

RatingsDirect®

Summary:

Rock Rapids, Iowa; General Obligation

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Credit Profile

US\$3.32 mil GO cap loan nts ser 2016 dtd 06/01/2016 due 06/01/2031

Long Term Rating A+/Stable New

Rock Rapids GO cap ln nts

Long Term Rating A+/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'A+' long-term rating to Rock Rapids, Iowa's general obligation (GO) capital loan notes, series 2016. As the same time, we affirmed our 'A+' long-term rating on the city's outstanding GO capital loan notes. The outlook on all ratings is stable.

The notes are general obligations of the city for which the city will pledge its power to levy direct ad valorem taxes for the repayment of the notes. We understand that the proceeds will be used for street repair reconstruction, and for improvements to an area that has been proclaimed a disaster emergency due to the 2014 flood. The proceeds will also refund the city's series 2010 GO notes for interest cost savings.

The rating reflects our view of the following characteristics:

- Weak economy, with projected per capita effective buying income at 88.3% of the national level and market value per capita of \$51,090;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2015, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available cash reserve in fiscal 2015 of 92% of operating expenditures;
- Very strong liquidity, with total government available cash at 95.9% of total governmental fund expenditures and 7.1x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 13.6% of expenditures and net direct debt that is 142.7% of total governmental fund revenue, as well as rapid amortization, with 74.7% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Weak economy

We consider Rock Rapids' economy weak. The city, with an estimated population of 2,644, is located in Lyon County. The city has a projected per capita effective buying income of 88.3% of the national level and per capita market value of \$51,090. Overall, the city's market value grew by 2.3% over the past year to \$135.1 million in 2017. The county unemployment rate was 2.6% in 2014.

The city is the Lyon County seat and is located about 31 miles southeast of Sioux Falls, S.D. We view the local economy as geographically limited.

In June of 2014, flash flooding resulted in the partial or total destruction of scores of homes and businesses. During the months that followed, the city applied for federal and state funding to assist with the costs of cleanup and mitigation. It appears that the city's economy is stabilizing, with new housing stock coming on line, some to replace housing for flood victims, and the city is seeing commercial and retail growth.

Strong management

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

The city's practices include the use of historical trends and outside sources in making revenue and expenditure assumptions. Management provides the city council quarterly budget-to-actual performance reports and investment holding results. The city also adopted a debt policy to keep its GO debt level at no more than 75% of its debt limitation. The city's reserve policy requires a general fund cash reserve of at least 25% of operating expenditures. The city does not engage in long-term financial planning, nor does it maintain a capital improvement plan.

Adequate budgetary performance

Rock Rapids' budgetary performance is adequate in our opinion. The city had operating surpluses of 12.3% of expenditures in the general fund and of 3.2% across all governmental funds in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term.

The city has projected that the general fund and total government funds will end 2016 and 2017 with operating deficits. However, the city could make additional adjustments due to the flooding that occurred in 2014, and the year-end results in 2016 and 2017 could possibly be better than budgeted.

Very strong budgetary flexibility

Rock Rapids' budgetary flexibility is very strong, in our view, with an available cash reserve in fiscal 2015 of 92% of operating expenditures, or \$1.5 million. We expect the available cash reserve to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Negatively affecting budgetary flexibility, in our view, is Rock Rapids' use of cash accounting, which reduces clarity about the amount of funds that are truly available.

Although the city is projecting to use a small amount of reserves, we expect available reserves to be maintained at a very strong level. Reserves levels exceeded 75% in 2013; however, the city is expecting to draw down reserves, possibly to below 75% of expenditures. Also, nominally, reserve levels are not very high, and small drawdowns could result in large percentage swings.

Very strong liquidity

In our opinion, Rock Rapids' liquidity is very strong, with total government available cash at 95.9% of total governmental fund expenditures and 7.1x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

We are not expecting the city's liquidity position to worsen in the foreseeable future.

Adequate debt and contingent liability profile

In our view, Rock Rapids' debt and contingent liability profile is adequate. Total governmental fund debt service is 13.6% of total governmental fund expenditures, and net direct debt is 142.7% of total governmental fund revenue. Approximately 74.7% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The city may issue \$500,000 of GO debt with the Federal Emergency Management Agency in 2016.

Rock Rapids' combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.3% of total governmental fund expenditures in 2015. Of that amount, 1.5% represented required contributions to pension obligations, and 2.8% represented OPEB payments. The city made its full annual required pension contribution in 2015.

The city contributes to the Iowa Public Employees Retirement System annually.

Strong institutional framework

The institutional framework score for Iowa cities with a population greater than 2,000 is strong.

Outlook

The stable outlook reflects our view of the city's very strong flexibility and liquidity position supported by good management policies. Given the current financial profile, we do not expect to change the rating within the two-year outlook horizon.

Upside scenario

We could raise the rating if the economy factors were to improve and operating results were consistently positive.

Downside scenario

A lower rating would reflect persistent operating deficits resulting in a deterioration of available reserves.

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: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- 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

- Institutional Framework Overview: Iowa Local Governments

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 Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

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