Summary:

Chatfield, Minnesota; General Obligation

Primary Credit Analyst:
Antionette W Maxwell, Chicago (1) 312-233-7016; antionette_maxwell@standardandpoors.com

Secondary Credit Analyst:
Corey Friedman, Chicago (1) 312-233-7010; corey_friedman@standardandpoors.com

Table Of Contents

Summary:
Chatfield, Minnesota; General Obligation

Credit Profile		
US$7.005 mil GO disp sys rfdg bnds ser 2011A dtd 01/01/2011 due 02/01/2028		
Long Term Rating	AA/Stable	New
Chatfield GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Chatfield, Minn.'s general obligation disposal system refunding bonds series 2011A. Standard & Poor's also affirmed its 'AA' rating on Chatfield's 2010A GO bonds. The outlook is stable.

The rating reflects our 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.

While the city has indicated that the state's 2011 budget forecast may be better than originally planned, the city is still preparing for a reduction in local government aid (LGA) and is uncertain of the amount at this time. However, to date, the city has managed well within reduced LGA support, which is largely mitigating the declining aid.

Chatfield is issuing $7.01 million of refunding bonds and the city's full faith and credit will secure the bonds. We understand that the city will use the bond proceeds to refund its series 2005 bonds reflecting small 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 local economy has primarily been stable but exhibiting modest growth. 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 a grocery store (61). Residents also have access to employment in Rochester and several commuter buses run between the cities daily. The unemployment rates have improved, and in September 2010, the unemployment rate for Fillmore County was 6.3%, slightly below the state's 6.9%, and below the nation's 9.3%. The unemployment rate for Olmstead County has declined to 5.3% . The city's tax base composition is 81% residential and 16% commercial. The 10 leading taxpayers account for a very diverse 10.5% of net tax capacity. In our opinion, residents' income levels are good, with median household and per capita effective buying income equal to 104% and 95% of the national averages, respectively, while the city's market value of $175 million equates to a strong $65,096 per capita. Although the city's estimated market value has grown at a 1.5% average annual rate over the past three years, its taxable value has increased much faster, at an average annual rate of 6.4% for the same time period which, in our view, indicates a stable market value.

We believe the city's financial performance position is strong. The city ended fiscal 2009 with an operating surplus of $103,000, which we view as very strong, with an unreserved general fund balance of $1.2 million, 106% 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 plans to spend down the general fund to 60% of expenditures primarily to support the sewer fund and has indicated that this is a one-time event and does not indicate ongoing support for the sewer fund. However, the 60% of expenditures level would remain very strong in our view and indicates that the city is managing its reserve close to its formal policy. The city attributes its large 2009 surplus to proactive budget reductions in anticipation of reductions in state shared revenues, (LGA represented 42.5% of the total revenue base in 2009), which were smaller than originally proposed by the governor. For fiscal 2010, management currently expects and has budgeted for a $25,000 operating surplus. For 2011, the city is budgeting a surplus if the LGA remains unchanged. However, if the LGA is reduced by 15% to 20%, the city anticipates breaking even in 2011.

Standard & Poor's considers the district's financial 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. The district reports budget-to-actual performance 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. It also has a formal debt management policy and a formal reserve policy to end the year with a general fund balance equal to 40% to 60% of the subsequent year's general fund revenues.

We believe the city's overall net debt, excluding self-supporting utility debt, is moderately high at 6.4% of market value and $4,436 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 57% of debt retired in 10 years and all debt by 2030. The city currently has no plans to issue new debt.

Outlook

The stable outlook reflects our expectation that the city will likely maintain its balanced operations and very strong reserves in accordance with its formal policy. Additionally, in our opinion, the city's participation in the Rochester metropolitan area economy adds to rating stability. While not expected, downward rating pressure could occur if the city were to draw down its general fund reserve balance below what we consider strong levels. Upward rating movement could occur if the city's wealth and income indicators were to improve while tempering the debt burden.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

Complete ratings information is available to RatingsDirect subscribers on the Global Credit Portal at www.globalcreditportal.com and RatingsDirect subscribers at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.