

RatingsDirect®

Summary:

North Mankato, Minnesota; General Obligation; Non-School State Programs

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Summary:

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Credit Profile

US\$2.84 mil GO bnds ser 2014A dtd 07/01/2014 due 12/01/2029

Long Term Rating AA/Stable New

North Mankato GO

Long Term Rating AA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to North Mankato, Minn.'s series 2014A general obligation (GO) bonds. We also affirmed our 'AA' rating on the city's outstanding GO debt. The outlook is stable.

A pledge of the city's full-faith-credit-and-resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount secure these bonds. North Mankato expects to pay debt service from tax abatement revenues and municipal sanitation, sewer, and water revenues. The city will use bond proceeds to finance sanitary, storm, water and street improvements, a lift station, and equipment costs.

The rating reflects our assessment of the city's:

- Adequate economy, which benefits from access and participation in the broad and diverse Mankato metropolitan statistical area (MSA) economy;
- Strong management conditions with good policies and practices;
- Very strong budgetary flexibility with 2013 audited reserves at 15.3% of expenditures plus transfers after accounting for long-term receivables;
- Adequate budgetary performance, characterized by strong general fund performance but deficits across other governmental funds.;
- Strong liquidity, supported by strong market access; and
- Weak debt and contingent liabilities position, mostly reflecting the city's high net direct debt.

Adequate economy

We consider North Mankato's economy adequate, with access to the broad and diverse economy of the Mankato MSA. The city, in Nicollet County, covers four square miles and serves an estimated current population of 13,349. Traditionally, county unemployment has below state and national averages and was 3.8% in 2013. North Mankato has projected per capita effective buying income at 108% of the U.S. Net tax capacity was stable for 2014, and management is expecting growth in market value. Per capita market value for 2013 is \$73,874.

Strong management

We view North Mankato's management conditions as strong with good financial practices. The city has comprehensive long-term financial and capital improvement plans and provides governing officials with regular

updates on budgetary performance. It has not formalized its debt policy but adheres with state's guidelines. Its general fund policy establishes a minimum fund balance at 30% of expenditures.

Very strong budget flexibility

In our opinion, the city's budgetary flexibility is very strong, with reserves above 15% of expenditures and plans to grow them. The general fund has loaned moneys to the debt service funds and will be repaid through 2021 for these interfund balances. Excluding receivables not being repaid within the next year, available general fund reserves were \$926,000, or 15.3% of expenditures. Management expects that operating surpluses and repayment of reserves will increase reserves on a cash basis to \$1.7 million, or 23.4% of expenditures by the end of fiscal 2015.

Adequate budgetary performance

The city's budgetary performance, in our view, has been adequate overall, with break-even or better general fund results but deficits across total governmental funds. For fiscal 2013, draft audit financials indicate a 0.5% general fund deficit and a 7% deficit across all governmental funds. For fiscal years 2014 and 2015, management has projected slight general fund surpluses and positive total governmental fund results. Property taxes account for 58% of general fund revenues, and economic growth has supported growth in receipts. Intergovernmental revenues account for 29% of receipts, and management expects state aid to be flat for fiscal 2015.

Strong liquidity

Supporting the city's finances is what we consider very strong liquidity, with total government available cash at 23% of total governmental fund expenditures and 85% of debt service. We believe the city has strong access to external liquidity, as indicated by a history of GO debt issuance. In our view, the city's current debt structures do not create contingent liability risks.

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 27% of total governmental funds expenditures and with net direct debt at 220% of total governmental funds revenue. Net direct debt takes into account past debt issuances that have historically been supported by utility revenues. Amortization is rapid, with 76% of direct debt to retire within 10 years. Management indicated no additional debt plans for 2014, but may issue debt for infrastructure pursuant to its capital improvement plan in 2015.

The city participates in the Minnesota Public Employees' Retirement Association to provide pension benefits for employees. Firefighters are covered by the North Mankato's Firefighters' Relief Association, the administrator of a single-employer defined-benefit pension plan. It has contributed 100% of the annual required contribution for each plan in each of the past three years. Pension and implicit other postemployment liability costs accounted for 3.5% of 2012 total governmental fund expenditures.

Strong institutional framework

We consider the Institutional Framework score for Minnesota cities as strong.

Outlook

The stable outlook reflects our expectation that growth in the tax base and strong management will continue to support positive financial performance, contributing to improvement in general fund reserves and liquidity over the two-year outlook horizon. However, if either liquidity or budgetary flexibility were to deteriorate, we could lower the rating. In our opinion, the city's economic and debt characteristics compared with its peers will likely continue to limit it from a higher rating.

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

Ratings Detail (As Of June 23, 2014)

North Mankato GO (Non School Prog)

<i>Long Term Rating</i>	AA+/Stable	Affirmed
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed

North Mankato Port Auth Comm, Minnesota

North Mankato, Minnesota

North Mankato Port Auth Comm (North Mankato) GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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