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McLeod County, Minnesota

Credit Profile		
US$3. mil GO cap equip nts ser 2009 dtd 05/27/2009 due 02/01/2010-2012		
Long Term Rating	AA/Stable	New

Rationale

The 'AA' long-term rating on McLeod County, Minn.'s series 2009 GO capital equipment notes reflects the county's:

- Participation in the greater Minneapolis-St. Paul ("Twin Cities") economic base, as well as the depth and diversity in the county's own economic base;
- Good income and very strong wealth indicators;
- Very strong financial operations backed by very strong financial reserves; and
- Very low overall debt burden.

The county's GO pledge secures the notes. The notes will finance various capital improvements for the county.

The county, which covers more than 500 square miles, is located about 50 miles west of the Twin Cities area economy. The county is home to more than 37,000 residents, which is up 6% since 2000. Most residents work within the county or travel closer into the Twin Cities, with some commuting south to Mankato or north to St. Cloud for employment opportunities. Unemployment rates in the county averaged 6% in 2008, which was above the state's 5.4% average and the nation's 5.8% average for the same time period. Through March 2009, the county averaged a 9.5% unemployment rate.

The county's leading employers include:

- 3M (1,781 employees);
- Hutchinson Technology Inc. (841, electronics and computer components);
- Hutchinson Area Health Care (686);
- Glencoe Regional Health Services (500); and

- Wal-Mart Stores Inc. (400).

Hutchinson Technology's employment count includes recent reductions in its staffing, with accompanying reductions in company operations. Aside from this, the county's other leading employers have been stable.

Due to growth throughout the county, particularly in the cities of Glencoe, Hutchinson, and Silver Lake, the county's taxable market value increased more than 9% annually, when averaged across tax years 2004 and 2008, to $3.3 billion. The county's indicated market value, which is a better measure of values in the area, was at $3.9 billion, or a very strong $104,868 per capita. The 10 leading taxpayers make up a very diverse 4.6% of net tax capacity. The county's income levels are good, with 2008 median household effective buying income levels at 96% and 106% of state and national levels, respectively.

The county's financial picture has been very strong. The county's last audited fiscal year (fiscal year-end Dec. 31, 2007) showed a general fund balance of $14.7 million. Of that total, $10.1 million, or a very strong 71% of general fund expenditures, was marked as unreserved. The county showed general fund surpluses in fiscals 2005-2007 of $2.0 million, $2.8 million, and $3.6 million, respectively. Fiscal 2008's unaudited result showed a $600,000 general fund surplus. The fiscal 2008 surplus followed a $388,000 unallotment in the county's local government aid (LGA) by Gov. Tim Pawlenty, late in fiscal 2008. For fiscal 2009, the county is preparing for a $309,000 reduction in LGA as the state prepares to balance its 2010-2011 biennial budget. Still, the county expects to adjust expenditures as necessary to show at least a break-even result in fiscal 2009. Property taxes typically account for the largest source of general revenues, more than 76% of general revenues in fiscal 2007. State grant revenue accounts for nearly 16%.

The county's management practices are considered "standard" under Standard & Poor's Financial Management Assessment. The county board receives monthly reports on budget-to-actual results, with the ability to do budget amendments as necessary. The county prepares a limited capital improvement plan. The county maintains an investment policy, more conservative than the state standards, with annual updates to the board on holdings and returns. The county's fund balance policy is to maintain general fund reserves at no less than five months' expenditures, as recommended by the state auditor. The county does not maintain a debt management policy.

The county's overall debt burden is low at $1,406 per capita and 1.3% of market value. Direct debt amortization is very rapid, with all debt, including this issuance, being retired by 2012. The debt carrying charge has been low at about 4%-7% of the operating budget. At this point, the county does not have any additional debt plans.

Outlook

The stable outlook reflects Standard & Poor's Ratings Services' expectation that the county will continue to maintain at least good financial reserves and successfully manage additional capital needs going forward.

Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006