S&P Global Ratings

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Summary:

New Hope, Minnesota; Appropriations; General Obligation

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Table Of Contents

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Credit Profile		
US$2.095 mil GO tax abatement bnds ser 2021A dtd 03/11/2021 due 12/01/2028		
Long Term Rating	AA/Stable	New
New Hope GO		
Long Term Rating	AA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA' long-term rating to New Hope, Minn.'s anticipated $2.095 million series 2021A general obligation (GO) tax abatement bonds. At the same time, we affirmed our 'AA' rating on the city's existing GO bonds. The outlook is stable.

The bonds are secured by the city's full faith credit and resources pledge, and an agreement to levy ad valorem property taxes without limit to rate or amount. Proceeds will be used to refund the City of New Hope Economic Development Authority's 2011A taxable lease revenue bonds (qualified energy conservation bonds).

The existing 2011A taxable lease revenue bonds are rated one notch below the general creditworthiness reflected in the GO rating due to appropriation risk. These bonds will be refunded by the current issuance.

Credit overview

New Hope, a Twin Cities suburb, has successfully navigated the pressures of the COVID-19 pandemic, given its high reliance on property taxes as a revenue stream and very strong management. Its historically strong financial profile and stable operations are backed by conservative budgeting and a sophisticated management team that monitors and adjusts finances based on the city's robust policies and procedures. We believe that the city will be able to maintain steady operations, even given any pressures that could result from the current COVID-19 pandemic (see "Staying Home For The Holidays," published Dec. 1, 2020, on RatingsDirect). We recognize that New Hope's very strong reserves provide a meaningful hedge against near-term revenue volatility, and we expect that its fiscal position over the near term will remain stable and in line with what we typically see among similarly rated peers. Given the city's historical tax base stability and resilience, coupled with very strong reserves and significant taxing flexibility, we think it is well positioned to navigate the possible negative effects of COVID-19 on its tax base and financial position.

The 'AA' rating reflects our assessment of the city's:

- Strong economy, with access to a broad and diverse MSA;
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;

- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2019, which closed with balanced operating results in the general fund but an operating deficit at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 50% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.5x total governmental fund expenditures and 18.5x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 8.4% of expenditures and net direct debt that is 188.7% of total governmental fund revenue, but rapid amortization, with 69.3% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance factors

The rating also incorporates our view of the health and safety risks posed by the COVID-19 pandemic, which we consider social risk factors. We believe a prolonged disruption could weaken the city's local economy. Absent the implications of COVID-19, we consider the city's social risks to be in line with those of the sector. We also view environmental and governance risks as being in line with our view of the sector.

Stable Outlook

Downside scenario

We could lower the rating if the city's budgetary performance, potentially due to its weak debt burden, were to weaken to such an extent that reserves were materially affected.

Upside scenario

While we don't view this as likely given current macroeconomic conditions, we could raise the rating if the city's economic profile were to improve to levels commensurate with those of higher-rated peers.

Credit Opinion

Strong economy

We consider New Hope's economy strong. The city, with a population of 21,529, is in Hennepin County, 12 miles northwest of Minneapolis, 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 98.3% of the national level and per capita market value of $103,522. Overall, market value grew by 7.2% over the past year to $2.2 billion in 2020. The county unemployment rate was 2.8% in 2019. Unemployment peaked at 10.3% in May 2020 due to the pandemic and has since improved to 4.1% in November.

New Hope residents benefit from access to jobs throughout the Twin Cities MSA. The city is mostly built out, but management reports that there are smaller pockets of land that are not developed. New Hope's economy is bolstered by its location in the Twin Cities MSA, but wealth and incomes are somewhat lower than those of peers.

Management reports that disruption to the economy due to COVID-19 has been minimal; we understand that the city's top employers and taxpayers, including ISD No. 281 Robbinsdale Area Schools and Hy-Vee, have not experienced layoffs, and that any pre-existing development has continued through the pandemic despite statewide COVID-19 restrictions.

From 2017-2021, the city's net tax capacity increased 35% overall. Management expects this trend to continue due to continued plans for new development, redevelopment, and expansion of more properties throughout the city. The city's tax base is made up primarily of residential properties that account for 63% of net tax capacity, as well as a commercial/industrial component that makes up 34%. The residential market has grown, with redevelopment of 32 single-family homes and the addition of a new 60-unit single-family home development. Given the stable employment and tax-base growth, we believe the city's economy will remain strong over the next two years.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Using three years of historical data, the city builds its annual budget using both internal and external sources. Management provides the council with a quarterly report that contains both budget-to-actual results, as well as investment holdings and earnings updates, based on its internal investment policy. The city maintains a 10-year long-term plan that includes forward-looking financial forecasts for the general fund and all capital funds, as well as an extensive capital improvement plan that identifies estimated costs and funding sources. The plan is updated on a rolling basis and is shared with the council. The city has its own debt management policy that goes beyond state guidelines and contains some quantitative restrictions and guidelines for issuing debt. It also maintains a formal fund balance policy to keep 42% of expenditures in general fund reserves, which it has historically adhered to.

Adequate budgetary performance

New Hope's budgetary performance is adequate, in our opinion. The city had balanced operating results in the general fund of negative 0.3% of expenditures, but a deficit result across all governmental funds of negative 6.1% in fiscal 2019. Our assessment accounts for the fact that we expect budgetary results could improve from 2019 results in the near term.

We adjusted both general fund and total governmental fund revenues to include annually recurring transfers. We have also removed bond proceeds and one-time capital spending from total governmental fund expenditures. For fiscal year 2019, the city's primary sources of revenue were property taxes (74%), intergovernmental (10%), and charges for services (8%). In fiscal year 2019, the city completed construction of a new police department and city hall. In 2020, it completed a park and pool project.

Management reports that estimates of year-end results for fiscal year 2020 came in better than budgeted due to increases in intergovernmental revenue. The city received $1.66 million of CARES Act funding during the fourth quarter. Expenditures also came in lower than expected in the public safety line item.

General fund expectations for fiscal year 2021, management anticipates a surplus after adopting a break-even budget. Across total governmental funds, it expects the only spend-downs to come from the spending of bond proceeds, with ending results in line with previous years' trends. We believe the city will likely maintain strong budgetary performance since it has consistently been able to outperform the budget and end with favorable operating results.

The city has consistently achieved general fund surpluses due to conservative budgeting of revenues and lower-than-budgeted expenditures. When going through budgetary planning, management makes an effort to match current resources and revenues with expected capital expenditures, mainly by setting tax rates to match project costs, as opposed to spending fund balance.

Very strong budgetary flexibility

New Hope's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 50% of operating expenditures, or $7.1 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.

The city has a history of routinely transferring funds from the general fund to the capital improvement fund for spending on future capital projects. Based on New Hope's long-term plan and confirmation by management, the city has no plan to draw down general fund reserves, and intends to remain in compliance with its 42% fund balance policy. Given its policy and historical reserve levels, we expect its budgetary flexibility to remain very strong for the next few years.

Very strong liquidity

In our opinion, New Hope's liquidity is very strong, with total government available cash at 1.5x total governmental fund expenditures and 18.5x governmental debt service in 2019. In our view, the city has strong access to external liquidity if necessary.

The city's $37.1 million in available cash and investments (after removing unspent bond proceeds) was in U.S. Treasury and agency securities, certificates of deposit, and municipal bonds, which we do not consider aggressive. The city does not have any contingent liquidity risk that could come due in the near term. It has demonstrated a track record of accessing the capital markets by issuance of GO bonds in the past 20 years and, as a result, we consider its access strong. We expect its liquidity profile to remain very strong.

Weak debt and contingent liability profile

In our view, New Hope's debt and contingent liability profile is weak. Total governmental fund debt service is 8.4% of total governmental fund expenditures, and net direct debt is 188.7% of total governmental fund revenue. Approximately 69.3% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

We calculate total direct debt at $46.9 million, which includes self-supporting GO debt paid from the city's enterprise funds. Management noted that the city has no immediate debt plans at this time, so we expect our view of its debt profile to remain unchanged over the near term.

Pensions and other postemployment benefits

New Hope's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 3.3% of total governmental fund expenditures in 2019. The city made its full annual required pension contribution in 2019.

We do not believe that pension liabilities represent a medium-term credit pressure as contributions are only a modest share of the budget, and we believe the city has the capacity to absorb higher costs without pressuring operations. New Hope participates in two multiple-employer, defined-benefit pension plans that have seen recent improvements in funded status, though plan statutory contributions have regularly fallen short of actuarial recommendations. Along with certain plan-specific actuarial assumptions and methods, this introduces some long-term risk of funding volatility and cost acceleration. Although the city funds its OPEBs on a pay-as-you-go basis, exposing it to cost acceleration and volatility, we expect that medium-term costs will remain only a small share of total spending, and are therefore not a significant budgetary pressure.

The city participates in the following plans:

- Minnesota General Employees Retirement Fund (GERF): 87.2% funded (as of June 30, 2020), with a city proportionate share of the plan's net pension liability of $4 million.
- Minnesota Police and Fire Fund (PEPFF): 79.1% funded (June 30, 2020), with a proportionate share of $3.7 million.
- A single-employer, defined-benefit OPEB plan: 0% funded, with a net OPEB liability of $1.127 million.

Total contributions to GERF and PEPFF were 87.2% and 79.1%, respectively, of our minimum funding progress metric and were slightly above static funding in both cases. Annual contributions are based on a statutory formula that has typically produced contributions lower than the actuarially determined contribution for each plan. In our view, this increases the risk of underfunding over time if the state legislature does not adjust offset future funding shortfalls. Other key risks include a 7.5% investment rate-of-return assumption (for both plans) that indicates some exposure to cost acceleration as a result of market volatility, and an amortization method that significantly defers contributions through a lengthy, closed 29-year amortization period based on a level 3.25% payroll growth assumption. Regardless, costs remain only a modest share of total spending, and we believe they are unlikely to pressure the city's medium-term operational health.

Strong institutional framework

The institutional framework score for Minnesota cities with a population greater than 2,500 is strong.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- Staying Home For The Holidays, Dec. 2, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019

Ratings Detail (As Of February 19, 2021)		
New Hope GO		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of February 19, 2021) (cont.)		
New Hope GO tax abatement bnds		
Long Term Rating	AA/Stable	Affirmed
New Hope GO		
Long Term Rating	AA/Stable	Affirmed
New Hope GO		
Long Term Rating	AA/Stable	Affirmed
New Hope Econ Dev Auth, Minnesota		
New Hope, Minnesota		
New Hope Econ Dev Auth (New Hope) taxable lse rev bnds qual energy conserv bnds		
Long Term Rating	AA-/Stable	Affirmed