S&P Global Ratings

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Summary:

Hopkins, Minnesota; General Obligation

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Credit Profile		
US$4.48 mil GO imp bnds ser 2016A dtd 07/20/2016 due 02/01/2032		
Long Term Rating	AA+/Stable	New
US$1.63 mil GO tax abatement bnds ser 2016B dtd 07/20/2016 due 02/01/2032		
Long Term Rating	AA+/Stable	New
Hopkins GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Hopkins, Minn.'s series 2016A general obligation (GO) improvement bonds and series 2016B GO tax-abatement bonds.

At the same time, S&P Global Ratings affirmed its 'AA+' rating, with a stable outlook, on the city's previously issued GO debt.

The city's unlimited-tax, full faith and credit GO pledge secures the series 2016A and B bonds. The city also pledges special assessments against benefited properties for the payment of debt service on the series 2016A bonds. For the series 2016B bonds, the city also pledges tax abatement revenues. However, in both instances, we rate to the city's GO pledge, which we view as the stronger pledge. Additionally, the city pledges other revenues such as utilities, tax increments, and special assessments on some of its existing debt. In these instances, we also rate to the city's GO pledge.

Officials will use the 2016A bonds to finance various improvements, including the city's road reconstruction project. Additionally, the series 2016B bonds will be used to finance a number of public park improvements and improvements to city-owned parking facilities and lots.

The long-term rating reflects our opinion of the following credit factors of the city, including its:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong 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 2014;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 at 39% of operating expenditures;
- Very strong liquidity, with total government available cash at 108.6% of total governmental fund expenditures and 8.0x governmental debt service, as well as access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 13.5% of expenditures and net direct debt at 205.2% of total governmental fund revenue, but rapid amortization, with 68.7% of debt scheduled to

be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider Hopkins' economy strong. The city, with an estimated population of 18,543, covers four square miles in Hennepin County, and is an inner-ring suburb of Minneapolis, eight miles southwest of the downtown area. It is in the Minneapolis-St. Paul-Bloomington MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 114% of the national level and per capita market value of $93,065. Overall, market value grew by 8.2% over the past year to $1.7 billion in 2015. The county unemployment rate was 3.3% in 2015.

Cargill, a provider of food, agricultural, and risk-management products and services, is the city's largest employer with approximately 4,000 employees. Other leading employers include Hopkins Independent School District No. 270 (1,041) and Supervalu Inc. (707).

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.

Management uses three years of historical revenues and expenditures to inform its revenue and expenditure assumptions for the budget year. It provides quarterly budget-to-actual and investment holdings and earnings reports to the city council. Management maintains formal, five-year capital improvement and long-term financial plans that it updates annually and shares with the council. The city has a formal reserve policy which requires a minimum reserve of 42% of prior-year expenditures, which it is currently meeting. It also maintains a debt management policy that sets guidelines for short-term borrowing, maturity lengths, and minimum allowable revenue bond coverage.

Strong budgetary performance

Hopkins' budgetary performance is strong, in our opinion. The city had operating surpluses at 2.3% of expenditures in the general fund and 7.7% across all governmental funds in fiscal 2014. General fund operating results of the city have been stable over the last three years, with results of 2.9% in 2013 and 1.5% in 2012.

Total governmental funds expenditures were adjusted to exclude one-time spending from bond proceeds. Management expects to report a surplus in its general fund for fiscal year-end (Dec. 31) 2015. Additionally, the city expects to report positive total governmental funds results in 2015 after adjusting for one-time major capital outlay expenditures. The 2016 general fund budget calls for a break-even general fund result with no use of fund balance. We anticipate that the general fund and the total governmental funds will maintain the trend of at least break-even results or minor surpluses. The general fund depends primarily on property taxes (78%), followed by intergovernmental aid (8%).

Very strong budgetary flexibility

Hopkins' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 at 39% of operating expenditures, or $4.3 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.

We have excluded receivables from the city's Arts Center and a tax-increment fund, both of which have underperformed operationally in recent years, from our measure of the available general fund balance. At fiscal year-end 2014, the Arts Center owed $840,000 to the general fund. For fiscal year-end 2015, management estimates that the receivable from the center grew to $848,000. Hopkins has developed an Arts Center long-term financial management plan to help improve operating performance and mitigate the funds' deficit fund balance. The plan includes directing property tax revenue into the fund, starting with $85,000 in 2015 and a preliminary expectation of $140,000 for fiscal 2016. The tax-increment fund owed the general fund $382,000 at fiscal year-end 2014, and management does not expect that amount to change significantly at fiscal year-end 2015. In addition, the city has hired a full-time development director which it hopes will help improve the Arts Center's performance operationally. Management indicates it has no plans to spend down general fund reserves in the near term. Because of this, we expect budgetary flexibility to remain very strong.

Very strong liquidity

In our opinion, Hopkins' liquidity is very strong, with total government available cash at 108.6% of total governmental fund expenditures and 8.0x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

The city is a frequent issuer of GO debt given that it has issued debt within the past 20 years. We do not view its investment use as aggressive; Hopkins invests primarily in certificates of deposit and money market funds. It is our understanding that the city has no direct-purchase or variable-rate debt. Because of these factors, we expect its liquidity profile to remain very strong.

Weak debt and contingent liability profile

In our view, Hopkins' debt and contingent liability profile is weak. Total governmental fund debt service is 13.5% of total governmental fund expenditures, and net direct debt is 205.2% of total governmental fund revenue. Approximately 68.7% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

It is our understanding that the city may issue up to $1 million in GO debt for a water tower improvement project later this year. Additionally, it may issue around $1.3 million in GO tax abatement bonds for a park improvement project in 2017. It is our understanding that the city does not have any contingent liabilities that could come due in the near term and put pressure on its budget. Additionally, we note that our view of the city's debt profile could further weaken should future debt issuances cause its 10-year amortization schedule fall below 65%.

Hopkins' combined required pension and actual other postemployment benefit (OPEB) contributions totaled 5.0% of total governmental fund expenditures in 2014. Of that amount, 3.9% represented required contributions to pension obligations, and 1.0% represented OPEB payments. The city made its full annual required pension contribution in 2014.

All full- and certain part-time employees of the city are covered by defined-benefit pension plans administered by the Public Employee Retirement Assn. of Minnesota (PERA). PERA administers the General Employees Retirement Fund and the Public Employees Police and Fire Fund, which are cost-sharing multiemployer retirement plans. The city makes its statutorily required contributions each year. It also contributes to the Hopkins Fire Relief Assn., a single-employer defined-benefit plan that covers its volunteer firefighters. Hopkins funds its single-employer OPEB plan on a pay-as-you-go basis.

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 Hopkins will maintain its very strong budgetary flexibility and liquidity and strong budgetary performance throughout the two-year outlook horizon. This expectation is supported by the city's demonstrated ability to maintain its available general fund balance at over 30% of expenditures, its trend of positive operating results, and its very strong financial management which includes long-term planning practices. The outlook also reflects our expectation that the city's economy will remain strong, supported by a rebounding tax base. We do not anticipate changing the rating within the two-year outlook horizon.

Upside scenario

We could raise the rating if the city's debt profile and economic indicators (including per capita market value and projected per capita incomes) improved to a level comparable with peers at a higher rating.

Downside scenario

If the city's budgetary performance weakens and budgetary flexibility deteriorates to a level no longer commensurate with peers, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 2015 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of June 15, 2016)		
Hopkins GO tax increment rev rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Hopkins GO		
Long Term Rating	AA+/Stable	Affirmed
Hopkins GO		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of June 15, 2016) (cont.)		
Hopkins GO		
Long Term Rating	AA+/Stable	Affirmed
Hopkins 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.