

Research

Summary:

Shakopee, Minnesota; General Obligation; Tax Increment

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Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

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Credit Profile

US\$10.0 mil GO bonds ser 2022A due 02/01/2041

<i>Long Term Rating</i>	AA+/Stable	New
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Shakopee GO tax increment rev bonds

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Shakopee GO tax increment rev bonds

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Shakopee, Minn.'s approximately \$10 million series 2022A general obligation (GO) bonds. At the same time, we affirmed our 'AA+' long-term rating on the city's GO debt outstanding. The outlook is stable.

The city's full faith and credit secures the series 2022A bonds. The pledge benefits from a property tax levy, unlimited as to rate or amount. The bonds are also payable from tax increment revenue within Shakopee Tax-Increment-Financing District No. 18. However, we rate to the city's GO pledge. Bond proceeds will be used to finance various public improvements.

Credit overview

Shakopee is a rapidly growing suburb southwest of Minneapolis. We view its location in the Twin Cities metropolitan statistical area (MSA) as a strength. As a result of new residential and commercial-and-industrial developments, the city has seen strong market value appreciation and increased net tax capacity. The reserve position has been nominally large at around \$15 million and at the top of the city's policy-mandated 50% of operating expenditures in recent years. The debt profile is manageable and, with no additional debt plans, will remain so for the foreseeable future. As a result, we anticipate rating stability over the outlook horizon.

The long-term rating reflects our view of the city's:

- Rapidly growing local economy in the Twin Cities MSA, with effective buying income around the national average;
- Very strong reserves and liquidity bolstered by consecutive surpluses with no plans to draw down;
- Strong financial management practices and policies, a change from good as a result of more robust planning and reporting, with an institutional framework we consider strong; and
- Manageable debt burden with above-average amortization and no additional debt plans.

Environmental, social, and governance

While population growth can be an opportunity, it can also be a weakness if population growth leads to increased capital needs and debt issuances. We have analyzed the city's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile, and determined all are in-line with our view of the sector standard.

Stable Outlook

Upside scenario

Assuming no deterioration in other credit factors, we could raise the rating if income and market value per capita were to improve to levels commensurate with those of 'AAA' rated entities.

Downside scenario

We could lower the rating if Shakopee were to experience budgetary pressure leading to significantly decreased available reserves.

Credit Opinion

Rapidly growing economy within the Twin Cities MSA

Shakopee is in Scott County, about 25 miles southwest of Minneapolis, and benefits from the Twin Cities MSA. Market value and net tax capacity have demonstrated strong growth in recent years. During the past five years, economic market value has grown by a total of 28.4%. Preliminary figures for the 2022 assessment year show an increase in taxable market value of 19.9%. We expect strong growth to continue because the city has many residential developments under construction and several hundred market-rate apartments in the pipeline, as well as a sizable number of commercial expansions and new buildings. The city annexed 250 acres in each of 2021 and 2022. We expect continued growth. While local effective buying income has remained just above the national average over the past several years, officials report of an ongoing shift of the employment base to higher skilled labor, which may benefit income metrics in future years.

Residential properties account for 54% of the property tax base, and commercial-and-industrial properties 45%. Shakopee Mdewakanton Sioux Community (4,100 employees) is the leading employer, with several enterprises, including two casinos. Other leading employers include:

- Amazon (2,500 employees), a distribution center;
- Valleyfair (1,600), an entertainment park; and
- Emerson (1,200), an automation technology manufacturer.

As a result of recent trends and ongoing development and appreciating home values throughout the MSA, we expect the tax base to continue to exhibit strong growth during the next few years.

Strong financial management policies and practices

We view financial management as very strong, with strong financial policies and practices under our financial management assessment methodology. Our change in assessment stems from the recent implementation and council review of a robust long-term financial plan that uses several years of trend analysis and projects 10 years with different levels of inflationary revenue and costs assumed. The city also recently extended its capital improvement plan to cover 15 years in less detail, while focusing in greater detail on sources and uses for a rolling five-year plan that the council approves annually.

Officials use at least three years of trends and outside sources of information when building the budget. During the year, management provides the city council monthly reports on budget-to-actual results; the council can amend the budget, as needed.

Shakopee has its own investment management policy, and management provides quarterly investment-holdings-and-earnings reports to the council. Its formal debt management policy is somewhat more restrictive than state guidelines. The city's formal fund balance policy calls for maintaining unassigned general fund balance at 35% to 50% of next year's budgeted expenditures for cash flow. Management has processes and plans in place to protect, prepare, and educate staff regarding cyberattacks; it maintains insurance against such attacks through the League of Minnesota Cities.

Very strong reserves and liquidity as a result of consecutive surpluses and careful fiscal planning

We adjusted general fund expenditures to account for recurring transfers out, and we removed one-time transfers that the city made to remain in compliance with its fund balance policy. We also adjusted total governmental funds expenditures to account for one-time capital projects and payments related to debt refunding.

After our adjustments, Shakopee closed each of the past three audited fiscal years with more than a 9% general fund surplus, which management primarily attributes to strong building permits and development-related revenue. Across total governmental funds, the city also posted positive results after adjustments for one-time capital expenditures. Its general fund revenue consists primarily of property taxes (55%), charges for services (17%), intergovernmental (15), and licenses and permits (11%).

For fiscal 2021, the city is estimating a general fund surplus of \$1.9 million, or 6% of estimated operating expenditures, after transfers from American Rescue Plan (ARP) Act funds. The city anticipates receiving a total of \$4.5 million in ARP Act funds, accounting for them through a special revenue fund. During fiscal 2021 the city transferred about \$644,000 to the general fund to offset pandemic-related expenses, but as of the end of the year \$3.8 million in allocated ARP Act funds were unspent. Officials reported \$2.5 million in additional license and permit revenue when compared with budget.

The fiscal 2022 budget reflects a small deficit, but officials expect another surplus as a result of conservative budgeting. In the unlikely event that the city achieves favorable variances compared with the budget in other areas, management will transfer any excess above its policy-mandated fund balance to other funds for one-time use. As a result of Shakopee's recent large buildup of reserves, history of positive general fund results, and fund balance policy, we expect available general fund balance to remain very strong.

Manageable debt profile with above-average amortization and lack of additional debt plans

Following this issuance, Shakopee will have \$47 million of net direct debt outstanding. With no additional debt plans, we anticipate that the debt profile will remain adequate-to-weak but manageable for the foreseeable future.

Manageable pension and other postemployment benefits (OPEB) profile

We do not believe that pension and OPEB 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.

The city participates in the following plans:

- Minnesota General Employees Retirement Fund (GERF): 87% funded (as of June 30, 2021), with a city proportionate share of the plan's net pension liability of \$4.7 million
- Minnesota Police and Fire Fund (PEPFF): 93.7% funded (as of June 30, 2021), with a proportionate share of \$4.8 million
- A single-employer, defined benefit OPEB plan: funded on a pay-as-you-go basis with a net OPEB liability of \$2.8 million (as of Dec. 31, 2018).

The city's two largest pension plans have seen improvements in funded status in recent years, although plan statutory formula 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 over time, if the state does not offset future funding shortfalls with adjustments. 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.

Shakopee Key Credit Metrics				
	Most recent	Historical information		
		2020	2019	2018
Strong economy				
Projected per capita EBI as % of U.S.	104			
Market value per capita (\$)	140,427			
Population		43,029	42,530	42,641
County unemployment rate (%)		5.9		
Market value (\$000s)	6,042,437	5,494,140	5,302,981	
Ten largest taxpayers as % of taxable value	10.8			
Strong budgetary performance				
Operating fund result as % of expenditures		9.6	13.0	9.8
Total governmental funds result as % of expenditures		8.6	9.9	22.0
Very strong budgetary flexibility				
Available reserves as % of operating expenditures		51.6	51.6	47.4
Total available reserves (\$000s)		14,892	14,136	12,251

Shakopee Key Credit Metrics (cont.)				
	Most recent	Historical information		
		2020	2019	2018
Very strong liquidity				
Total government cash as % of governmental funds expenditures		171	174	180
Total government cash as % of governmental funds debt service		2,343	2,217	1,802
Very strong management				
Financial management assessment	Strong			
Adequate debt and long-term liabilities				
Debt service and of governmental funds expenditures		7.3	7.9	10.0
Net direct debt as % of governmental funds revenue	109			
Overall net debt as % of market value	3.5			
Direct debt 10-year amortization (%)	62			
Required pension contribution as % of governmental funds expenditures		4		
OPEB actual contribution as % of governmental funds expenditures		0.1		
Strong institutional framework				

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

Related Research

- 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
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2021 Update Of Institutional Framework For U.S. Local Governments

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