

RatingsDirect®

Summary:

Chatfield, Minnesota; General Obligation

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Credit Profile

US\$2.3 mil GO bonds ser 2023A dtd 07/12/2023 due 02/01/2036

<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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Chatfield GO cap imp plan rfdg bonds

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Chatfield GO crossover rfdg bonds ser 2016A dtd 02/15/2016 due 02/01/2028

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Chatfield, Minn.'s \$2.3 million series 2023A general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the city's existing GO debt.
- The outlook is stable.

Security

The 2023A bonds are secured by the city's unlimited ad valorem tax GO pledge. The city also pledges the revenue from its water utility and its tax abatement from benefited properties. We rate the bonds to the unlimited ad valorem tax GO pledge. Bond proceeds will finance street improvement projects.

Credit overview

Chatfield is located approximately 20 miles southeast of Rochester, Minn. Residents have access to employment throughout Rochester and also benefit residually from the Destination Medical Center development. Over the past several years there has been some private investment, but most notably the city was awarded a \$8.9 million state grant for the renovation of the Chatfield Center for the Arts. Residential development has been steady, and this trend is expected to continue.

The past three audited general fund surpluses (fiscal years 2020 through 2022) were a result of COVID-19-related lowered expenditures and \$360,000 in federal pandemic relief revenue replacement. The fiscal 2023 balanced general fund results include a 5.8% levy increase and a 5% wage increase; management is not expecting any major deviations from the budget.

The city has no plans to spend down reserves, inclusive of its capital goods fund reserves, which we include in our analysis of available fund balance. Management indicates that it will have some unbudgeted revenue within the next year from the decertification of two tax increment financing districts and additional one-time public safety funds from

the state. Additionally, starting in 2026 and over the next 10 years, the city will begin receiving general fund revenue from an intergovernmental agreement and waste-water fund repayment from previous debt service transfers.

The rating further reflects our assessment of the following factors:

- Extremely high general fund reserves, as a percentage of expenditures, that we expect to be maintained given the city's near-term financial plans and medium-term increase in revenue;
- Strong management, including sound budgeting practices, quarterly budget-to-actual reports, and investment reports to city council. The city has an investment policy, a debt policy, and a fund balance policy that calls for 40% to 60% of unassigned general fund reserves. Chatfield annually updates a detailed long-term capital improvement plan. Minnesota cities benefit from a strong institutional framework;
- High debt-service levels, although no additional debt is planned. The city has several series of privately placed bonds, but the agreements do not contain any nonstandard events of default or remedies and we do not view these as a contingent liability; and
- Chatfield contributes to two multiple-employer defined-benefit pension plans administered by the Public Employee Retirement Association of Minnesota and has an other postemployment benefits (OPEB) liability arising from an implicit rate subsidy. The pension plans are underfunded (76.7% and 70.5% as of June 30, 2022) and annual contributions are based on a statutory formula that is not actuarially based, increasing the likelihood of future cost acceleration. However, annual costs remain low compared with the overall budget and the city has sufficient operational flexibility to adjust for higher costs.

Environmental, social, and governance

Environmental, social, and governance factors are neutral within our credit analysis. The city's cyber security practices align with those of peers.

Outlook

The stable outlook reflects our view that the city will maintain its very strong budgetary flexibility and liquidity, supported by strong budgetary performance.

Downside scenario

We could lower the rating should the city's operating performance weaken, resulting in materially lower reserves.

Upside scenario

We could raise the rating should the city see material improvement in income and wealth levels or a lower debt burden.

Chatfield, Minnesota--Key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
Adequate economy				
Projected per capita EBI % of U.S.	100.8			
Market value per capita (\$)	103,856			

Chatfield, Minnesota--Key credit metrics (cont.)				
	Most recent	Historical information		
		2022	2021	2020
Population			2,963	2,937
County unemployment rate (%)		2.4		
Market value (\$000)	307,726	271,278	241,407	
Ten largest taxpayers % of taxable value	6.9			
Strong budgetary performance				
Operating fund result % of expenditures		4.1	7.3	8.3
Total governmental fund result % of expenditures		5.7	2.8	(8.0)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		92.5	92.2	90.0
Total available reserves (\$000)		2,505	2,391	2,172
Very strong liquidity				
Total government cash % of governmental fund expenditures		148.2	104.9	117.2
Total government cash % of governmental fund debt service		733.3	671.9	721.0
Strong management				
Financial Management Assessment	Good			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		20.2	15.6	16.3
Net direct debt % of governmental fund revenue	187.4			
Overall net debt % of market value	7.4			
Direct debt 10-year amortization (%)	66.8			
Required pension contribution % of governmental fund expenditures		3.1		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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