

Rating Action: Moody's assigns Aa1 to City of Lakeville MN's GO Bonds

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New York, March 25, 2021 -- Moody's Investors Service assigns a Aa1 rating to the City of Lakeville, MN's \$6 million General Obligation Tax Abatement Bonds, Series 2021B. Moody's maintains a Aa1 rating on the city's outstanding general obligation unlimited tax (GOULT) debt and a Aa3 rating on the outstanding lease revenue debt. Following the sale, the city will have about \$129 million in debt outstanding.

RATINGS RATIONALE

The Aa1 underlying GOULT rating reflects a large and growing tax base, above average resident income indices and a healthy financial profile. Despite the national economic slowdown, the city continues to benefit from ongoing residential and commercial development, including 639 new single-family home permits issued during 2020 and a 750,000 square foot Amazon warehouse. Fiscal 2020 was a record year for both the total number of new building permits and the total valuation of the new permits, with a combined permit value of more than \$400 million. The city's strong local economy is also driving favorable employment trends compared to the state and national figures. As of January 2021, the city's unemployment rate (4.0%) was below the state's rate (5.1%) and well below the national rate (6.8%).

The city's financial profile will remain very strong because of sizable reserves, conservative budgeting practices and limited financial pressure related to the coronavirus pandemic. Current fiscal 2020 estimates reflect a sizeable operating surplus. The city reports that unbudgeted expenditures related to the coronavirus pandemic have been modest and that positive revenue variances and recently implemented expenditure controls will drive an operating surplus of more than \$7 million, increasing general fund reserves to more than 80% of expenditures. Looking forward, the city's fiscal 2021 budget is balanced. The city's credit strengths are balanced against above average leverage driven by long-term debt and pension burdens and high fixed costs.

The city's lease revenue rating (Aa3) is notched twice from the city's GOULT to incorporate the risk of annual non-appropriation and the less essential nature of the leased assets (ice rink and liquor store).

RATING OUTLOOK

Outlooks are generally not assigned to local government credits with this amount of debt.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATING

- Reduced leverage and fixed cost burdens

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING

- Substantial tax base contraction and weakening of resident income indices
- Significant narrowing of operating reserves
- Growth in leverage or fixed costs

LEGAL SECURITY

The city's GOULT bonds are secured by the city's full faith and credit pledge and the authority to levy a dedicated property tax unlimited as to rate and amount. The security benefits from a statutory lien. The 2021B GOULT Bonds are additionally secured by revenues of the city's liquor fund.

The city's lease revenue debt is secured by its pledge to make annual lease payments, which are subject to annual appropriation, per the lease-purchase agreements.

USE OF PROCEEDS

Proceeds of the 2021B bonds will finance the construction of a fourth municipal liquor store within the city.

PROFILE

The City of Lakeville is located 25 miles south of downtown Minneapolis (Aa1 stable) and encompasses nearly 40 square miles in Dakota County (Aaa stable). The city serves more than 62,000 residents.

METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2021 and available at https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1260094. Alternatively, please see the Rating Methodologies page on www.moody.com for a copy of this methodology.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found at: https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBC_79004.

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