S&P Global
Ratings

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Summary:

Northfield, Minnesota; Appropriations; General Obligation

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Credit Profile		
US$0.97 mil GO imp bnds ser 2017A dtd 09/07/2017 due 02/01/2028		
Long Term Rating	AA/Stable	New
US$0.465 mil GO tax inc rfdg bnds ser 2017B dtd 09/07/2017 due 02/01/2025		
Long Term Rating	AA/Stable	New

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Northfield, Minn.'s series 2017A general obligation (GO) improvement bonds and series 2017B GO tax-increment refunding bonds. At the same time, we affirmed our 'AA' ratings on the city's existing GO debt and its series 2012B certificates of participation (COPs). The outlook is stable.

The series 2017A bonds are secured by special assessments and by the city's full faith and credit GO pledge, including an ability to levy unlimited ad valorem property taxes. Officials will use 2017A proceeds for a portion of the city's 2017 street reclamation project. The 2017B bonds are secured by tax-increment revenues generated by the city's Presidential Commons Tax-Increment District and by its full faith and credit and unlimited taxing powers. Series 2017B proceeds will be used for the current refunding of the city's outstanding 2007D taxable GO tax-increment refunding bonds, both for interest savings and to extend maturities slightly so that debt service will be covered entirely by projected tax-increment financing (TIF) revenues.

Though both the 2017A and B bonds are secured by multiple revenue streams, we rate to the city's GO pledge; as part of the present rating action, we are also affirming our ratings on several obligations also secured by multiple revenue streams, and in each case, we likewise rate to the city's GO pledge. The 2012B COPs are rated one notch below the city's GO rating to account for appropriation risk.

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

- Adequate economy, with a local stabilizing institutional influence;
- Strong management, with "good" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with an operating surplus in the general fund but break-even operating results at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 76% of operating expenditures;
- Very strong liquidity, with total government available cash at 1.5x total governmental fund expenditures and 10.9x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 14.0% of expenditures and net direct debt that is 99.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of

market value and rapid amortization, with 87.0% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Northfield's economy adequate. The city, with an estimated population of 20,805, is in Dakota and Rice counties. Northfield covers approximately 7.6 square miles near Interstate 35, about 40 miles south of the Twin Cities metropolitan statistical area (MSA). It benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 88.4% of the national level and per capita market value of $72,138. Overall, market value grew by 10.0% over the past year to $1.5 billion in 2017. The weight-averaged unemployment rate of the counties was 3.5% in 2016.

Home to St. Olaf and Carleton colleges, which we consider stabilizing institutions. Though not technically part of an MSA, the city is centrally located between the Twin Cities, Rochester (about an hour to the southeast) and Mankato (a little over an hour to the west). Local employment is available in higher education, health care, and food processing, with top employers including St. Olaf (employs 860), Northfield Hospital (a component unit of the city, 780), Carleton College (700), and Post Breakfast Cereal (manufacturing, 675). The city has recently seen and will likely continue to see strong valuation growth at least through the next year, reflecting organic growth in existing property values, along with several larger new developments, which include a new science center at Carleton and a new hotel. The city's 2017 net tax capacity comprised mostly residential homestead properties, at 58% of the total, though with a good mix of commercial/industrial (23%) and nonhomestead residential (15%) properties.

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.

Some of management highlights include its:

- Use of at least three years of historical information in the formulation of the upcoming-year revenue and expenditure assumptions with the help of outside sources and a line-by-line approach to budgeting;
- Quarterly reporting of budget-to-actual performance to the council with the ability to make amendments to the budget as needed;
- Five-year capital plan that is updated on an annual basis and includes sources and uses of funds;
- Formalized investment management policy with annual reporting of investments and holdings;
- Lack of a formalized debt management policy, though with plans to adopt one in the next year; and
- Formalized fund balance policy to maintain 40% of budgeted expenditures for cash flow and contingency purposes.
- Lack of a multiyear financial plan.

Strong budgetary performance

Northfield's budgetary performance is strong, in our opinion. The city had surplus operating results in the general fund of 5.9% of expenditures, but a break-even result across all governmental funds in fiscal 2016. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2016 results in the near term.

The city reports its finances on the basis of a fiscal year ending on Dec. 31. We have adjusted fiscal 2016 general fund results to exclude nonrecurring transfers out of the general fund for capital projects, and we have also adjusted total governmental fund expenditures to exclude bond proceeds and a spend-down in the library capital project fund for a multiyear capital project. Adjusting for nonrecurring items, the city's budgetary results in the general fund and across total governmental funds have generally been positive in recent years. The fiscal 2017 budget is structured with minimal changes over the prior year and essentially break-even results, and management report that year-to-date results are tracking in line with the budget. With fiscal 2017 results expect to fall closer to break-even, compared to the 5.9% general fund surplus in fiscal 2016, we expect budgetary performance to deteriorate somewhat from 2016 levels, though remaining strong. City operations are funded primarily by taxes, which were a little less than half of fiscal 2016 general fund revenues, followed by intergovernmental aid (31%) and charges for services (12%).

Very strong budgetary flexibility

Northfield's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 76% of operating expenditures, or $8.3 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 available fund balance includes $7.1 million (64.9% of expenditures) in the general fund and $1.2 million (11.1%) that is outside the general fund but legally available for operations. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 75% of expenditures in 2015 and 77% in 2014.

We have included available reserves in the municipal liquor store fund in our calculation of the city's available fund balance. The city has a formal fund balance policy requiring a minimum general fund reserve equal to 40% expenditures, and its general fund reserves have been well in excess of the policy minimum for a number of years. Management has indicated that the city has no near-term plans to use reserves, and given its stable operating environment and consistently strong budgetary performance, we expect reserves to remain stable and in excess of the city's policy requirement for the foreseeable future.

Very strong liquidity

In our opinion, Northfield's liquidity is very strong, with total government available cash at 1.5x total governmental fund expenditures and 10.9x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

Having a strong record of GO debt issuance within the past 20 years, we believe the city will continue to enjoy strong access to external liquidity if needed. Minnesota statutes allow for investments that we consider aggressive, though we do not consider Northfield's investment portfolio--comprising mainly pooled municipal investments and U.S. agency and Treasury securities--a source of liquidity risk. The city has no variable-rate debt or direct-purchase exposure, and we expect cash levels to remain stable and overall liquidity to remain very strong.

Strong debt and contingent liability profile

In our view, Northfield's debt and contingent liability profile is strong. Total governmental fund debt service is 14.0% of total governmental fund expenditures, and net direct debt is 99.5% of total governmental fund revenue. Overall net debt is low at 2.7% of market value, and approximately 87.0% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

We understand that the city will likely issue approximately $3.5 million in new-money GO debt within the next two years to finance the expansion of its fire hall, but otherwise it has no major capital needs or future debt plans.

Northfield's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 3.6% of total governmental fund expenditures in 2016. The city made its full annual required pension contribution in 2016.

The city participates in a defined-benefit plan administered by the Public Employees Retirement Association of Minnesota (PERA). PERA administers the General Employees retirement Fund (GERF) and Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiemployer retirement plans wherein employee and employer contribution rates are set by state statute and can only be amended by the state legislature. The city's seven city council members are also covered by a defined-contribution plan, and the city contributes to a single-employer OPEB plan on a pay-as-you-go basis.

As of Dec. 31, 2016, the city's proportionate share of the net pension liability was $5.2 million for GERF (primary government, excluding component units) and $7.1 million for PEPFF. Though the pension plans are not especially well-funded--GERF was 68.9% funded and PEPFF 63.9% funded as of the plans' June 30, 2016, GASB valuations--fixed pension costs have been relatively modest in recent years, and we believe the city could absorb higher costs without placing undue strain on the budget. The city's OPEB plan was entirely unfunded and had a $1.2 million unfunded liability as of Dec. 31, 2016.

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 Northfield's financial performance will remain strong and its reserves in line with its 35% policy minimum for the foreseeable future, as has been its past practice. Given no discernable sources of near- to medium-term budgetary pressure and the additional stability provided by the city's good financial management policies and practices, we do not expect to change the rating within the two-year outlook horizon.

Upside scenario

We could raise the rating with improvements in the area economy such that the city's economic measures--in particular, its per capita incomes and market value--better aligned with those of more highly rated peers. We could also do so if the city were to maintain its available reserves in excess of 75% of expenditures and kept them there or at a higher level.

Downside scenario

However unlikely, we could lower the rating with substantial deterioration in the city's budgetary performance and reserve levels, such that they were no longer commensurate with 'AA' rated 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 August 3, 2017)		
Northfield certs of part		
Long Term Rating	AA-/Stable	Affirmed
Northfield GO		
Long Term Rating	AA/Stable	Affirmed
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Long Term Rating	AA/Stable	Affirmed
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Northfield GO		
Long Term Rating	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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.