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Summary:

Lake Elmo, Minnesota; General Obligation

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Credit Profile		
Lake Elmo GO		
Long Term Rating	AA+/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating to 'AA+' from 'AA' on Lake Elmo, Minn.'s series 2009A and 2009B general obligation (GO) bonds, based on the application of its local GO criteria released Sept. 12, 2013. The outlook is stable.

The city's unlimited-tax GO pledge secures payment of debt service on the bonds with special assessments as a partial source of payment.

The 'AA+' rating reflects our assessment of the following factors:

- Lake Elmo's economy is, in our opinion, very strong, with projected per capita effective buying income at 163% of the national average and per capita market value at roughly $134,600. The city serves an estimated population of 8,200 in Washington County and is located approximately 14 miles east of St. Paul. Residents have access to employment throughout the broad and diversified Minneapolis-St. Paul metropolitan statistical area, which we consider a credit strength. According to the Bureau of Labor Statistics, the county's unemployment rate averaged 4.6% in 2013, well below the national average.
- Budgetary flexibility is very strong, with available reserves exceeding 50% of operating expenditures for the past several years. As of fiscal year-end 2012 (Dec. 31), available general fund reserves were $2.4 million, or 88% of expenditures. We understand that general fund has loaned money, totaling $1.6 million in fiscal 2012, to cover capital spending and negative reserves in other governmental funds. Although management expects to settle these loans by fiscal 2014, we believe that available reserves could somewhat weaken, while remaining very strong, if most of the interfund loans were written off without repayment. Still, we believe budgetary flexibility will remain very strong for the next couple of years because management plans to maintain available reserves in excess of the policy level of 50% of budgeted tax revenue.
- We consider the city's budgetary performance strong overall. Excluding one-time capital projects financed with bond proceeds, the city ended fiscal 2012 with a surplus of 19.1% for the general fund and a surplus of 1.4% for the total governmental funds. Despite supporting the capital spending in other funds, the city reported consecutive general fund surpluses for the past several years, supported by improving operating revenue. For fiscal 2013, management anticipates a surplus of $200,000 for the general fund and stable operations for total governmental funds. We believe that budgetary performance will remain strong for fiscal years 2014 and 2015 based on city's expectations of at least balanced operations for the general fund and total governmental funds.
- Supporting the city's finances is very strong liquidity, with total government available cash at 136% of adjusted total governmental funds expenditures and at 7.9x debt service. Based on past issuance of debt, we believe that the city has strong access to capital markets to provide for liquidity needs if necessary.
- The city's management conditions are, in our view, strong with "good" financial practices under our Financial

Management Assessment (FMA) methodology, indicating that financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. We revised the FMA score to "good" from "standard" because the city adopted a formal fund balance policy and a debt management policy.

- We view the city'sThe debt and contingent liability profile is adequate. Total governmental funds debt service accounts for 17.3% of adjusted total governmental funds expenditures and net direct debt, excluding debt partially paid from utility revenue, translates to 282.6% of total governmental funds revenue. The overall net debt burden, excluding utility-supported debt, equals 2.9% of economic market value. Officials plan to retire 66% of direct debt in 10 years; we consider these positive credit factors. However, management plans to issue $2.85 million in GO debt that could increase the debt burden to more than 3% of market value and worsen the debt profile to a weak level.
- All full-time and certain part-time employees are covered by defined-benefit plans administered by the Public Employees' Retirement Association of Minnesota (PERA). PERA administers the General Employees' Retirement Fund, a cost-sharing, multiple-employer retirement plan. The city made contributions as required by state statute in fiscal 2012 of $65,000, or 1.6% of adjusted total governmental fund expenditures. It also made pass-through payments received from the state to the Lake Elmo Firemen's Relief Association, which is a single-employer defined-benefit pension plan. The city does not pay for any portion of retiree health care premiums, but allows retirees to stay on its health insurance plan at their own expense, as mandated by state law. As such, a portion of the city's contributions to the health care plan for active employees constitutes an implicit subsidy contribution on behalf of its retirees.
- We consider the Institutional Framework score for Minnesota cities with population greater than 2,500 strong.

Outlook

The stable outlook indicates that we do not expect significant changes in the city's very strong budgetary flexibility, liquidity, and economy. We do not anticipate lowering the rating in the two-year outlook period based on management's projections of at least stable operations for fiscal years 2014 and 2015. An upgrade is unlikely given the city's high direct debt as a percentage of total governmental funds revenue and plans for additional debt, which could weaken the debt profile.

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

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