MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to Rosemount, MN's Ser. 2015 GO Bonds

Global Credit Research - 13 Oct 2015

Aa2 applies to $17.5M of outstanding GO debt

ROSEMOUNT (CITY OF) MN
Cities (including Towns, Villages and Townships)
MN

Moody's Rating

ISSUE		RATING
General Obligation Capital Improvement Plan Refunding Bonds, Series 2015B		Aa2
Sale Amount	$1,445,000	
Expected Sale Date	10/27/15	
Rating Description	General Obligation	
General Obligation Tax Increment Refunding Bonds, Series 2015A		Aa2
Sale Amount	$3,460,000	
Expected Sale Date	10/27/15	
Rating Description	General Obligation	
General Obligation Utility Revenue Bonds, Series 2015A		Aa2
Sale Amount	$1,525,000	
Expected Sale Date	10/27/15	
Rating Description	General Obligation	

Moody's Outlook NOO

NEW YORK, October 13, 2015 --Moody's Investors Service has assigned a Aa2 rating to the City of Rosemount's (MN) $1.5 million General Obligation Utility Revenue Bonds, Series 2015A and $1.4 million General Obligation Capital Improvement Plan Refunding Bonds, Series 2015B. Additionally, we have assigned the Aa2 rating on the Rosemount Port Authority's (MN) $3.5 million General Obligation Tax Increment Refunding Bonds, Series 2015A. The Port Authority is serving as the issuer, while debt service is the obligation of the city. Moody's maintains a Aa2 rating on the City of Rosemount's general obligation unlimited tax (GOULT) debt, affecting $17.5 million of debt post-sale.

SUMMARY RATING RATIONALE

The Aa2 rating reflects the city's moderately-sized and concentrated tax base that is favorably located in the southern Twin Cities metropolitan area; strong financial management team that has guided the city's favorable financial operations and maintenance of ample reserves; and a modestly sized debt and pension burden.

OUTLOOK

Outlooks are generally not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

- Substantial growth and diversification of the city's tax base

- Maintenance of healthy reserves and liquidity

WHAT COULD MAKE THE RATING GO DOWN

- Significant erosion of the city's tax base

- Material deterioration in General Fund reserves and liquidity

STRENGTHS

- Strong management practices, healthy General Fund reserves and substantial alternate liquidity

- Availability of land for future development

- Manageable debt burden

CHALLENGES

- Tax base exhibits concentration, with oil refinery comprising 12.5% of assessed valuation

- Tax base size is below national median for the rating category

RECENT DEVELOPMENTS

Since our review in 2014, the city released a fiscal 2014 audit that recorded an $800,000 General Fund surplus and 5.5% growth in its total economic market value in 2015. Other developments are included in the detailed rationale below.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: CONCENTRATED TAX BASE FAVORABLY LOCATED IN TWIN CITIES METROPOLITAN AREA; RECENT INCREASES IN TAX BASE VALUATIONS

We expect Rosemount's tax base will remain stable given its favorable location in the Twin Cities area and ongoing residential and industrial development. Located in northern Dakota County (Aaa stable) in the southern suburbs of the Twin Cities metropolitan area, the city grew rapidly over the past several decades, both in terms of population and full value. The city's population increased from 1,300 in 1970 to 21,800 in 2010. The city's full valuation growth was rapid in prior years, with the city's moderately sized tax base (currently $2.4 billion in full valuation) experiencing annual double digit through 2007, driven by both construction and appreciation of residential property. However, during the national economic downturn, development slowed and the residential property market softened. As a result, the city's full valuation declined annually from 2008 through 2011. Favorably, the city's tax base has stabilized and continues to see both residential and industrial development. The city has substantial land available for new development.

Rosemount's tax base is concentrated, with an oil refinery owned by Flint Hills Resources, LLC (A1 stable) representing 12.5% of the city's assessed valuation in 2014. We note the presence of credit risk associated with this degree of dependence on a single taxpayer. However, the refinery has operated in Rosemount since 1955, and its oil producing capacity has since grown significantly. The plant is Minnesota's largest source of gasoline for vehicular transportation and jet fuel for aircraft at the Minneapolis-St. Paul airport and employs approximately 1,100. The company is undergoing a substantial multi-year $400 million facility upgrade to increase efficiency . The plant's important role in the state's economy and the parent company's continued investment in the plant demonstrate its relative stability as a taxpayer.

At 3.5% in July 2015, Dakota County's unemployment rate was lower than that of the state and nation's rates of 3.8% and 5.6%, respectively, for the same time period. The city's resident income levels are strong, with median family income at 148% of the nation according to 2013 estimates from the American Community Survey.

FINANCIAL OPERATIONS AND RESERVES: WELL-MANAGED FINANCIAL OPERATIONS WITH AMPLE RESERVES

We expect the city's finances to continue to be healthy, given its strong management team, ample General Fund and other available sources of liquidity. The city's formal General Fund balance policy calls for the maintenance of a General Fund unassigned balance at a maximum of 55% of the subsequent year's budgeted General Fund expenditures. Amounts in excess of policy are typically transferred to the city's various capital improvement projects funds or assigned for other one-time purposes. The city has a history of conservative budget assumptions, including a budgeting for no commercial and industrial permit revenues or delinquent tax collections. The city's conservative revenue-side budgeting, combined with maintenance of essentially flat operating expenditures over the last four audited fiscal years, has grown its General Fund reserves over time. As a result, the total General Fund balance increased to $8.4 million, or a strong 77.8% of revenues in fiscal 2013 compared to $7 million, or 64.5% in fiscal 2008. While the city adopted a balanced budget for fiscal 2014, audited results reflect a strong $802,000 General Fund operating surplus. The favorable result was driven by strong revenue performance (particularly permit revenues) and conservative expenditure assumptions. The surplus increased available General Fund reserves to $9.1 million, or 75.7% of revenues. The city's operating fund balance, which includes the city's Debt Service Fund, is $15.1 million, or a very healthy 103.6% of revenues. City management has budgeted for an additional operating surplus of $200,000 fiscal 2015 driven by growth in building permit revenue.

The city's primary operating revenue source is property taxes, which represented 75.4% of General Fund revenues in fiscal 2014, followed by charges for services (10.4%), and licenses and permits (6.1%). The city does not receive Local Government Aid (LGA), insulating it from the state's cuts to LGA in recent years.

Liquidity

The city's net operating fund cash at the close of fiscal 2014 was $15.2 million, or a very healthy 104.6% of fiscal 2014 operating revenues.

DEBT AND PENSIONS: MANAGEABLE DEBT BURDEN WITH LIMITED FUTURE BORROWING PLANS

We expect the city's debt burden to remain manageable given limited future borrowing needs. At 0.7% and 1.6% of full valuation, the city's direct and overall debt burdens compare favorably to state and national medians. The city may issue approximately $2 million of bonds for water utility infrastructure within the next year.

Debt Structure

All of the city's outstanding debt is fixed rate. Principal amortization is rapid, with 81% of all debt repaid in ten years.

Debt-Related Derivatives

The city is not party to any swap agreements.

Pensions and OPEB

Rosemount has an above average employee pension burden, relative to operating revenue, based on unfunded liabilities for its participation in two multiple-employer cost-sharing plans administered by the state, the General Employees Retirement Fund (GERF) and Public Employees Police and Fire Fund (PEPFF), and one single employer plan, the Rosemount Fire Relief Association. In 2014, the city contributed a total of $739,000 across its three plans, equal to 5.1% of operating revenues.

Moody's three-year average adjusted net pension liability (ANPL) for the city through fiscal 2014 is $23.5 million, or 1.6 times operating revenues (General Fund and Debt Service Funds) and 0.9% of full valuation. Moody's ANPL reflects certain adjustments we make to improve the comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities.

MANAGEMENT AND GOVERNANCE: STRONG INSTITUTIONAL FRAMEWORK; FORWARD-LOOKING FINANCIAL MANAGEMENT

Minnesota cities have an institutional framework score of "Aa" or strong. Cities rely on property taxes to fund the majority of operations followed by state aid. State Local Government Aid (LGA) typically comprise the second largest source and ranges approximately from 0% to 80%, or on average 25% of GF revenues. The State increased aid for next biennium, after years of state aid cuts and stagnant aid. Cities typically have above average debt related expenditures. Notably, overall expenditures are predictable and cities have the ability to reduce expenditures if necessary, and benefit from unlimited operating levy authority. The city has a history of implementing conservative budget assumptions, including a practice of not budgeting for commercial and industrial permit revenues nor the collections of delinquent taxes.

KEY STATISTICS

- Full valuation (economic market value): $2.4 billion

- Estimated full value per capita: $110,209

- 2009-2013 Median Family Income as a % of the US: 148%

- 2014 Operating Fund Balance as a % of Revenues: 103.6%

- Five-Year Dollar Change in Fund Balance as % of Revenues: 58.7%

- 2014 Cash Balance as a % of Revenues: 104.6%

- Five-Year Dollar Change in Cash Balance as % of Revenues: 56.3%

- Institutional Framework: Aa

- Operating History (Five-Year Average of Operating Revenues/Operating Expenditures): 1.02x

- Net Direct Debt/Full Value: 0.7%

- Net Direct Debt/Operating Revenues: 1.2x

- Three-Year Average of Moody's ANPL/Full Value: 0.9%

- Three-Year Average of Moody's ANPL/Operating Revenues: 1.6x

OBLIGOR PROFILE

Rosemount, located in northern Dakota County, is a southern suburb of the Minneapolis/Saint Paul metropolitan area, and encompasses an area of approximately 35.3 square miles.

LEGAL SECURITY

Debt service on the city's GOULT debt, including all three series of 2015 bonds, is ultimately secured by the city's general obligation unlimited tax pledge to levy a dedicated property tax that is not limited by rate or amount.

USE OF PROCEEDS

Proceeds of the Series 2015A bonds will be used to finance the drilling of a water well. Proceeds of the Series 2015B bonds will be used to refund select maturities of the city's outstanding Series 2005A bonds for interest savings. Proceeds of the Port Authority's Series 2015A bonds will be used to refund select maturities of the outstanding Series 2008B bonds for interest savings.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Analysts

Mark G. Lazarus
Lead Analyst
Public Finance Group
Moody's Investors Service

Hetty Chang
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA