

Summary:**Rock Rapids, Iowa; General Obligation****Primary Credit Analyst:**

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Summary:

Rock Rapids, Iowa; General Obligation

Credit Profile		
US\$2.15 mil GO cap loan notes ser 2019 due 06/01/2033		
<i>Long Term Rating</i>	A+/Stable	New
Rock Rapids GO cap ln nts		
<i>Long Term Rating</i>	A+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'A+' long-term rating to Rock Rapids, Iowa's series 2019 general obligation (GO) capital loan notes. As the same time, we affirmed our 'A+' long-term rating on the city's outstanding GO capital loan notes. The outlook is stable.

The bonds are secured by the city's full faith and credit and an agreement to levy ad valorem property taxes without limit as to rate or amount. Proceeds will be used to finance various street projects throughout the city.

The 'A+' rating reflects our assessment of the city's creditworthiness, specifically its:

- Weak economy, with market value per capita of \$57,386 and projected per capita effective buying income (EBI) at 104.6% of the national level;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with an operating deficit in the general fund but an operating surplus at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available cash reserve in fiscal 2018 of 98% of operating expenditures;
- Very strong liquidity, with total government available cash at 55.2% of total governmental fund expenditures and 3.0x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 18.2% of expenditures and net direct debt that is 154.1% of total governmental fund revenue, but rapid amortization, with 74.6% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Rock Rapids has maintained a stable history of operational performance, complete with high levels of reserves that have been historically maintained above the city's 25% fund balance policy. The city is backed by a strong management team that has implemented a number of robust policies and practices, helping it maintain stability in operations. The local economy, after facing pressures due a period of flash flooding in 2014, has been able to recover considerably, and has experienced continued development, primarily in the commercial and residential sectors. The

city's debt profile, while at a level we consider weak, has been manageable within its budget. Additionally, its other long-term liabilities (pension and other postemployment benefits [OPEBs]) are manageable, further supporting its underlying credit quality.

Weak economy

We consider Rock Rapids' economy weak. The city, with an estimated population of 2,647, is in Lyon County, of which it is the county seat. It is roughly 30 miles southeast of Sioux Falls, S.D. The city has a projected per capita EBI of 104.6% of the national level and per capita market value of \$57,386. Overall, market value grew by 1.5% over the past year to \$151.9 million in 2020. The county unemployment rate was 1.8% in 2017.

There has been minor growth in Rock Rapids in recent years, primarily propelled by residential and business development, as well as the opening of the Sanford Rock Rapids Clinic and Avera Hospital and Clinic, two new health care facilities that have created jobs and are expected to be a draw for the community. Market value has seen slight increases due to this development, and are expected to continue to grow based on ongoing development throughout the city. We do not anticipate a change in our view of the local economy over the two-year outlook period.

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.

When developing the annual budget, management uses two years of history and the current year's budget to create projections. Budget-to-actual reporting is completed on a quarterly basis to the city council. The city maintains a five-year rolling capital improvement plan that includes upcoming projects and funding sources, as well as a three-year financial forecast (including the budget year) that is updated annually. It has its own investment policy and reports quarterly to the council on holdings and earnings, and a debt policy to keep its GO debt level at no more than 75% of its debt limitation. The city's fund balance policy requires a general fund reserves to be maintained at 25% of operating expenditures, although it has an informal target to keep reserves above 50%.

Adequate budgetary performance

Rock Rapids' budgetary performance is adequate, in our opinion. The city had deficit operating results in the general fund of negative 2.6% of expenditures, but a surplus result across all governmental funds of 21.9% in fiscal 2018.

In analyzing the city's budgetary performance, we adjusted year-end results to reflect recurring transfers between the general fund and other governmental funds. We also adjusted total governmental funds to account for one-time capital spending paid for with bond proceeds.

The city's general fund drawdown in fiscal 2018 of roughly \$44,000 was a budgeted deficit, primarily reflecting an internal policy to reduce the tax rate. It is the practice of officials to conservatively budget for a deficit, with results typically coming in better than budgeted. The 2019 budget originally called for a deficit of roughly \$512,000, but based on nearly year-end performance, management is expecting a much smaller drawdown of roughly \$200,000 (or 7.6% of expenditures). Management expects performance across all governmental funds to be in line with previous years, with no major drawdowns projected.

Preliminary expectations for fiscal 2020 are calling for a \$255,000 deficit due to one-time expenses related to equipment purchases and various maintenance projects. The general fund primarily relies on property taxes for revenue (45%), followed by charges for services (24%) and intergovernmental revenue (16%).

Very strong budgetary flexibility

Rock Rapids' budgetary flexibility is very strong, in our view, with an available cash reserve in fiscal 2018 of 98% of operating expenditures, or \$1.7 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. Impairing 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 upcoming budgets are projecting to use a small amount of reserves, we expect our view of the city's budgetary flexibility to be maintained at a level we consider very strong.

Very strong liquidity

In our opinion, Rock Rapids' liquidity is very strong, with total government available cash at 55.2% of total governmental fund expenditures and 3.0x governmental debt service in 2018. In our view, the city has strong access to external liquidity if necessary.

Rock Rapids held approximately \$1.7 million in unrestricted cash available for liquidity purposes as of fiscal year-end 2018. The city has demonstrated strong access to the capital markets with a history of issuing GO debt. Despite the state of Iowa allowing for what we consider permissive investments, Rock Rapids does not have any which we would consider aggressive. Nor does it have any privately placed or direct-purchase debt that could pose a contingent liquidity risk.

Weak debt and contingent liability profile

In our view, Rock Rapids' debt and contingent liability profile is weak. Total governmental fund debt service is 18.2% of total governmental fund expenditures, and net direct debt is 154.1% of total governmental fund revenue.

Approximately 74.6% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor. Our total direct debt is calculated at roughly \$5.7 million. Management confirmed that the city has no plans to issue additional debt within the next two years.

Rock Rapids' combined required pension and actual other postemployment benefit (OPEB) contributions totaled 4.4% of total governmental fund expenditures in 2018. Of that amount, 1.8% represented required contributions to pension obligations, and 2.6% represented OPEB payments. The city made its full annual required pension contribution in 2018.

Rock Rapids participates in the Iowa Public Employees' Retirement System (IPERS), a multiple-employer, defined-benefit pension plan. The city's annual required pension contribution to IPERS is set by state statute and based on an actuarially determined normal contribution rate. At June 30, 2018, it reported a liability of roughly \$525,889 for its proportionate share of the net pension liability. IPERS is 84% funded.

The city operates a single-employer health benefit plan that provides medical and prescription benefits for employees, retirees, and their spouses. Eligible retirees under the age of 65 and their dependents pay 100% of the full, active employee premium rates, resulting in an implicit rate subsidy. It is funded on a pay-as-you-go basis.

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 expectation that Rock Rapids will maintain stable budgetary performance, coupled with a very strong budgetary flexibility and liquidity profile. We also expect the economy and management to remain stable, so we do not anticipate changing the rating within the two-year outlook period.

Upside scenario

We would consider raising the rating if the city's economic indicators improve to levels more commensurate with those of higher-rated peers.

Downside scenario

We could lower the rating if the city's budget deteriorates, leading to weakened budgetary flexibility or liquidity.

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
- 2018 Update Of Institutional Framework For U.S. Local Governments

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