

Rating Action: Moody's upgrades Pine City, MN's GO rating to A2 and assigns A2 issuer rating

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New York, January 26, 2023 -- Moody's Investors Service has assigned a A2 issuer rating to the City of Pine City, MN. The issuer rating reflects the city's credit quality and ability to repay debt and debt-like obligations without consideration of any pledge, security, or structural features. Concurrently, Moody's upgraded the city's outstanding general obligation unlimited tax (GOULT) ratings to A2 from A3. This action concludes a review that was initiated on November 3, 2022 in conjunction with the release of the US Cities and Counties Methodology. The city has about \$13.7 million in outstanding debt.

RATINGS RATIONALE

The A2 issuer rating reflects the city's healthy financial position, below average tax base, and long-term leverage that is manageable, though likely to grow. The city's full value per capita and resident incomes are lower than comparably rated cities. The city's economic growth rate lags the nation, though it is in line with peers at the A2 rating.

The issuer rating also reflects the city's strong reserves, which could be drawn down for future capital needs. Despite the potential draw, we expect the city's financial position to remain a credit strength, given strong budget management. The fiscal 2022 original budget called for \$109,000 deficit across combined governmental and business type activities, however enterprise operations outperformed budget and overall performance is expected to be largely flat. The fiscal 2023 budget includes an 8% levy increase, as well as a modest use of reserves related to inflationary cost growth. The city closed fiscal 2021 with a strong 118% of revenues in reserves. The city operates various enterprises including sewer, water, and liquor. All enterprises benefit from strong liquidity.

The issuer rating further considers the city's manageable leverage and fixed costs, which could grow based on future debt plans. Total liabilities, consisting of direct debt, pensions, and other liabilities, are equivalent to over 207% of revenues. This includes approximately \$13.7 million of GO bonds issued by the city. Capital needs require an \$8 million renovation for city hall. Management plans to either issue debt or finance the project with cash on hand. In either case, we do not expect a material impact to credit quality.

The A2 rating on the GOULT bonds is at the same level as the city's issuer rating because the city has pledged its full faith, credit and taxing power for repayment of the bonds. The bonds also benefit from a dedicated ad valorem tax, levied against all taxable property in the city without limitation as to rate or amount.

RATING OUTLOOK

Moody's does not typically assign outlooks to local governments with this amount of debt.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Growth in resident wealth and income
- Diversification of the tax base

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Sustained declines in reserves
- Material increase to overall leverage or fixed costs

LEGAL SECURITY

Outstanding GOULT bonds are backed by the city's full faith and credit pledge and the authority to levy a dedicated property tax unlimited as to rate and amount. GOULT bonds are additionally secured by statute.

PROFILE

Pine City is the county seat of Pine County and is located approximately 73 miles northeast of the Twin Cities (Minneapolis, Aa1 stable; St. Paul, Aa1 stable) Metropolitan Area. The city encompasses an area of approximately 3.9 square miles and is home to nearly 3,100 residents.

METHODOLOGY

The principal methodology used in these ratings was US Cities and Counties Methodology published in November 2022 and available at <https://ratings.moodys.com/api/rmc-documents/386953>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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