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Summary:

Rosemount, Minnesota; General Obligation

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Credit Profile		
US$1.12 mil GO imp bnds ser 2017A due 02/01/2023		
Long Term Rating	AA+/Stable	New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Rosemount, Minn.'s series 2017 general obligation (GO) improvement bonds. The outlook is stable.

The city's full faith, credit, and resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure the 2017 bonds. The city is also pledging special assessments levied against benefited properties for a repayment of a portion of the bonds. Our rating is based on the city's full-faith-credit-and-resource unlimited-tax GO pledge, as the additional pledge does not achieve the full legal provisions under our multiple-revenue-stream criteria.

The GO rating reflects our view of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating surplus in the general fund but an operating deficit at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 82% of operating expenditures;
- Very strong liquidity, with total government available cash at 2.5x total governmental fund expenditures and 18.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 13.7% of expenditures and net direct debt that is 57.5% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 83.2% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Rosemount's economy very strong. The city, with an estimated population of 24,254, is located in Dakota County in the Minneapolis-St. Paul-Bloomington MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 123% of the national level and per capita market value of $106,065. The county unemployment rate was 3.4% in 2016.

Rosemount is located in the southern suburbs of the Twin Cities metro along U.S. Highway 52, about 20 miles south of downtown Saint Paul and about 24 miles southeast of downtown Minneapolis. While the city is largely residential with about 71% of total taxable capacity stemming from the category, several prominent institutions reside within the city's

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borders, including the University of Minnesota Outreach, Research and Education (UMore) Park (a 7,200-acre university-founded community focused on sustainability) and the Flint Hills Resources oil refinery (the largest refinery in the state). Altogether, the city is about 30% to 40% built out, although both the refinery and UMore Park control a significant portion of the city's land boundary.

The city's market value trend is relatively positive, as the city's current trend is above 5% annual growth and we expect at least positive market value growth through our two-year outlook horizon. As previously mentioned, the city's local tax base is primarily residential although we note that the city's top 10 taxpayers account for about 17% of total AV, a level that is higher than that of regional peers. We note that the top taxpayer (Flint Hills Resources) is dominant, as it represents about 11.5% of the local tax base. Given recent market trends, lack of new balance sheet pressure, and the strategic position of the Flint Hills refinery as the largest refinery in the state, we do not expect rating pressure as a result of minor economic concentration that stems from the local plant.

Overall, we are forecasting stable-to-positive growth for the urban centers in Minnesota as continued home price appreciation has helped boost local government tax receipts throughout much of the region, including the City of Rosemount. As a result, we expect the broader macroeconomic forces to support our view and expectation of a local economy that we consider to be very strong. For additional information, please refer to our U.S. State And Local Government Credit Conditions Forecast, published July 11, 2017 on RatingsDirect.

Adequate budgetary performance

Rosemount's budgetary performance is adequate, in our opinion. The city had surplus operating results in the general fund of 2.7% of expenditures, but a deficit result across all governmental funds of 3.5% in fiscal 2016. Our assessment accounts for our expectation that budgetary results will not deteriorate in the near term, as we do not expect that the city will produce general fund operating deficits that we would consider tantamount to weak budgetary performance. We note that the city operates on a calendar fiscal year and the fiscal 2018 budget is several months away.

As is common in urban Minnesota cities, the majority of the city's general fund operating revenue stems from locally generated taxes and fees (or about 95% of total revenue with the remainder classified as intergovernmental). These revenue lines, taken holistically, are tracking stable to trends that we do not expect to change within our outlook horizon. Unlike the majority of cities in Minnesota, Rosemount does not receive state-provided local government aid (LGA). While we may typically view the receipt of LGA as a revenue enhancement, historical volatility within state-provided LGA can lead to operating imbalances if the local government agency were not to utilize prudent financial planning practices. As Rosemount does not rely on LGA, we believe that the predictability of its revenue sources lead to greater stability within the city's budgetary performance.

We note that the city's total governmental funds, another key component of our budgetary performance criteria, are operating at a deficit, and we do not expect this trend to change as the city continues to develop and grow based on the historical trend. The city's capital projects fund largely fuels the negative trend, as the total government fund consistently accounts for about a quarter of the expenditures. We are anticipating continued capital project expenditures, which may include spending out of the city's general fund assigned balances. We do not believe that such spending would affect our view of the city's budgetary performance.

Very strong budgetary flexibility

Rosemount's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 82% of operating expenditures, or $9.9 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 82% of expenditures in 2015 and 81% in 2014.

We are expecting the city to reduce available fund balances to less than 75% as the city spends its assigned fund balances. As of the most recent monthly budget update report, the assigned balances are expected to support capital, maintenance, and equipment acquisitions that, if fully deployed, would reduce the city's budgetary flexibility to less than the previously mentioned 75%.

Finally, we do not expect to change our view of the city's budgetary flexibility to a level below very strong, as the city's general fund is bolstered by a 55% formal fund balance policy. We note that the 55% level was identified for cash flow and economic uncertainty reasons. As a result, this very strong policy, if adhered to, will continue to produce very strong budgetary flexibility.

Very strong liquidity

In our opinion, Rosemount's liquidity is very strong, with total government available cash at 2.5x total governmental fund expenditures and 18.2x governmental debt service in 2016. We believe that the city has strong access to external liquidity and capital markets because it issues GO debt on a frequent basis. Although, in our opinion, the state permits the use of aggressive investments, we do not view the city's own investments as aggressive, as the city invests primarily in certificates of deposit and U.S. governmental securities. We do not expect the city's cash position to change much over the next two years with respect to its total governmental expenditures and debt service, and believe liquidity will remain very strong.

Strong management

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

Management highlights include:

- Use of multiple years of historical information and access to external information from Dakota County with budget results being presented to city council members on a monthly basis;
- Monthly reporting to the city council on budget performance;
- Maintenance of a project-based long-term financial planning that is updated at least annually;
- A 10-year, annually updated long-term capital plan that identifies uses of funds although it does not identify the funding sources;
- A formal investment policy that is more stringent than that of the state, with frequent reports of investments and holdings;
- A debt management policy that delineates the types of debt issuance, the balance sheet structure, and limitations relative to the city's issuance of debt and its balance sheet (in addition, the policy limits annual debt service to 15% of general fund and special reserve fund revenue); and

- A formal reserve policy to maintain at least 55% of the upcoming year's budgeted expenditures, which was developed for cash flow purposes.

Very strong debt and contingent liability profile

In our view, Rosemount's debt and contingent liability profile is very strong. Total governmental fund debt service is 13.7% of total governmental fund expenditures, and net direct debt is 57.5% of total governmental fund revenue. Overall net debt is low at 1.5% of market value, and approximately 83.2% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors. In addition, the city does not carry direct purchase debt on its balance sheet.

City employees are covered by defined benefit pension plans administered by the Minnesota Public Employees Retirement Assn. (PERA). The city makes annual contributions to the pension plans equal to the amount required by state statutes. PERA currently carries a 64% funded ratio. In addition to the PERA, the city participates in the Rosemount Fire Department Relief Assn., a defined benefit plan. Altogether, Rosemount's pension contributions totaled 3.3% of total governmental fund expenditures in 2016. The city made 105% of its annual required pension contribution in 2016. The city's combined net pension liability, a new reporting requirement under recently released Governmental Accounting Standards Board standards, is approximately $6.3 million, or about 32% of total governmental funds expenditures for the same period. We note that this is a relatively low percentage based on our national portfolio. The city does not offer other postemployment benefits.

Outlook

The stable outlook on the underlying rating reflects our view that the city will maintain its very strong budgetary flexibility and adequate budgetary performance, and as such, we do not expect to change the rating within the two-year outlook period.

Upside scenario

A higher rating would be possible if the city's local tax base were to diversify and the budgetary performance were to improve and hold at a level that we consider strong. We could also raise the rating if the city's local wealth and income indicators were to improve to a level in line with that of higher-rated peers.

Downside scenario

A lower rating is possible if budgetary performance were to decline to a level we view as weak or very weak, causing significant deterioration in the city's budgetary flexibility. Based on historical performance, we do not view that as likely.

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 18, 2017
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.