

RatingsDirect®

Summary:

Newport, Minnesota; General Obligation

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Credit Profile

US\$1.365 mil GO imp bnds ser 2016A dtd 12/29/2016 due 02/01/2032		
<i>Long Term Rating</i>	AA/Stable	New
US\$0.595 mil GO util rev bnds ser 2016B dtd 12/29/2016 due 02/01/2033		
<i>Long Term Rating</i>	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Newport, Minn.'s series 2016A and B general obligation (GO) bonds. At the same time, we affirmed our 'AA' long-term rating on the city's existing GO debt. The outlook is stable.

The 2016A and B bonds are secured by the city's GO unlimited-tax pledge. The bonds are secured by additional pledged revenues, including special assessments for the 2016A series and the net revenues of its water and sewer utilities for the 2016B series. However, we rated to the GO pledge, which we view as the stronger security. Proceeds of the 2016A series will be used for street projects, while the 2016B series proceeds will be used to paint the city's water towers.

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 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 80% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.7x total governmental fund expenditures and 11.6x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 15.0% of expenditures and net direct debt that is 179.6% of total governmental fund revenue, as well as rapid amortization, with 72.5% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider Newport's economy strong. The city, with an estimated population of 3,416, covers about 3.9 square miles about 10 miles southeast of St. Paul in Washington County. It is in the Minneapolis-St. Paul-Bloomington MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 124% of the national level and per capita market value of \$95,477. Overall, market value grew by 5.9% over the past year to \$326.2 million in 2016. The county unemployment rate was 3.2% in 2015.

Its largest employers include Bailey Nurseries (800 employees), Diversified Manufacturing Corp. (80), and

Metropolitan Gravel (80). Recent economic developments include a planned expansion at Newport Cold Storage and a new 42-unit apartment building. Management expects assessed value (AV) to increase about 7% in 2017, in line with recent growth rates. While we expect the tax base to remain stable, we note it is moderately concentrated with the top ten taxpayers accounting for 34.7% of AV in 2016.

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.

During budget development, management uses five years of historical analysis and line-item estimates. The council receives monthly budget-to-actual reports and the budget can be amendment as necessary throughout the year. It plans for future capital expenses through its annually updated capital projects, parks, and equipment capital improvement plans, which cover up to ten years. It also annually updates its long-term financial plan, which covers the current year and three additional years. The city has a debt management policy, but it is not comprehensive, in our opinion. It has an investment management policy and reports its investments monthly to the council. The city has a general fund reserve policy equivalent to 50% of expenditures, a policy it has historically followed.

Strong budgetary performance

Newport's budgetary performance is strong, in our opinion. The city had operating surpluses of 5.6% of expenditures in the general fund and 15.4% across all governmental funds in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2015 results in the near term.

For the past three years, the city has had general fund surpluses exceeding 5%. Management expects similar surpluses in 2016 and 2017. The city began contracting with the county for police protection in January, which management expects to result in significant future personnel savings. Total governmental fund performance has been somewhat mixed the last few years, but mostly has resulted in surpluses. We expect some volatility due to the relatively small size of its budget, but expect budgetary performance to remain at least strong.

Very strong budgetary flexibility

Newport's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 80% of operating expenditures, or \$2.2 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.

We expect budgetary flexibility to remain very strong. Available general fund reserves have risen the last several years, and are expected to increase further the next two years due to the city's consistent general fund surpluses.

Management reports no plans to draw down reserves.

Very strong liquidity

In our opinion, Newport's liquidity is very strong, with total government available cash at 1.7x total governmental fund expenditures and 11.6x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

We expect liquidity to remain very strong. Its \$5.9 million in total cash and investments were held primarily in cash

deposits and certificates of deposit, which we do not consider aggressive. It has strong access to external liquidity, in our opinion, because it has issued GO debt within the last 20 years and the strengths in its credit profile. The city does not have any contingent liability risk from its financial instruments or agreements.

Adequate debt and contingent liability profile

In our view, Newport's debt and contingent liability profile is adequate. Total governmental fund debt service is 15.0% of total governmental fund expenditures, and net direct debt is 179.6% of total governmental fund revenue. Approximately 72.5% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The city has no additional debt plans over the next two years. In later years, it may issue additional debt for improvements to its city hall.

Newport's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 6.2% of total governmental fund expenditures in 2015. Of that amount, 5.5% represented required contributions to pension obligations, and 0.7% represented OPEB payments. The city made its full annual required pension contribution in 2015.

The city participates in two cost-sharing, multiemployer pension plans administered by the Public Employees Retirement Association of Minnesota. In addition, its fire personnel are covered by a single-employer pension plan managed by the Fire Relief Association. Its largest plan, the Public Employees Police and Fire Fund, was 86.6% funded in 2015. The city makes its annual required contributions to these plans, which totaled \$188,000 in 2015. It also provides OPEB to certain employees, which it funds on a pay-as-you-go basis. In 2015, its pay-as-you-go costs were \$25,000, and the unfunded actuarial accrued liability was \$172,000.

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 expectation that the city will maintain its very strong reserves and liquidity. It also reflects the city's access to the broad and diverse Minneapolis-St. Paul MSA. We do not expect a rating change within the two-year outlook period.

Upside scenario

We could raise the rating if the economy improved to levels consistent with higher rated peers, and if the rest of its credit profile remained stable.

Downside scenario

We could lower the rating if its budgetary flexibility and performance declined to a level no longer commensurate with its peers.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of December 12, 2016)		
Newport GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
Newport GO imp bnds ser 2013A		
<i>Long Term Rating</i>	AA/Stable	Affirmed

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