

RatingsDirect®

Summary:

Circle Pines, Minnesota; General Obligation

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Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Circle Pines, Minnesota; General Obligation

Credit Profile

US\$3.675 mil GO bnds ser 2016B dtd 04/14/2016 due 02/01/2032		
<i>Long Term Rating</i>	AA/Stable	New
US\$1.865 mil GO cap nts ser 2016A dtd 04/14/2016 due 02/01/2026		
<i>Long Term Rating</i>	AA/Stable	New
Circle Pines GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Circle Pines, Minn.'s series 2016A unlimited-tax general obligation (GO) capital notes and 2016B unlimited-tax GO bonds. At the same time, we affirmed our 'AA' long-term rating on the city's GO debt outstanding. The outlook is stable.

The city's full faith, credit, and resources and its unlimited property tax pledge secure the bonds. Bond proceeds for the 2016A will be used for telecommunications equipment and bond proceeds for the 2016B will be used for various street and utility improvements. We understand that the city has also pledged special assessments though our rating is based on the unlimited tax pledge.

The rating reflects our view of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2014 of 131% of operating expenditures;
- Very strong liquidity, with total government available cash at 3.8x total governmental fund expenditures and 11.2x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 34.4% of expenditures and net direct debt that is 352.8% of total governmental fund revenue, but rapid amortization, with 82.2% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider Circle Pines' economy strong. The city, with an estimated population of 5,008, is located in Anoka 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 119% of the national level and per capita market value of \$71,174. Overall, the

city's market value grew by 2.1% to \$356.4 million in 2015. The county unemployment rate was 4% in 2014.

Circle Pines encompasses an area of 2.3 square miles and is approximately 15 miles north of St. Paul. The city's tax base is primarily residential (91%) with a small portion coming from the commercial/industrial sector (8%). The leading employer in the city is the local school district, which employs roughly 1,000 people. Additional employment opportunities are available to residents of the city in St. Paul given the close proximity. Taxable value has increased by 15.6% since the 2013 valuation. Management expects that the increase will continue, and based on the trend we believe this to be likely.

Strong management

We view the city's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

Management highlights include:

- Use of three to four years of historical information with help from outside sources to include the state and a line-by-line approach to budgeting,
- Semiannual reporting of budget-to-actual results with the ability to amend the budget as needed,
- No formalized long-term financial plan,
- Five-year long-term capital plan that is updated at least every other year with sources and uses of funds identified,
- Formal investment management policy with annual reporting of investments and holdings,
- Formalized debt management policy that is more restrictive than state guidelines and contains restrictions in using variable-rate debt and derivative-based debt, and
- Formalized fund balance policy to maintain reserves at 55% of the upcoming year's budgeted expenditures for cash flow needs.

Strong budgetary performance

Circle Pines' budgetary performance is strong in our opinion. The city had operating surpluses of 11.3% of expenditures in the general fund and of 9.5% across all governmental funds in fiscal 2014. Our assessment accounts for our anticipation that budgetary results could deteriorate somewhat from 2014 results in the near term.

We made our calculations after adjusting the city's one-time capital expenditures. For fiscal 2014 (ended Dec. 31) the city budgeted for break-even operations but ended the year with a positive variance and added \$255,000 to reserves, which management attributes to lower-than-budgeted expenditures. For fiscal 2015 the city adopted a balanced budget. Unaudited results for 2015 depict an operational surplus of \$399,843. Management attributes this variance to lower-than-budgeted expenditures mainly stemming from a purchase of fire equipment that may later be bought under a grant. Management anticipates ending 2015 with at least break-even results from a total government fund standpoint. For fiscal 2016 the city has budgeted for break-even results for the general fund. We understand that the city anticipates an increase in public safety as it transitions to a two-city fire district and is budgeting for a replacement of street lighting. Based on these increases in expenditures, coupled with the current budget, we believe the city will likely maintain budgetary performance that is strong though not as strong as in fiscal 2015.

Very strong budgetary flexibility

Circle Pines' budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2014 of 131% of operating expenditures, or \$3 million. We expect the available fund balance to remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 128% of expenditures in 2013 and 125% in 2012.

Although the city has assigned a majority of the fund balance, we understand that it has the flexibility to reallocate these assigned fund balances if need be for operational purposes. Based on the current budget, minimal capital needs, and historical ability to outperform the budget, we expect budgetary flexibility to remain very strong and above 75%.

Very strong liquidity

In our opinion, Circle Pines' liquidity is very strong, with total government available cash at 3.8x total governmental fund expenditures and 11.2x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

We believe that the city has strong access to external liquidity, as it has issued GO and revenue-backed debt, which demonstrates access to capital markets. We expect the city's cash position, with respect to its total governmental expenditures and debt service, to change little during the next two years and remain very strong. We understand that the city has no potential contingent liabilities that could have an adverse impact on its cash position. The city maintains investments in highly rated securities and has a formalized investment management policy, so we do not view its investment strategies as aggressive.

Weak debt and contingent liability profile

In our view, Circle Pines' debt and contingent liability profile is weak. Total governmental fund debt service is 34.4% of total governmental fund expenditures, and net direct debt is 352.8% of total governmental fund revenue.

Approximately 82.2% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The debt profile does not include revenue debt and debt fully self-supported by the city's enterprise funds. The city plans to issue an additional \$3.5 million for street repair in 2018. Also, management has confirmed that it does not have any alternative financing.

Circle Pines' pension contributions totaled 1.9% of total governmental fund expenditures in 2014. The city made its full annual required pension contribution in 2014.

The city covers all full-time and certain part-time employees by defined benefit plans administered by the Public Employees Retirement Assn. of Minnesota (PERA). PERA administers the General Employees Retirement Fund, a cost-sharing multi-employer retirement plan. We understand the city has no financial obligations related to other postemployment benefits.

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 that the city will maintain its very strong budgetary flexibility, and as such we do not expect to change the ratings within the two-year outlook period. The city has been able to maintain strong budgetary performance, so we expect that it will continue to address any potential budgetary pressures to maintain fiscal balance and reserves that are very strong.

Upside scenario

A higher rating is possible if the city's economic profile were to improve to levels commensurate with those of higher-rated peers, which could occur if the city's income level and market value per capita were to increase coupled with a decrease in overall debt burden, or if the city were to run a budgetary surplus of more than 5% on a sustained basis with all other factors remaining constant.

Downside scenario

A lower rating is possible if the budgetary performance were to decline to a level we view as weak or very weak, causing a significant deterioration in the city's budgetary flexibility. Based on historical performance, we do not view that as likely.

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: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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 March 18, 2016)

Circle Pines GO		
<i>Long Term Rating</i>	AA/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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in

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