STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:
Farmington, Minnesota; General Obligation

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Summary:

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Credit Profile		
US$3.21 mil GO street reconstruction bnds ser 2015A dtd 10/15/2015 due 02/01/2030		
Long Term Rating	AA/Stable	New
Farmington GO		
Long Term Rating	AA/Stable	Upgraded
Unenhanced Rating	NR(SPUR)	
Farmington GO imp rfdg bnds ser 2011A dtd: 08/25/2011 due 02/01/2012-2019		
Long Term Rating	AA/Stable	Upgraded
Farmington GO imp rfdg bnds ser 2013A dtd 01/15/2013 due 02/01/2015-2022		
Long Term Rating	AA/Stable	Upgraded
Farmington GO (AGM)		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Rating Services raised its long-term rating on Farmington, Minn.'s outstanding general obligation (GO) debt to 'AA' from 'AA-'. At the same time, we assigned our 'AA' rating to Farmington's series 2015A GO street reconstruction bonds.

The upgrade reflects our view of the city's improving management profile, strengthening to a level we consider strong, coupled with an increase in its debt profile from levels we considered very weak to weak.

A pledge of 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 2015A series bonds.

The rating reflects our view of the city's:

- Adequate 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 methodology;
- Very strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 46% of operating expenditures;
- Very strong liquidity, with total government available cash of 1.7x total governmental fund expenditures and 7.6x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges of 22.5% of expenditures and net direct debt that is 124.8% of total governmental fund revenue, but rapid amortization with 87.6% of debt scheduled to be retired in 10 years; and

- Strong institutional framework score.

Adequate economy

We consider Farmington's economy adequate. The city, with an estimated population of 22,911, encompasses 14.8 miles in Dakota County about 25 miles south of Minneapolis-St. Paul. It is part of the Minneapolis-St. Paul-Bloomington, Minn.-Wis. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 106.5% of the national level and per capita market value of $75,656. Overall, the city's market value grew by 8.9% over the past year to $1.7 billion in 2015. The county unemployment rate was 3.7% in 2014.

The city has a local stable economy with employment opportunities in the school district, federal aviation, utilities, and health care sectors.

Management expects economic market values to increase modestly in the upcoming year.

Strong management

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

We changed the score to "good" from "standard" based on updated information related to the long-term capital plan, the debt management policy, and reserve and liquidity policy.

The city currently uses at least two years of historical data to formulate revenue and expenditure assumptions for the upcoming year's budget. Budget to actuals are reviewed by the administrator monthly and reported at least quarterly to the council. Management is currently working on a long-term financial plan but has a 20-year long-term capital plan that is updated annually with sources of funds identified for upcoming projects. A formal debt management policy has been adopted containing provisions limiting the city from issuing variable rate debt and will not use derivative-based debt. A formal reserve and liquidity policy has been adopted to maintain 40% to 50% of operating expenditures for cash flow needs.

Very strong budgetary performance

Farmington's budgetary performance is very strong in our opinion. The city had operating surpluses of 9.6% in the general fund and 3.6% across all governmental funds in fiscal 2014.

Historically, the city has been able to produce consecutive surpluses in each of the past four years with expectations of a slight surplus of $286,000 in fiscal year end 2015 (Dec. 31) and breakeven results in fiscal 2016. Given historical budgetary performance we believe that the city will likely outperform its budget. Management anticipates that the total governmental fund performance will remain positive during the next two years. Therefore, we expect no deterioration in the budgetary performance score.

Very strong budgetary flexibility

Farmington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 46% of operating expenditures, or $4.8 million. We expect the available fund balance will remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The available fund balance includes $4.1 million (38.8% of expenditures) in the general fund and $775,000 (7.4% of expenditures) that is outside the general fund but legally available for operations.

Since 2012, the city has increased its general fund balance by 108.5% to current levels, which we view as very strong. Given management's ability to make budgetary adjustments when needed, we do not believe that the general fund will deteriorate significantly within our two-year year outlook horizon. Additional flexibility is provided by the cash and cash equivalents in the liquor fund, which could be used for operating expenditures.

Very strong liquidity

In our opinion, Farmington's liquidity is very strong, with total government available cash of 1.7x total governmental fund expenditures and 7.6x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

We believe that the city has strong access to external liquidity because it has been issuing GO debt within the last 20 years, which demonstrates access to capital markets. 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. We do not view the city's investment practices as risky as a majority of its investments are in highly rated securities.

Weak debt and contingent liability profile

In our view, Farmington's debt and contingent liability profile is weak. Total governmental fund debt service is 22.5% of total governmental fund expenditures, and net direct debt is 124.8% of total governmental fund revenue. About 87.6% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

Management has confirmed that the city has no other alternative financings.

We understand that the city does not currently have any plans to issue additional debt outside of possible refunding for interest cost savings. The city does intend to issue debt in fiscal 2019 for capital projects.

Farmington's combined pension and other postemployment benefits (OPEB) contributions totaled 5.2% of total governmental fund expenditures in 2014. The city made its full annual required pension contribution in 2014.

All full time and certain part time employees of Farmington are covered by defined-benefit plans administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees retirement Fund (GERF) and Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. As of fiscal year 2014 (Dec. 31) the GERF plan was funded at 82%.

Strong institutional framework

The institutional framework score for Minnesota cities with a population greater than 2,500 is strong.

Outlook

The stable outlook reflects our expectation that the rating will not change over the two-year outlook horizon. We expect Farmington to maintain at least very strong budgetary flexibility, with available reserves that are at or above current levels coupled with very strong liquidity.

Upside scenario

A higher rating is possible if the city's economy were to improve to a level we would view as very strong coupled with an increase in the debt profile score to a level we view as strong, though we do not view that as likely.

Downside scenario

A lower rating is possible if the budgetary performance were to decline to a level we view as weak or very weak coupled with deterioration in budgetary flexibility. Given historical performance, we do not view this as likely.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

Institutional Framework Overview: Minnesota Local Governments

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.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.