

October 9, 2009

Summary:
**Victoria, Minnesota; General
Obligation**

Primary Credit Analyst:

Daniel Zuccarello, New York 1-212-438-7414; daniel_zuccarello@standardandpoors.com

Secondary Credit Analyst:

Steffanie Dyer, Chicago (1) 312-233-7007; steffanie_dyer@standardandpoors.com

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Summary:

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Credit Profile

US\$3.475 mil GO perm imp revolving fd bnds ser 2009A dtd 10/01/2009 due 02/01/2026

Long Term Rating

AA+/Stable

New

Victoria GO perm imp revolv fund bnds ser 2008B

Long Term Rating

AA+/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on Victoria, Minn.'s general obligation (GO) debt one notch to 'AA+' from 'AA' based on the city's good financial management, contributing to a trend of positive general fund operations, and maintenance of very strong reserves. The outlook is stable.

At the same time, Standard & Poor's assigned its 'AA+' rating, and stable outlook, to the city's series 2009A GO permanent improvement revolving fund bonds.

In our opinion, the rating reflects the city's:

- Participation in the diverse Minneapolis-St. Paul metropolitan area economy,
- Strong property tax base growth due to steady residential development, and
- Very strong wealth and income levels.

The city's high per capita debt burden and high debt service carrying charge are, in our opinion, limiting credit considerations.

The city's full faith and credit, unlimited-tax GO pledge ultimately secures the series 2009A bonds; but officials expect to use special-assessment revenues to pay, in part, for debt service. The district might issue the series 2009A bonds as taxable build America bonds; as such, officials can use the 35% interest credit received from the federal government for debt service payment. The city has not pledged its interest subsidy receipts to the payment of the bonds; and it is Standard & Poor's understanding that the district intends to levy the full amount necessary annually to pay principal and interest on the series 2009A bonds, net of budgeted special-assessment revenues. Officials plan to use series 2009A bond proceeds to fund various public improvement projects in the city.

Victoria encompasses approximately nine square miles within central Minnesota's Carver County, roughly 25 miles southwest of Minneapolis. The steadily growing, mostly residential city served a population estimate of 6,200 in 2008, up by approximately 21% since 2004. The city's access to Minneapolis and the availability of land and wide range of housing prices continue to attract new residents to the city. City officials expect residential growth to continue over the course of the next several years with buildout roughly expected between 2025 and 2030. Resident income, as represented by median household effective buying income, is, in our opinion, a very strong 180% and 198% of state and national levels, respectively.

Due to recent residential growth, the city's taxable market value continues to grow at a strong pace; it grew by an average of 13.2% annually since fiscal 2005 to \$1.1 billion in fiscal 2009. Indicated market value, which better

reflects sales prices, totaled \$1.2 billion in fiscal 2009, or, in our opinion, an extremely strong \$194,036 per capita. The tax base is very diverse: The 10 leading taxpayers accounted for just 4.9% of the city's 2009 net tax capacity.

Victoria's financial management and overall liquidity are good, mitigating what we consider high fixed debt service costs. The city closed fiscal 2008 on Dec. 31 with a \$1.16 million ending general fund balance, of which just \$38,000 was reserved, or, in our opinion, a very strong 32% of operating expenditures and transfers out. According to officials, the city has been able to demonstrate a trend of positive general fund operations due, in part, to conservative budgeting practices and consistent property tax revenue growth (70%-80% of operating revenues). For fiscal 2009, officials are currently projecting positive operations and an approximately \$200,000 addition to the general fund reserve after transfers; if realized, this would increase the general fund balance to roughly \$1.3 million, which the city indicates would be closer to 40% of operating expenditures. Preliminary fiscal 2010 budget estimates include largely balanced operations after accounting for nearly \$700,000 of transfers, including \$185,000 of transfers into a capital reserve that the city plans to establish at fiscal year-end 2009.

Standard & Poor's considers Victoria's financial management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Highlights of these policies include monthly reports on budgeted figures compared to actual performance to the board. The city performs five-year capital planning that includes estimated costs while identifying potential revenue sources. In addition, the city's 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 adhered to this goal.

The city's overall net debt burden, excluding self-supporting enterprise revenue bonds, is, in our opinion, a high \$8,691 per capita, or a more-moderate 4.5% of market value. Management attributes about 60% of 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 33% of governmental funds expenditures less capital outlays in fiscal 2008. Amortization of direct principal is slightly better than average with officials planning to retire 60% over the next 10 years and 100% over 20 years. The city plans to issue between \$3 million and \$4 million of additional debt in 2010 to fund additional capital improvement projects.

Outlook

The stable outlook reflects Standard & Poor's expectation that ongoing development in the city will contribute to steady tax revenue growth, yielding stable financial operations and the maintenance of very strong reserves. In addition, the appropriate management of the city's debt profile is key to maintaining the rating. The city's access to, and participation in, the Twin Cities economic and employment center supports its prospect for continued residential and overall economic growth.

Related Research

USPF Criteria: "GO Debt," Oct. 12, 2006

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