

## ISSUER COMMENT

13 December 2019

### RATING

#### General Obligation (or GO Related) <sup>1</sup>

Aa3 No Outlook

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## City of East Grand Forks, MN

### Annual Comment on East Grand Forks

#### Issuer Profile

The City of East Grand Forks is located in northwestern Minnesota in Polk County, approximately 70 miles north of Fargo, North Dakota. The county has a population of 31,564 and a low population density of 16 people per square mile. The county's median family income is \$77,539 (1st quartile) and the September 2019 unemployment rate was 2.5% (2nd quartile) <sup>2</sup>. The largest industry sectors that drive the local economy are local government, manufacturing, and retail trade.

#### Credit Overview

East Grand Forks has a healthy quality credit position and its Aa3 rating matches the US cities median of Aa3. Key credit factors include a very healthy financial position, a strong wealth and income profile and a modestly sized tax base. It also reflects a small debt burden and a mid-ranged pension liability.

**Finances:** The financial position of the city is robust and is a strength in relation to the assigned rating of Aa3. The fund balance as a percent of operating revenues (75.2%) is stronger than the US median, and saw an impressive increase from 2014 to 2018. Moreover, East Grand Forks' cash balance as a percent of operating revenues (74.7%) is superior to the US median.

**Economy and Tax Base:** The economy and tax base of the city are strong overall and are in line with its Aa3 rating. The median family income equals a healthy 115.6% of the US level. Moreover, the full value per capita (\$83,476) is slightly below other Moody's-rated cities nationwide, but saw an impressive increase from 2014 to 2018. However, the total full value (\$741 million) is smaller than the US median.

**Debt and Pensions:** East Grand Forks has an affordable debt burden which is a modest credit strength relative to the assigned rating of Aa3. The net direct debt to full value (1.5%) is slightly higher than the US median, but fell between 2014 and 2018. On the other hand, the pension liability of the city is mid-ranged and is in line with its Aa3 rating. The Moody's-adjusted net pension liability to operating revenues (1.7x) is consistent with the US median.

**Management and Governance:** Minnesota cities have an institutional framework score <sup>3</sup> of "Aa", which is strong. The sector has one or more major revenue sources that are not subject to any caps. Revenues tend to be predictable, as cities rely primarily on property taxes and state Local Government Aid (LGA), which is distributed based on demographic and tax base factors. Revenue-raising flexibility is moderate as cities generally benefit from unlimited levying authority, except during years in which the state has imposed limits. Levy limits are

not currently in place for cities. Across the sector, fixed and mandated costs are relatively high. Expenditures mostly consist of personnel costs, which are highly predictable.

## Sector Trends - Minnesota Cities

Minnesota cities will generally benefit from an expanding state economy, especially around the Twin Cities metropolitan area. Expansion in healthcare and professional/business services, along with greater residential construction, are expected to drive job growth. A combination of rising wages and above-average high wage job gains is expected to push income increases ahead of the Midwest average. Property tax revenues, which are the primary revenue source for cities, are expected to remain sound given the robust economy and unlimited levying authority. Statutory pension contribution levels have not kept pace with growing unfunded liabilities in state-wide pension plans, in which all cities participate. Pension costs will grow given recent legislation requiring increased employer and employee pension contributions for some plans going forward.

EXHIBIT 1

### Key Indicators <sup>4</sup> <sup>5</sup> East Grand Forks

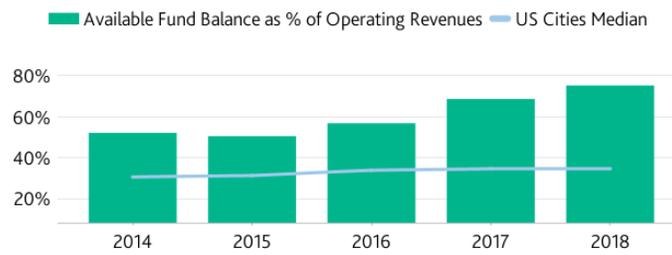
	2014	2015	2016	2017	2018	US Median	Credit Trend
<b>Economy / Tax Base</b>							
Total Full Value	\$558M	\$590M	\$645M	\$727M	\$740M	\$1,904M	Improved
Full Value Per Capita	\$64,803	\$68,564	\$74,691	\$84,483	\$83,476	\$94,106	Improved
Median Family Income (% of US Median)	113%	121%	116%	116%	116%	111%	Stable
<b>Finances</b>							
Available Fund Balance as % of Operating Revenues	52.1%	50.5%	56.8%	68.6%	75.2%	34.6%	Improved
Net Cash Balance as % of Operating Revenues	74.9%	83.6%	54.5%	81.9%	74.7%	39.6%	Stable
<b>Debt / Pensions</b>							
Net Direct Debt / Full Value	2.1%	2.5%	1.6%	1.8%	1.5%	1.1%	Improved
Net Direct Debt / Operating Revenues	1.18x	1.45x	0.84x	1.11x	0.87x	0.84x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	3.1%	2.9%	3.3%	N/A	N/A	1.8%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.77x	1.71x	1.69x	N/A	N/A	1.51x	Stable
	2014	2015	2016	2017	2018	US Median	
<b>Debt and Financial Data</b>							
Population	8,621	8,611	8,636	8,614	8,876	N/A	
Available Fund Balance (\$000s)	\$5,085	\$5,101	\$7,083	\$8,257	\$9,265	\$8,028	
Net Cash Balance (\$000s)	\$7,307	\$8,450	\$6,798	\$9,861	\$9,205	\$9,530	
Operating Revenues (\$000s)	\$9,758	\$10,105	\$12,470	\$12,036	\$12,318	\$23,172	
Net Direct Debt (\$000s)	\$11,499	\$14,662	\$10,426	\$13,400	\$10,756	\$19,139	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$17,238	\$17,328	\$21,062	N/A	N/A	\$32,507	

Source: Moody's Investors Service

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## EXHIBIT 2

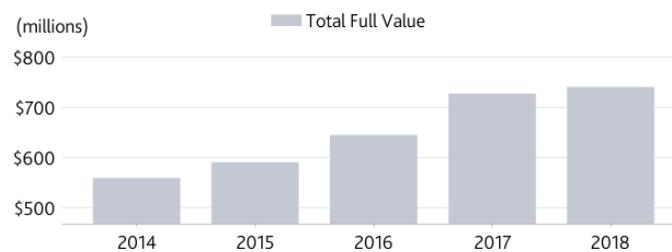
## Available fund balance as a percent of operating revenues increased from 2014 to 2018



Source: Issuer financial statements; Moody's Investors Service

## EXHIBIT 3

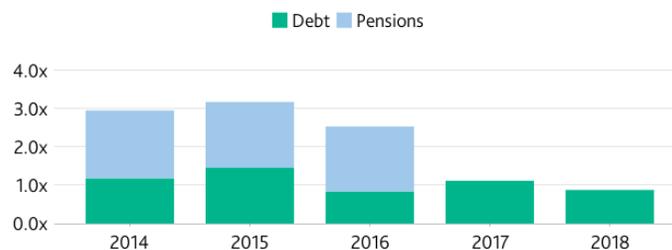
## Full value of the property tax base increased from 2014 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## EXHIBIT 4

## Moody's-adjusted net pension liability to operating revenues decreased from 2014 to 2016



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
- The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
- For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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