

RatingsDirect®

Summary:

Newport, Minnesota; General Obligation

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Credit Profile

US\$3.38 mil GO imp bnds ser 2014A dtd 07/15/2014 due 02/01/2030

Long Term Rating AA/Stable New

Newport GO

Long Term Rating AA/Stable Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Newport, Minn.'s series 2014 general obligation (GO) improvement 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. Newport expects to pay debt service from a combination of special assessments levied against properties that benefit from improvements financed by the bonds and from ad valorem property taxes. The city will use bond proceeds to finance road construction and utility projects.

The rating reflects our assessment of the city's:

- Strong economy, which benefits from access and participation in the broad and diverse Minneapolis-St. Paul (Twin Cities) metropolitan statistical area (MSA) economy;
- Very strong budgetary flexibility with 2013 audited reserves at 66% of general fund expenditures plus transfers;
- Strong budgetary performance, with slight surpluses expected for fiscal years 2014 and 2015;
- Very strong liquidity providing very strong cash levels to cover both debt service and expenditures;
- Strong management conditions with good policies and practices; and
- Adequate debt and contingent liabilities position, mostly reflecting the city's high net direct debt.

Strong economy

We consider Newport's economy strong, with access to the broad and diverse economy of the Minneapolis-St. Paul (Twin Cities) MSA. The city, in Washington County, covers 3.88 square miles and serves an estimated current population of 3,460. Traditionally, county unemployment has tracked with the state and below the nation and was 4.6% for 2013. The city has what we consider good per capita incomes, reflecting the ability of some residents to access jobs in neighboring areas. Newport has projected per capita effective buying income at 106% 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 \$83,172.

Very strong budget flexibility

In our opinion, the city's budgetary flexibility is very strong, with reserves above 30% of expenditures for the past several years and no plans to significantly spend them down. For audited fiscal 2013, reserves were \$1.9 million, or

66% of expenditures plus transfers. Management expects to report slight general fund surpluses for fiscal years 2014 and 2015.

Strong budgetary performance

The city's budgetary performance, in our view, has been strong overall, with historical surpluses and projections of better-than-break-even results. Audited fiscal 2013 results indicate an 8% general fund surplus and 5.4% total governmental fund surplus. Its fiscal 2014 budget is balanced, but management expects to report a surplus, albeit not as large as fiscal 2013. Management expects future performance to remain consistent with fiscal 2014 expectations.

Very strong liquidity

Supporting the city's finances is what we consider very strong liquidity, with total government available cash as a percent of total governmental fund expenditures and as a percent of debt service both above 100%. Total fiscal 2013 cash and equivalents were 152% of governmental fund expenditures and 11.4x debt service. We believe the city has exceptional access to external liquidity.

Strong management

We view the city's management conditions as strong with good financial practices, combined with a consistent ability to maintain balanced budgets. The city works closely with the assessor to collect assessed values and prepares its budget on a line-by-line item basis. Management provides the board with monthly reports on its budget-to-actuals. The city, with the help of a financial advisor, has developed a 10-year long-term financial and capital plan, which it updates on an annual basis and shares with its board. The city does have a debt management policy that adheres to state guidelines. Management has a reserve policy whereby its goal is to maintain at least 50% of current budgeted operating expenditures in the general fund.

Adequate debt and contingent liability profile

In our opinion, the city's debt and contingent liabilities profile is adequate, with total governmental funds debt service at 13.4% of total governmental funds expenditures and with net direct debt at 166% of total governmental funds revenue. Amortization is rapid, with 66% of direct debt to retire within 10 years.

The city participates in the Minnesota Public Employees' Retirement Association to provide pension benefits for its general and police employees. Firefighters are covered by the Newport Firemen's Relief Assoc., 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 5.9% of 2013 total governmental fund expenditures.

Strong institutional framework

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

Outlook

The stable outlook reflects our view that Newport will continue to benefit from access to the broad and diverse Twin Cities MSA and that recent turnaround in the housing market and new development will support stable-to-growing market value. We do not expect to lower the rating over the two-year outlook horizon given management's strong

financial projections. However, if the city's financial indicators were to substantially deteriorate, we could lower the 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

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