S&P Global Ratings

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Summary:

Spring Lake Park, Minnesota; General Obligation

Primary Credit Analyst:
Melody W Vinje, Englewood + 1 (303) 721 4163; melody.vinje@spglobal.com

Secondary Contact:
Emma Drilias, Madison (1) 312-233-7132; emma.drilias@spglobal.com

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Credit Profile		
US$8.21 mil GO cap imp plan bnds ser 2024A dtd 04/02/2024 due 02/01/2045		
Long Term Rating	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Spring Lake Park, Minn.'s $8.2 million series 2024A general obligation (GO) capital improvement plan bonds.
- The outlook is stable.

Security

The city's series 2024A bonds are secured by its unlimited ad valorem GO pledge. Proceeds will be used to finance the renovation and expansion of the existing city hall and police facility, and pay costs associated with the issuance.

Credit overview

The rating reflects our view of Spring Lake Park's positive operating performance and budget supported predominately by property taxes, very strong reserves, and its large and growing tax base relative to its size of 2.8 square miles. Located in Anoka and Ramey counties, residents benefit from access to employment opportunities within the Minneapolis-St. Paul metropolitan statistical area (MSA). Despite being essentially built out, the city's tax base grew 48% in the past five years (2019-2023), with redevelopment of existing structures and purchase of the last commercial lots available. The city's operations include a police force and utilities, with public safety costs representing about 40% of expenses. In addition to stable revenues consisting mostly of property taxes, the city has ample taxing flexibility as a Minnesota municipality with no levy limitations, and will be increasing the tax rate by 15%-18% in 2025.

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

- Extremely strong market value per capita, reflecting the value of homes and small population;
- Maintenance of very strong general fund reserves and a history of positive general fund operations stemming from conservative budgeting;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology and a strong institutional framework score; and
- Moderate overall debt burden, that we anticipate will remain moderate given the lack of additional debt plans in the next five years.

Environmental, social, and governance

We view the city's environmental, social, governance (ESG) factors as neutral within our credit rating analysis.

Outlook

The stable outlook reflects our view that the city will likely maintain strong finances and at least stable economic metrics during the next two fiscal years.

Downside scenario

We could lower the rating if the city posts any material reduction in reserves, without a plan to replenish.

Upside scenario

We could raise the rating if the city sustains income metrics at levels comparable with that of higher-rated peers, or if our view of the management's comprehensive planning improves. However, we do not anticipate this will occur in the two-year outlook horizon.

Credit Opinion

Small population and geographic area, but with a growing taxbase and proximity to a sizable MSA

Spring Lake Park is predominately residential and densely populated for an area of only two square miles. Approximately 10 miles north of Minneapolis, residents commute to the Twin Cities MSA. The city has had two large commercial buildings open in the past three years, filling its last commercial plot in 2023. Market values have increased from a mix of commercial development including a large grocery store, and redevelopment of the residential properties, and appreciation. Population has increased by 7% in the past 10 years, partially due to redevelopment of existing properties into vertical structures. Although incomes are slightly below the national average, economic metrics are a credit strength given the city's population and assessed valuation growth leading to extremely strong market values per capita levels.

History of positive general fund operations; budgeting for breakeven results in 2024

Over the past three audited years (2020-2022), the city has posted surplus results prior to making transfers to its capital fund, fueled by management's conservating budgeting and monitoring practices. We note fiscal 2021, shows a slight $8,000 deficit for capital projects after transfers. For our analysis, we adjusted for routine transfers in the general and total governmental funds and removed restricted funds from total governmental cash.

Unaudited fiscal 2023 ended with a $735,000 surplus, partially due to one-time public safety aid from the state ($330,000). Management anticipates the final audit will post a smaller surplus after adjustment and transfer to the capital fund but anticipates at least a 10% surplus added to reserves. Budgeted fiscal 2024 is structured to be balanced and includes 4.0% salary increase for staff offset some by the 3.8% levy increase, and additional local government aid revenue (increasing by $238,000) which accounts for 15% of budgeted general fund revenues. The city will implement a 3.25% salary increase in fiscal 2025 and will increase the property tax levy by 15%-18% primarily for debt service costs. The city has maintained reserves above its formal policy of 35%-50% operating expenditures and has no plans to draw down on reserves.

Spring lake Park received a total of $756,000 in American Rescue Plan Act money, and will be applying all of it to the city hall-police office project. The city has $42.3 million in conduit debt outstanding as of fiscal year-end 2022, however there is no exposure to the city given it is not an obligation of the city and there is no recourse should the borrower default.

Good FMA and a strong institutional framework score

Highlights of management policies and practices include:

- Use of at least three years of historical information in the formulation of the upcoming year's revenue and expenditure assumptions with the help of outside sources and a line-by-line approach to budgeting;
- Monthly reporting of budget-to-actual performance to the council with the ability to make amendments to the budget as needed;
- No formalized long term financial plan;
- Long term capital plan that goes out five years with sources and uses of funds identified and updated on an annual basis;
- Formalized investment management policy that adheres to state guidelines with quarterly reporting of investments and holdings to council;
- Formalized debt management policy that is more restrictive than state guidelines; and
- Formalized fund balance policy to maintain 35%-50% of expenditures for cash flow needs, which it has historically adhered to.

Management has cyber-mitigation measures in place and has not had any issues with data breaches.

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

Manageable fixed costs, with slow amortization

Overlapping debt represents the majority of the debt burden accounting for $14.9 million, compared with the city's $8.9 million with this issuance. We view the debt burden as moderate and expect it will stay manageable given the city's lack of additional debt plans, along with the city's intent to increase the debt service levy.

Pension benefits are manageable and do not impair credit quality

The city participates in two cost-sharing multiple-employer defined benefit pension plans: the Minnesota General Employment Retirement Fund and Minnesota's Public Employee Police, and the Fire Fund administered by the Public Employes Retirement Association of Minnesota (PERA). The plans' contributions are a modest share of expenses, accounting for less than 5% of the total governmental funds budget, the associated liability is $1.5 million and $4.1 million, respectively (at fiscal 2022 year-end June 30); the city does not offer postemployment benefits. We believe the plans' costs are unlikely to accelerate meaningfully in the medium term but pose some long-term risk of cost acceleration due to backloaded contributions and an extended amortization period (For more information, see "Pension Spotlight: Minnesota," published Aug. 10, 2023, on RatingsDirect.)

Spring Lake Park, Minn.--key credit metrics				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Strong economy				
Projected per capita EBI % of U.S.	98.1			
Market value per capita ($)	138,616			
Population		6,682	6,549	6,568
County unemployment rate(%)		2.6		
Market value ($000)	926,233	791,359	715,687	642,036
Ten largest taxpayers % of taxable value	15.7			
Strong budgetary performance				
Operating fund result % of expenditures		2.8	-0.2	9.4
Total governmental fund result % of expenditures		-0.7	4.0	8.2
Very strong budgetary flexibility				
Available reserves % of operating expenditures		54.6	52.8	51.6
Total available reserves ($000)		2,667	2,532	2,538
Very strong liquidity				
Total government cash % of governmental fund expenditures		183.2	194.5	168.5
Total government cash % of governmental fund debt service		1,402	1,352	1,289
Strong management				
Financial Management Assessment	Good			
Adequate debt and long-term liabilities				
Debt service % of governmental fund expenditures		13.1	14.4	13.1
Net direct debt % of governmental fund revenue	138.3			
Overall net debt % of market value	2.6			
Direct debt 10-year amortization (%)	37.6			
Required pension contribution % of governmental fund expenditures		4.6		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- U.S. Local Governments Credit Brief: Minnesota Counties And Municipalities Means And Medians, Oct. 11, 2023
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022