STANDARD & POOR'S RATINGS SERVICES

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Summary:

Le Sueur, Minnesota; General Obligation; Non-School State Programs

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Credit Profile		
US$0.97 mil taxable GO swr rev bnds ser 2013A dtd 10/01/2013 due 12/01/2025		
Unenhanced Rating	AA-(SPUR)/Stable	New
US$0.805 mil GO street reconstruction rfdg bnds ser 2013B dtd 10/01/2013 due 12/01/2026		
Long Term Rating	AA-/Stable	New
Le Sueur GO		
Long Term Rating	AA-/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating on Le Sueur's previously rated general obligation (GO) bonds to 'AA-' from 'A' based on our recently released local GO criteria. At the same time, we assigned our 'AA+' long-term rating and 'AA-' underlying rating (SPUR) to the city's series 2013A GO sewer revenue bonds and our 'AA-' long-term rating to the city's series 2013B GO street reconstruction refunding bonds. The outlook on all the ratings is stable.

The 'AA+' rating reflects our view of Le Sueur's participation in the Minnesota city credit enhancement program, which provides the security of a standing appropriation from Minnesota's general fund in the event of a city debt payment default.

A pledge of the city's full faith and credit and an agreement to levy ad valorem property taxes without limitation as to rate or amount secures both the series 2013A and 2013B bonds. Wastewater revenues have also been pledged to the series 2013A bonds. Management intends to use the series 2013A bond proceeds to reimburse the city for cash it used to decommission the former wastewater treatment plant, which has been replaced by a new plant that serves Le Sueur and nearby Henderson. It intends to use series 2013B bond proceeds to current refund its series 2011 GO temporary street reconstruction bonds for interest cost savings and to restructure the financing as a long-term obligation.

The GO rating reflects our assessment of the following factors for the city, specifically its:

- Strong economy which benefits from participation in the broad and diverse economy of Minneapolis-St. Paul (Twin Cities);
- Very strong budgetary flexibility with 2012 audited reserves at 19% of general fund expenditures;
- Very strong budgetary performance and projected structural improvement;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Adequate management conditions with standard financial practices and policies;
- Very weak debt and contingent liabilities position, mostly reflecting the city's high net direct debt burden; and
- Strong institutional framework.

Strong economy

Le Sueur, the seat of Le Sueur County, has a strong economy with access to the broad and diverse economy of the Twin Cities. Traditionally, county unemployment has been higher than state and national levels. In 2012, county unemployment measured 7.1%, compared with the state's 5.6% rate and the nation's 8.1% rate. The city's estimated 4,050 residents have access to jobs in the greater metropolitan area due to Le Sueur's proximity to Highway 169. Notable area employers include Le Sueur Inc., an aluminum castings/plastics manufacturer (440 employees), the independent school district No. 2397 (305) and Cambria (processed quartz products, 289). We understand Cambria has expanded and will add roughly $180,000 to the city's net tax capacity in fiscal 2014. Additionally, the Minnesota Municipal Power Agency is developing a new biofuel plant in Le Sueur that will add approximately $140,000 to the net tax capacity in 2015. Both of these developments will increase the city's market value, which is currently valued at $226 million, or $55,854 per capita. The city's projected per-capita effective buying income, as a percentage of the national average, is 102%.

Very strong budget flexibility

In our opinion, the city's budgetary flexibility remains very strong with reserves above 15% of expenditures for the past several years and plans to build them up in the near future. Management chose to close two bond funds, set up for bonds that have since been paid off, into the general fund in 2013 to build reserves. In 2014, management intends to increase the levy and dedicate its incremental local government aid revenues of approximately $147,000 to further progress toward its goal of increased reserves. As of fiscal year-end 2012, the city's available general fund reserves of $358,000, albeit nominally thin, equaled 19% of operating expenditures. Given management's current projections, Le Sueur's reserves should grow to $551,000, or 26.5% of expenditures, by fiscal year-end 2013 and $698,000, or 32% of expenditures, by year-end 2014.

Very strong budgetary performance

The city's budgetary performance, in our view, has been very strong overall with a surplus of 4.6% for the general fund but a deficit of 5% for the total governmental funds, after adjusting expenditures for one-time capital projects, in fiscal 2012. The city is projecting surpluses in both the general fund and its total governmental funds for both of fiscal years 2013 and 2014 because management has already gained approval from the board for most of its actions intended to increase reserves, as well as preliminary approval of its 2014 budget and levy increase. For these reasons, we do not anticipate a change in our assessment of the city's general fund performance, and we expect the city will be in a good position to maintain very strong performance in its total governmental funds.

Very strong liquidity

Supporting the city's finances is what we consider very strong liquidity with total government available cash as a percent of total governmental fund expenditures at 24.7%, projected to increase to approximately 42% in 2014, and as a percent of debt service at 90%, projected to increase to approximately 142% in 2014. We believe the city has strong access to external liquidity. The city has issued a variety of debt frequently over the past 15 years, including leases and GO, special assessment, and revenue bonds.

Adequate management

We view Le Sueur's management conditions as adequate with standard financial practices and policies. The city uses four years of historical trend data and outside sources when constructing its annual budget. Management provides the board with quarterly budget-to-actual and investment reports. While the city does not maintain a long-term financial plan, it does have a formal five-year capital plan, which it updates annually. Le Sueur does not yet have a formal debt management policy but has its own investment policy, which is more stringent than state guidelines. The city maintains a formal reserve policy that establishes a minimum reserve level equal to 50% of expenditures, but it is currently below this target.

Very weak debt and contingent liability profile

In our opinion, Le Sueur's debt and contingent liabilities profile is very weak with total governmental funds debt service as a percent of total governmental funds expenditures at 27.4% and with net direct debt as a percent of total governmental funds revenue at 286% and slated to rise. The city plans to issue an additional $3.2 million in GO bonds by the end of fiscal 2015. We expect debt issuance within the next two years will bring the net direct debt, including the new issuance, to roughly 340% of total governmental funds revenue. The city has GO water and sewer revenue debt that is partially self-supporting and has used bonds to upgrade and modernize its infrastructure.

All full-time and certain part-time city employees participate in pension plans administered by the Public Employees Retirement Association. Le Sueur has contributed 100% of the annual required contributions (ARCs) to the plans in each of the past three years. The city does not pay for any portion of retiree health care premiums but allows employees to stay in its health insurance plan on retirement and continue to pay active premium rates. As such, a portion of Le Sueur's contributions to the health care plan for active employees constitutes an implicit subsidy contribution on behalf of its retirees. In 2012, this other postemployment benefit (OPEB) implicit subsidy contribution totaled $30,000. The combined ARC pension costs and OPEB pay-as you-go for fiscal 2012 were less than 10% of expenditures, and these costs are not anticipated to increase substantially in the near term.

Strong institutional framework

We consider the Institutional framework score for Minnesota cities with a population greater than 2,500 strong. (See our Institutional Framework score for Minnesota.)

Outlook

The stable outlook on the 'AA+' rating reflects Standard & Poor's view of the rating outlook on the state of Minnesota. The stable outlook on the 'AA-' ratings reflects our view of Le Sueur's very strong projected financial performance and strong underlying economy supported by adequate management. We do not anticipate changing the rating in our two-year outlook horizon due to our expectation that the city will at least maintain reserves at current levels and continued participation in the broad and diverse MSA of the Twin Cities.

Related Criteria And Research

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Minnesota Local Governments

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