

November 23, 2011

Summary:

**Victoria, Minnesota; General
Obligation**

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Credit Profile

US\$1.495 mil GO perm imp revolving fd crossover rfdg bnds ser 2011B dtd 12/01/2011 due 02/01/2023

<i>Long Term Rating</i>	AA+/Stable	New
Victoria GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Victoria, Minn.'s \$1.495 million general obligation (GO) permanent improvement revolving fund crossover refunding bonds, series 2011B. At the same time, Standard & Poor's affirmed its 'AA+' rating on the city's existing GO bonds. The outlook is stable. The rating reflects our view of the city's:

- Participation in the diverse, Minneapolis-St. Paul metropolitan area economy,
- Maintenance of very strong financial reserves and good management oversight, and
- Very strong wealth and income levels.

Victoria's recent compression in tax capacity as well as its overall high per capita debt burden and high debt service carrying charge are limiting credit considerations, in our opinion.

The city's full faith and credit, unlimited-tax GO pledge ultimately secures the series 2011B, but we understand officials expect to use special assessments levied primarily against benefited properties. Officials plan to use series 2011B bond proceeds to crossover refund the city's series 2006B bonds.

Victoria encompasses approximately nine square miles within central Minnesota's Carver County, about 25 miles southwest of Minneapolis. The steadily growing, mostly residential city served a 2010 population estimate of about 7,345, which has more than doubled since the 2000 census. Most residents commute to the twin cities of Minneapolis-St. Paul although Victoria has seen a moderate influx of small-scale commercial and retail businesses particularly centered on a new grocery store. Resident income, as represented by median household effective buying income, has been stable and, in our opinion, very strong, at 182% and 196% of state and national levels, respectively. In August 2011, the city completed an orderly annexation of the neighboring community to the south of Victoria. They annexed roughly 550 acres and the property valuation will phase in over five years beginning in 2012.

In its 2010 fiscal year, Victoria began to experience a decline in its tax capacity as total market value declined. Although commercial growth helped to mitigate the decline, for collection year 2010, assessed value fell by 1.2% driven by declines in agricultural and residential values. Management is projecting a deeper decline in 2011 of 4.5%. However, for collection year 2010, indicated market value, which is a good gauge of sales prices, totaled \$1.14 billion, which we consider extremely strong at \$155,886 per capita. The tax base is very diverse, with the top 10 taxpayers making up 9.8% of assessed value in 2010.

Victoria's financial management and overall liquidity are good in our view, mitigating what we consider high fixed debt service costs. For fiscal 2010, the city increased its general fund balance by \$191,000 to \$1.5 million in unreserved funds. This equates to what we view as a very strong level, 55%, of operating expenditures. Transfers out of the general fund for 2010, at nearly \$1.1 million, included close to \$125,000 to establish a budget stabilization fund and an additional \$400,000 to establish a capital projects fund. Victoria has historically received only marginal amounts of local government aid from the state and, thus, has been relatively unaffected by unallotments in recent years. For fiscal 2011, the city budgets conservatively in our view for break-even results after transfers but expects to add at least \$150,000 to the general fund after transfers. The city has indicated that it expects a 4% decrease in the tax levy from 2010 and its tax rate to remain flat. Although the city is projecting a reduced level of revenue, it has put into place expense cuts to achieve its projected break-even results for fiscal 2011. As declines in net tax capacity are expected to continue, the adopted 2012 budget conservatively projects break-even results after transfers.

Standard & Poor's considers Victoria's financial management practices "good" under our Financial Management Assessment (FMA) methodology. An FMA of good indicates financial practices exist in most areas, but that governance officials might not formalize nor regularly monitor all of them. Highlights of these policies include monthly reports to the board on actual to budgeted performance. The city performs five-year capital planning that includes estimated costs while identifying potential revenue sources. In addition, its informal goal is to keep general fund reserves at a minimum of 25% of the subsequent years' operating expenditures for cash flow and contingency purposes; officials have historically exceeded this goal.

The city's overall net debt burden, excluding self-supporting enterprise revenue bonds, is high in our view, at \$8,073 per capita, or moderate at 5.7% of market value. Management attributes about 72% of its total net debt burden to overlapping entities. Given the city's need to finance infrastructure development with debt, its debt service carrying charges have historically been high: they were 35% of governmental fund expenditures less capital outlays in fiscal 2010. Amortization of direct principal is slightly better than average, with officials planning to retire 68% in the next 10 years and 100% in 20 years. The slowdown in development has somewhat relieved the city's need to issue additional debt for infrastructure, with current plans to issue \$1.5 million of additional GO-backed debt in fiscal 2012 for a street reconstruction project.

The city participates in contributory pension plans through the Public Employees Retirement Association (PERA) under Minnesota Statutes, Chapters 353 and 356, which cover all full-time and certain part-time employees. PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans.

Outlook

The stable outlook reflects Standard & Poor's view that management will likely continue to maintain very strong general fund reserves and a balanced budget despite the challenge of expected decreases in taxable value. In addition, the prudent management of the city's debt profile is key to maintaining the rating. Standard & Poor's does not anticipate that the rating will change within the two-year outlook horizon. Victoria's access to, and participation in, Minneapolis-St. Paul's economic and employment center provides further credit stability.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006

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