MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa3 to Fargo, ND's Annual Appropriation Bonds; negative outlook

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New York, August 09, 2018 -- Moody's Investors Service has assigned a Aa3 rating to the city of Fargo, ND's $17.4 million Taxable Annual Appropriation Bonds, Series 2018E (Block Nine Project). Moody's has also affirmed the Aa1 on the city's outstanding general obligation unlimited tax (GOULT) debt and the Aa3 rating on the city's outstanding annual appropriation debt. Following the sale, the city will have $442 million of GO backed debt and $25.1 million of annual appropriation debt. The outlook is negative.

RATINGS RATIONALE

The Aa1 GO rating incorporates the city's growing economy, bolstered by its role as a regional economic hub; healthy finances that have been weakened by stagnating operating revenues, but remain strong, significant revenue raising flexibility; and a moderate pension burden. The rating also reflects the city's elevated debt and fixed costs burdens that are expected to grow with upcoming bond issuances, and recent declines in local sales tax revenues.

The Aa3 rating on the Series 2018E bonds, is notched twice off of the city's General Obligation rating (Aa1) due to the risk of annual appropriation and the less essential nature of the financed project, which is a parking ramp. The legal structure for the financing is satisfactory.

The Aa3 rating on Annual Appropriation Bonds, Taxable Series 2017A, is notched twice off the city's General Obligation rating due to the risk of annual appropriation, and the less essential nature of the funded project, which was to replace existing scoreboard and video board equipment for FargoDome. The legal structure for the financing is satisfactory.

RATING OUTLOOK

The negative outlook reflects our expectation that the local economy's growth has begun to slow, reflected in fiscal 2017 and year-to-date local sales tax declines, and a still growing but moderating tax base, which may not keep pace with the city's plans for additional borrowing on an already elevated debt burden.

FACTORS THAT COULD LEAD TO AN UPGRADE

- Significant reduction in debt and annual fixed costs

- Expansion of the city's tax and revenue base to absorb additional planned debt

- Further improvement in socioeconomic indicators such as resident income levels and full value per capita

FACTORS THAT COULD LEAD TO A DOWNGRADE

- Growth in debt and fixed costs ratios

- Stagnation or declines in the city's tax base signaling a reversal of the city's strong economic trends

- Deterioration in operating reserves and liquidity

- Final determination of local share of financing for $2.1 billion flood mitigation project and impact to direct and overlapping debt metrics

LEGAL SECURITY

Debt service on the city's outstanding GO debt, is secured by a GOULT pledge to levy a dedicated property tax not limited by rate or amount.

Debt service on the outstanding, Series 2017A annual appropriation bonds are secured by payments to be made by the city, subject to annual appropriation made by the city commission.

The Taxable Annual Appropriation Bonds, Series 2018E are secured by payments to be made by the city, subject to annual appropriation made by the city commission. Pursuant to the resolution, the city administration will include the full debt service appropriation in its annual budget request to the city commission. The city has strong incentives to appropriate, given the importance of maintaining continued market access.

The city's 2018E debt service payments are expected to be funded with annual deed payments from the developer ($1.1 million) and Tax increment revenue (TIF) from residential condominiums ($100,000). If these revenues fell short, the city could use the Debt Service Reserve Fund (DSRF) to make debt service payments. The DSRF will maintain 100% of the Maximum Annual Debt Service (MADS), which will total $1.2 million. If any of these revenues were insufficient to pay debt service, the city would appropriate monies from its other legally available funds. If the developer fails to make contractural payments, the city can also take access of the parking ramp. Debt service payments are due on May 1 (principal and interest) and November 1 (interest), and the city plans make transfers for debt service to the trustee on April 1 and October 1.

USE OF PROCEEDS

Proceeds of the Series 2018E bonds will be used to finance a parking ramp and public plaza, along with infrastructure improvements required to connect the parking ramp to the existing city skyway system.

PROFILE

The city of Fargo is the county seat of Cass County (Aa3) and encompasses approximately 48 squares miles on the eastern border of North Dakota (Aa1 negative) across the Red River from the city of Moorhead, MN (Aa3).

METHODOLOGY

The principal methodology used in the general obligation rating was US Local Government General Obligation Debt published in December 2016. The principal methodology used in the lease ratings was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2018. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

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