

RatingsDirect®

Summary:

Shoreview, Minnesota; Appropriations; General Obligation

Primary Credit Analyst:

Andrew J Truckenmiller, Chicago (1) 312-233-7032; andrew.truckenmiller@standardandpoors.com

Secondary Contact:

Caroline E West, Chicago (1) 312-233-7047; caroline.west@standardandpoors.com

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Credit Profile

US\$10.0 mil GO imp & util rev bnds ser 2015A due 02/01/2036

| | | |
|------------------------------|------------|----------|
| <i>Long Term Rating</i> | AAA/Stable | New |
| Shoreview rfdg certs of part | | |
| <i>Long Term Rating</i> | AA+/Stable | Affirmed |
| Shoreview GO | | |
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to Shoreview, Minn.'s series 2015A general obligation (GO) improvement and utility revenue bonds. At the same time, Standard & Poor's affirmed its 'AAA' long-term rating on the city's existing GO debt and its 'AA+' long-term rating on the city's certificates of participation (COPs). The outlook on all ratings is stable.

The COPs are rated one notch below the city's GO rating due to the annual appropriation risk associated with the security.

The bonds are a GO of the city, and the city has a full faith and credit pledge to levy direct general ad valorem property taxes without limitation as to rate or amount. In addition, the city will pledge special assessments against benefited properties and net revenues of its water, sewer, and surface water utility funds. The long-term rating is based on the unlimited-tax GO pledge. The city will use series 2015A bond proceeds to finance various street and utility projects.

The rating reflects our assessment of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA) methodology;
- Very strong budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2014, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2014 of 130% of operating expenditures;
- Very strong liquidity, with total government available cash of 1.8x total governmental fund expenditures and 21.2x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges of 8.6% of expenditures and net direct debt that is 132.1% of total governmental fund revenue and low overall net debt at less than 3% of market value; and

- Strong institutional framework score.

Very strong economy

We consider Shoreview's economy very strong. The city, with an estimated population of 26,068, is located in Ramsey County in the Minneapolis-St. Paul-Bloomington MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 147% of the national level and per capita market value of \$110,748. Overall, the city's market value grew by 4.7% over the past year to \$2.9 billion in 2015. The county unemployment rate was 3.9% in 2014.

The city is about 10 miles north of St. Paul, providing residents with full access to the Twin Cities metropolitan area economy. Although Shoreview is a suburb of St. Paul and almost completely built out, it continues to experience commercial development within city limits. In addition, housing developments have recently begun to pick up. The city implemented a comprehensive business retention program that has helped sustain and attract employment opportunities.

Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Management provides the city council with monthly reports on its budget-to-actual results. The city has its own investment policy and contracts with investment managers, and it updates the council monthly on investment holdings and earnings. The city also maintains long-term financial and capital improvement plans that city officials and city council view and update annually. The city has a formalized reserve policy to maintain a general fund balance minimum of 50% of the ensuing year's taxes and state aid. It is also the city's policy to maintain additional general fund levels by reserving up to 10% of the ensuing year's budgeted expenditures. In addition, the reserve policy indicates that all other funds can be used only with the approval of city council.

Very strong budgetary performance

Shoreview's budgetary performance is very strong in our opinion. The city had operating surpluses of 3.7% in the general fund and 22.3% across all governmental funds in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could improve from 2014 results in the near term. General fund operating results of the city have been stable over the past three years, with a result of 3.1% in 2013 and a result of 1.9% in 2012.

The city projects surpluses in the general fund and in the total government fund for fiscal 2015. The city does not rely on local government aid, which is typical of cities in Minnesota, but tax revenues are the city's leading revenue source at 70%. Tax revenues have increased modestly over the past few years since the city is willing and has raised the tax levy slightly in order to increase revenues. At this time, given the city's historical budget-to-actual performance, we do not expect to change our assessment of the city's general fund performance. However, should tax revenues decline, we believe the city will be in a good position to maintain at least strong performance. The city will adopt a balanced budget for fiscal 2016.

Very strong budgetary flexibility

Shoreview's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2014 of 130%

of operating expenditures, or \$12.4 million. We expect the available fund balance will remain greater than 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The available fund balance includes \$4.4 million (46% of expenditures) in the general fund and \$8.0 million (84% of expenditures) that is outside the general fund but legally available for operations.

We have factored in the special revenue, debt, capital, and internal service funds because management considers these funds available. The city uses these funds for building repairs, vehicle replacements, street repairs, and other capital projects. The funds are legally available for any use and management views them as an extension of the general fund, which increases the city's available liquidity considerably. We expect fund balance improvements to continue in fiscal 2015 because management expects a surplus across all governmental funds.

Very strong liquidity

In our opinion, Shoreview's liquidity is very strong, with total government available cash of 1.8x total governmental fund expenditures and 21.2x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

Shoreview's access to the capital markets is highlighted by routine GO issuances throughout the past 15 years. The city does not have any privately placed or direct placement debt. The majority of the investments the city makes are non-aggressive, in our view.

Adequate debt and contingent liability profile

In our view, Shoreview's debt and contingent liability profile is adequate. Total governmental fund debt service is 8.6% of total governmental fund expenditures, and net direct debt is 132.1% of total governmental fund revenue. Overall net debt is low at 2.8% of market value, which is, in our view, a positive credit factor.

The city has self-supporting debt from the GO bonds, which are supported by water, sewer, and surface water utility revenues. The city expects to issue \$7.8 million of water and surface water revenue bonds in fiscal 2016, and an additional \$1.0 million in water and sewer revenue bonds in fiscal 2017.

Shoreview made its full annual required pension and other postemployment benefit (OPEB) contribution in 2014, which totaled 2.1% of total governmental fund expenditures.

All full-time and certain part-time city employees are covered by defined-benefit pension plans administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund and the Public Employees' Police and Fire Fund, which are cost-sharing, multi-employer retirement plans. The plans provide retirees the option to remain in the city's health insurance plan, but eligible retirees are responsible for 100% of the premiums. Therefore, the plans are an implicit subsidy of the city and are funded on a pay-as-you-go basis. Shoreview has contributed 100% of its annual required contribution (ARC) in each of the past three years. The combined ARC for pension costs and OPEB pay-as-you-go costs for fiscal 2014 were 2.1% of expenditures, and the city does not anticipate these costs will increase substantially in the near term.

Strong institutional framework

The institutional framework score for Minnesota cities with a population greater than 2,500 is strong.

The city of Shoreview's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions", U.S. local governments are considered to have moderate sensitivity to country risk. Shoreview's general obligation pledge is the sole source of security on the bonds; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the city. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. Shoreview's financial flexibility is demonstrated by the very high general fund balance as a percentage of expenditures, as well as very strong liquidity.

Outlook

The stable outlook reflects our view of the city's very strong economy and strong financial performance, which is supported by very strong management. We do not expect to revise the rating within the next two years because we believe the city will maintain very strong reserves during the outlook period. Although not expected, we could lower the rating if there is a significant deterioration in the city's economic and financial position. The city's access to the broad and diverse Minneapolis-St. Paul-Bloomington MSA provides additional stability to the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

Institutional Framework Overview: Minnesota Local Governments

| Ratings Detail (As Of August 14, 2015) | | |
|--------------------------------------------------------------------------|------------|----------|
| Shoreview GO bnds | | |
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |
| Shoreview GO bnds ser 2009A dtd 11/15/2009 due 02/01/2011-2021 | | |
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |
| Shoreview GO bnds ser 2013A dtd 03/06/2013 due 02/01/2014-2023 2026 2028 | | |
| <i>Long Term Rating</i> | AAA/Stable | Affirmed |

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