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Summary:

Elko New Market, Minnesota; General Obligation

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Credit Profile

US\$2.205 mil GO bnds ser 2013A dtd 12/15/2013 due 02/01/2029

Long Term Rating

AA+/Stable

New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating and stable outlook to Elko New Market, Minn.'s series 2013A general obligation (GO) bonds. The outlook is stable.

A pledge of the city's full faith, credit, and taxing powers to levy ad valorem property taxes without limitation as to rate or amount secure the bonds. The city expects to pay debt service from a combination of debt service levy, water and sewer revenues, and existing capital funds reserves. It intends to use bond proceeds to finance various public improvements.

The 'AA+' ratings reflect our assessment of the following factors for the city, specifically its:

- Strong economy, which benefits from participation in the broad and diverse economy of the Minneapolis-St. Paul, Minn. - Bloomington, Wis. metropolitan statistical area;
- Very strong budget flexibility, with 2012 audited available general fund reserves at 75% of expenditures;
- Strong budgetary performance in the general fund and across total governmental funds;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Strong management conditions demonstrated by comprehensive policies and practices, including long-term capital planning, long-term financial planning, and a formal general fund reserve policy; and
- Weak debt and contingent liabilities profile, driven by high ratio of net direct to total governmental funds revenue although debt to market value is manageable and amortization is rapid.

Strong economy

We consider Elko New Market's economy (estimated population: 4,285) to be strong with access to the broad and diverse economy of Minneapolis-St. Paul-Bloomington metropolitan area. The cities of Elko and New market merged into the city of Elko New Market in 2007. The city is located 30 miles south of the Minneapolis-St. Paul metropolitan area in Scott County. It is currently primarily a residential community (the tax base is 91% residential) with limited commercial establishments. The majority of residents commute to jobs throughout the Minneapolis-St. Paul metropolitan area. Scott County's unemployment was only 5.2% in 2012. The city's per capita income is strong, reflecting above-average wealth levels, and the projected per capita effective buying income is 135% of the U.S. Per capita market value is \$74,704 for 2013. The city's valuation has been steadily declining over the last five years, however, officials believe that taxable market value in 2014 will increase by 3.3% for the first time in a few years.

Very strong budget flexibility

In our opinion, the city's budgetary flexibility remains very strong with reserves above 75% of expenditures for the past several years and no plans to significantly spend down reserves for operating purposes. The available reserves, which consist of the general fund, capital projects, capital outlay, and economic development funds for audited fiscal 2012 totaled \$1.5 million, or 87% of expenditures. The city annually allocates unreserved funds in excess of 50% to a capital project fund to support its pay-as-you-go approach in funding capital projects without debt whenever feasible. Management expects the available fund balance to increase in both fiscal 2013 and 2014. We believe that the city's reserves should stay above 75% of operating expenditures for the next two years. The city strives to maintain high general fund reserves to accommodate cash flow requirements and contingency needs because it receives its major revenues, including property taxes, in the second half of its fiscal year.

Strong budgetary performance

Budgetary performance has been good overall with a surplus of 5.4% for the general fund in fiscal 2012 and a surplus of 13.7% for total governmental funds (after adjusting for major one-time capital expenditures and debt refunding). Over 75% of general funds revenue is from property taxes. Officials indicated that the budgetary performance should be positive in both years but the results could fluctuate from year to year based upon the city's annual budget objectives and appropriations for large capital expenditures. We believe property taxes are a stable revenue source, and although the Minnesota legislature has applied levy limits at various times over the last decade, these levy limits have not placed undue pressure on municipalities in general. Elko New Market in particular has generally experienced revenue growth. We believe that stable-to-growing revenues, along with well-managed expenditures; will allow the city to continue to produce structurally balanced results.

Very strong liquidity

Liquidity is very strong, with total government available cash at 179% of total governmental fund and 1,061% of total governmental funds' debt service. We believe the city has strong access to external liquidity, having issued bonds frequently in the past 15 years. It typically issues GO bonds, which are often additionally secured by a revenue source such as special assessments and utility revenues.

Strong management

Management conditions are strong with good financial policies and practices. The council reviews budget-to-actual results during quarterly workshops. The city maintains and annually updates a five-year capital improvement plan and a comprehensive long-term budget plan. The current general fund balance exceeds the formal policy's 50% minimum guideline. Based on the current policy, the city may allocate unreserved funds in excess of 50% to a capital project fund to support its pay-as-you-go approach in funding capital projects without debt whenever feasible. If the unreserved general fund balance falls below 50% of the current year's budgeted expenditures, the city will restore the unreserved general fund balance to this level in subsequent general fund budgets as quickly as reasonably possible. The city also has a general policy for enterprise and capital project funds. In general, the amount of fund reserves to be maintained will be at least 35% of annual approved budget expenditures. The maximum amount of the reserves will be limited to six months' operating cash plus the amount of cash needed to pay estimated costs of annually budgeted capital projects identified in the current year of the adopted capital improvement plan and annual debt service.

Weak debt and contingent liability profile

In our opinion, the city's debt and contingent liabilities profile is weak, with total governmental funds' debt service at 16.8% of total governmental funds expenditures and net direct debt at 281% of total governmental funds revenue. Debt to market value is 6.7%, and amortization is rapid, with 79.5% of debt due to retire over 10 years; we view both factors as credit positives. Officials anticipate issuing \$8.8 million in the next two to three years to finance a water tower rehabilitation project and replace fire department vehicles.

All full-time and certain part-time employees are covered by defined-benefit plans administered by the Public Employees Retirement Assn. of Minnesota (PERA), which are cost-sharing, multiple-employer retirement plans. The city contributes its annual required contribution per state statute annually but does not subsidize retiree health care benefits. Pension contributions totaled only 1.8% of total governmental fund expenditures in 2012.

Strong Institutional Framework

We consider the Institutional Framework score for Minnesota cities with population over 2,500 to be strong.

Outlook

The stable outlook reflects Standard & Poor's expectation that Elko New Market will maintain its strong financial performance, including solid fund balances and very strong liquidity, given its robust tax base and strong management policies. Given these very strong credit quality characteristics, including access to the Minneapolis-St. Paul-Bloomington metropolitan area, we do not expect to change the rating within our two-year outlook horizon. The rating could improve if market value per capita improves significantly.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Minnesota Local Governments

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