to refund certain maturities of its 2001 project revenue bonds for interest cost savings.

Chatfield is located in Fillmore and Olmsted (AAA GO rating) counties roughly 20 miles southeast of Rochester, Minn. ('AAA' GO rating). The city's population has increased steadily since 1970, growing between 7% and 9% each decade to an estimated 2,562 in 2009. The largest employers within the city are Tuohy Furniture Corp. (200 employees), Strongwell Corp. (200), a nursing facility (112), the local school district (100), and grocery store (61). Residents also have access to employment in Rochester and several commuter buses run between the cities daily. The 2009 unemployment rate for Fillmore County was 8.4%, slightly above the state's 7.9%, but below the nation's 9.3%, but the unemployment rate for Olmstead County was much lower at 6.1%. Residents' income levels are good, with median household and per capita effective buying income equal to 107% and 99% of the national average, respectively, while the city's market value of $176 million equates to a strong $69,000 per capita. Although the city's estimated market value has grown at a low 1.3% average annual rate over the past four years, its taxable value has increased much more, at an average annual rate of 4.9%.

The city's financial performance position is strong. The city ended fiscal 2009 with an operating surplus of $103,000, 6.1% of annual expenditures plus transfers, and a very strong unreserved general fund balance of $1.1 million, 69% of annual expenditures plus transfers. This follows an operating surplus of $93,000 (4.6%) in 2008 and a deficit of $32,000 (1.5%) in 2007. The city attributes its large 2009 surplus to proactive budget reductions in anticipation of reductions in state shared revenues, which were smaller than originally proposed by the governor. For fiscal 2010, management currently expects and has budgeted for a $25,000 operating surplus.

Standard & Poor's considers the district's management practices "good" under its Financial Management Assessment (FMA) methodology. An FMA of good indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Management prepares its in-house budget using historical data and current information. Budget-to-actual performance reports are provided to the city council quarterly, and the council can amend the budget as needed. The city has a formally adopted investment policy and reports investment holdings and earnings to the board quarterly. The city maintains a rolling long-term capital plan for its facilities and equipment with estimated costs and financing sources identified. The city has a formal debt management policy, and a formal reserve policy to end the year with a general fund balance equal to 40%-60% of the subsequent year's general fund revenues.

The city's overall net debt, excluding self-supporting utility debt, is moderate at 5.3% of market value and $3,600 per capita. The city's carrying charge was an elevated 16% of total government expenditures in 2009, and its debt amortization rate is average, with 53% of debt retired in 10 years and all debt by 2029. The city currently has no plans to issue new debt, but does plan on refunding and restructuring its 2005 general obligation disposal system bonds.

Outlook

The stable outlook reflects our expectation that the city will maintain its balanced operations and very strong reserves in accordance with its formal policy. It further reflects our expectation that the city's sewer utility fund will continue to fully fund the debt service on the series 2004A and 2005A bonds. The city's participation in the Rochester metropolitan area economy adds to its stability.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008