

RatingsDirect®

Summary:

Elk River, Minnesota; General Obligation

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Credit Profile

US\$10.0 mil GO swr rev bnds ser 2014B due 08/01/2035

Long Term Rating AA+/Stable New

Elk River GO

Long Term Rating AA+/Stable Affirmed

Elk River Econ Dev Auth, Minnesota

Elk River, Minnesota

Elk River Econ Dev Auth (Elk River) GO rfdg bnds

Long Term Rating AA+/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Elk River, Minn.'s series 2014B general obligation (GO) sewer revenue bonds. At the same time, we affirmed our 'AA+' long-term rating on previously issued GO bonds. The outlook is stable.

The rating reflects our assessment of the following factors for the city:

- Strong economy;
- Very strong budgetary flexibility, with fiscal 2013 available general fund reserves at 62% of expenditures;
- Very strong liquidity, which reflects our view of fiscal year-end 2013 total government cash and strong access to external liquidity;
- Very strong management conditions;
- Strong budgetary performance; and
- Very weak debt and contingent liability profile.

Strong economy

We consider the city's economy strong, given projected per capita effective buying income at 108% of the U.S., and market value per capita at \$81,648. Elk River, the seat of Sherburne County, covers 43.8 square miles, approximately 30 miles northwest of the Minneapolis-St. Paul metropolitan area and 38 miles southeast of St. Cloud. The city benefits from its proximity to the broad and diverse Minneapolis-St. Paul and St. Cloud metropolitan statistical areas. The city's population has been increasing gradually for the last decade. Management has stated that although residents commute to the Minneapolis-St. Paul and St. Cloud metropolitan areas for employment, the city also draws commuters from surrounding communities, due to the employment opportunities from a number of growing small companies. Along with access to Interstate 94, residents can also commute into downtown Minneapolis via the city's Northstar commuter rail station.

Very strong budgetary flexibility

We consider Elk River's budgetary flexibility very strong, with fiscal 2013 available general fund reserves (most recently audited year available) of \$7.8 million equal to 62% of adjusted expenditures. The total available fund balance includes the available general fund portion as well as available cash in the municipal liquor fund. Management aims to maintain balances at the current level in 2014 and 2015. Management doesn't plan to significantly raise taxes or reduce expenditures in the near future, because revenues will continue to improve. We expect the fund balance to remain well-above 30% of expenditures over the next several years, based on the city's projections.

Very strong liquidity

Supporting the city's finances is what we consider very strong liquidity, with total government available cash at 249% of total governmental fund expenditures, and well-over 1,557% of debt service. In addition, we believe that the city has strong access to external liquidity, given its frequent issuance of GO bonds in the past 20 years.

Very strong management conditions

We view the city's management conditions as strong, with "strong" financial practices and policies under our Financial Management Assessment methodology, indicating that practices are strong, well embedded, and likely sustainable. There are monthly reports to the city council, on budgeted numbers compared with actual performance; the council can amend the budget as necessary. Management maintains a long-term financial and capital plan and a debt management policy. The city-adopted reserve policy requires it to maintain a general fund unreserved balance of at least 40% of expenditures for cash flow purposes. Management prefers general fund balance to stay above 45%.

Strong budgetary performance

The city's budgetary performance has been strong overall. The city ended fiscal 2013 (the most recent audited year) with a very slight deficit of 0.2% for the general fund and a larger 8.5% deficit for total governmental funds. The revenues and expenditures were adjusted to include transfers to capital funds and grant revenues and respective expenditures. The city's current practice is to maintain reserves at or near 45% of operating expenditures, and to transfer an excess to capital projects funds or other funds. Prior to transfers (which have been made regularly), the general fund recorded a positive result. Management expects to end both 2014 and 2015 with at least break-even general fund results, and anticipates the total governmental fund performance to improve because of the new revenue sources and overall improvement of the revenue climate.

Very weak debt and contingent liability profile

The city's debt and contingent liability profile is very weak. Total governmental fund debt service was 16% of adjusted total governmental fund expenditures in fiscal 2013, and net direct debt was 176% of total governmental fund revenue. A significant portion of the city's debt is paid with the utility revenues and special assessments. The debt amortization is average, with the city planning to retire nearly 62% of principal in the next 10 years. Management expects the overlapping debt burden to decline gradually in 2015, which could improve the debt score. Management does not have any other debt issuance plans. Management has designated stable revenue sources to fund capital projects.

Elk River does not provide retirees with other postemployment benefits. Retirees, however, can participate in the city's health insurance plan as long as they pay the entire premium cost themselves. The defined-benefit plans administered by the Minnesota Public Employees Retirement Association (PERA) cover all full-time and certain part-time city employees. PERA administers the general employees retirement fund, and the public employees police and fire fund,

which are cost-sharing, multiemployer retirement plans. In fiscal 2013, the city's contributions to plans equated to 4.5% of total governmental funds.

Strong Institutional Framework

We consider the Institutional Framework score for Minnesota cities with a population more than 2,500 strong.

Outlook

The stable outlook reflects our view of Elk River's very strong flexibility and liquidity, which is supported by very strong management and strong economy. We anticipate that the city will maintain at least adequate budgetary performance during our two-year outlook horizon. If the city's economic metrics improve significantly and all other indicators remain level or improve, we could raise the rating. We do not expect to change the rating over the two-year outlook horizon, but we could consider a downgrade if the city's economy or performance scores weaken 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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