

# RatingsDirect®

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**Summary:**

## Shoreview, Minnesota; Appropriations; General Obligation

**Primary Credit Analyst:**

Andrew J Truckenmiller, Chicago (1) 312-233-7032; [andrew.truckenmiller@spglobal.com](mailto:andrew.truckenmiller@spglobal.com)

**Secondary Contact:**

Blake E Yocom, Chicago (1) 312-233-7056; [blake.yocom@spglobal.com](mailto:blake.yocom@spglobal.com)

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## Summary:

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### Credit Profile

US\$12.865 mil GO tax abatement bnds ser 2017A due 02/01/2038

*Long Term Rating*

AAA/Stable

New

## Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to Shoreview, Minn.'s series 2017A general obligation (GO) tax abatement bonds, and affirmed its 'AAA' rating, with a stable outlook, on the city's existing GO debt.

S&P Global Ratings also affirmed its 'AA+' rating, with a stable outlook, on the city's certificates of participation (COPs). We rate the COPs one notch below the city's GO debt rating due to the annual appropriation risk associated with the security.

The bonds are general obligations of Shoreview, and the city pledged its full faith and credit and power to levy direct general ad valorem taxes. In addition, the city will pledge available tax abatement revenue for repayment of a portion of the bonds. The proceeds of the bonds will be used to finance the expansion and renovation of the city's Community Center.

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, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions", published Nov. 19, 2013, on RatingsDirect, we consider local governments to have moderate sensitivity to country risk. Shoreview's GO 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 nation is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. Very high general fund balance as a percent of expenditures and very strong liquidity demonstrate Shoreview's financial flexibility.

The rating reflects our opinion 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 methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 43% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.6x total governmental fund expenditures and 26.3x

governmental debt service, and access to external liquidity we consider strong;

- Weak debt and contingent liability position, with debt service carrying charges at 6.3% of expenditures and net direct debt that is 179.4% of total governmental fund revenue; and
- Strong institutional framework score.

### **Very strong economy**

We consider Shoreview's economy very strong. The city, with an estimated population of 26,355, 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 156% of the national level and per capita market value of \$118,355. Overall, the city's market value grew by 3.8% over the past year to \$3.1 billion in 2017. The county unemployment rate was 3.6% in 2016.

The city is about 10 miles north of St. Paul, providing residents with full access to the Twin Cities MSA 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 Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Management provides the city council with monthly reports on budget-to-actual results. The city has its own investment policy, and it contracts with investment managers. Management updates the council monthly on investment holdings and earnings. The city also maintains long-term financial and capital improvement plans that city officials and the city council view. Shoreview's formal reserve policy calls for the maintenance of a general fund balance minimum of 50% of the ensuing year's taxes and state aid. The city also has a policy of maintaining additional general funds by reserving up to 10% of the ensuing year's budgeted expenditures.

### **Strong budgetary performance**

Shoreview's budgetary performance is strong in our opinion. The city had operating surpluses of 1.7% of expenditures in the general fund and of 10.6% across all governmental funds in fiscal 2016.

Shoreview is projecting surpluses in the general fund and total government funds for fiscal 2017. The city does not rely on local government aid, which is typical of cities in Minnesota. Tax revenue, however, generates 70% of general fund revenue. Tax revenue has increased modestly over the past few fiscal years because the city is willing to raise, and has raised, the tax levy slightly to increase revenue. Due to the city's historical budget-to-actual performance, we do not currently expect to change our assessment of the city's general fund performance. If tax revenue were to decrease, however, we believe Shoreview will be in a good position to maintain, at least, strong performance. The city expects to adopt a balanced budget for fiscal 2018.

### **Very strong budgetary flexibility**

Shoreview's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 43% of operating expenditures, or \$4.7 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Due to management's expectations for, at least, positive operations in fiscal 2017 and, at least, break-even operations in fiscal 2018, we believe Shoreview will likely maintain its very strong budgetary flexibility within the next two fiscal years.

### **Very strong liquidity**

In our opinion, Shoreview's liquidity is very strong, with total government available cash at 1.6x total governmental fund expenditures and 26.3x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary. Routine GO issuances throughout the past 15 years highlight Shoreview's access to capital markets. The city does not currently have any privately placed or direct-placement debt. The majority of the city's investments are nonaggressive, in our view.

### **Weak debt and contingent liability profile**

In our view, Shoreview's debt and contingent liability profile is weak. Total governmental fund debt service is 6.3% of total governmental fund expenditures, and net direct debt is 179.4% of total governmental fund revenue. 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 \$6 million of additional debt over the next two years for various improvements. We believe the city's debt profile has marginally deteriorated to weak levels because its overall net debt is now more than 3% of market value, and amortization over 10 years dropped to 59%.

Shoreview's pension contributions totaled 2.1% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution in 2016. 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 2016 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.

## **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 in the next two years because we believe the city will maintain very strong reserves. Although not expected, we could take a negative rating action if significant deterioration occurs in the city's economic or financial position. The city's access to the broad and diverse Minneapolis

St. Paul metropolitan statistical area provides stability to the rating.

Ratings Detail (As Of October 10, 2017)		
Shoreview rfdg certs of part		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Shoreview GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
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
Shoreview GO imp & util rev bnds ser 2015A due 02/01/2036		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Shoreview GO utility rev bnds ser 2016A due 02/01/2036		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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