S&P Global Ratings

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Summary:

Annandale, Minnesota; Non-School State Programs

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Credit Profile		
US$2.88 mil GO util rev bnds ser 2023A dtd 04/20/2023 due 02/01/2044		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AAA' program rating and 'AA' underlying rating to Annandale, Minn.'s $2.88 million series 2023A general obligation (GO) utility revenue bonds.
- The outlook is stable.

Security

The bonds are secured by the city's full faith and credit and power to levy direct general ad valorem taxes. The city also pledges revenue from the water and sanitary sewer utilities and special assessments; however, we rate to the GO pledge. The proceeds will provide financing for the 2023 Lake John utility extension project. The series 2020A general obligation (GO) temporary improvement bonds matured Feb. 1, 2023, and we no longer maintained a debt rating, until the issuance of the series 2023A.

Credit overview

Although Annandale is a small city on the outskirts of the Twin Cities metro area, it is experiencing strong demand for housing, improving its wealth and incomes to levels we consider very strong. With more than 200 housing units and a new industrial park (ranging from approved to in-concept phases) in the works, in our opinion, the city's growing economy will support the 'AA' rating. Good management practices and policies have supported strong structural balance and consistent surplus operations historically, with an estimated slight surplus in fiscal 2022 and break-even operations budgeted for 2023. The city has used its general fund reserves as upfront financing for several economic development projects; we have excluded these general fund receivables from our available fund balance calculation. Even still, the general fund reserves are very strong and we expect will be further strengthened over the next year with the planned repayment of general fund receivables. The debt profile is weak with elevated carrying charges, but rapid amortization and limited plans to issue additional debt mean that it will likely not materially worsen in the near term.

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

- Location in Wright County, approximately 68 miles northwest of Minneapolis and 26 miles south of St. Cloud; Minnesota highways 15 and 24 run through the city, providing easy access to St. Cloud and the Twin Cities metropolitan area;
- Strong management that includes comprehensive budget planning and monitoring, long-term capital planning and

informal general fund reserve target of four-six months; and strong institutional framework;

- Strong budgetary performance, with surpluses excluding $385,000 of federal pandemic relief money that the city will use for downtown redevelopment; the fiscal 2023 balanced budget includes a larger-than-usual wage and benefit increase, along with a 2.98% levy increase;
- Very strong budgetary flexibility and liquidity. Management expects the general fund receivables from nonmajor governmental funds will not materially change in the fiscal 2022 audit, but is forecasting about a $1 million reduction in receivables in 2023 through bond proceeds, which in turn would improve our view of available reserves; and
- Weak debt and contingent liability position, with high overall debt and carrying charges, but rapid amortization and minimal future debt plans. We do not believe that pension liabilities represent a medium-term rating pressure, as contributions are only a modest share of the budget.

Environmental, social, and governance

We have analyzed the city's environmental, social, and governance risks, and believe that they are credit neutral.

Outlook

The stable outlook reflects our expectation that the city will maintain very strong flexibility and liquidity, despite high carrying charges, over the outlook horizon.

Downside scenario

We could take a negative rating action if the city's general fund loans were to materially increase without a plan to repay them, or if there was prolonged deficit spending.

Upside scenario

We could take a positive rating action if the city's economy materially expanded and diversified further, to levels comparable with those of higher-rated peers, with all other factors held constant or improved.

Credit Opinion

State of Minnesota Credit Enhancement Program

The 'AAA' long-term rating reflects the security provided by the city's participation in the State of Minnesota Credit Enhancement Program, a standing appropriation program authorized by state statute. The state will pay debt service from its general fund if the city fails to pay. State payments have a standing appropriation from Minnesota's general fund, which we view as equivalent to a general fund pledge. The standing appropriation is not subject to executive unallotment authority and eligible projects are central to Minnesota's operations and purpose. We see no unusual political, timing, or administrative risk related to the debt payment. The credit enhancement program rating reflects that of Minnesota and moves in tandem with the state GO rating and outlook.

Annandale, Minnesota--Key Credit Metrics				
	Most recent	**Historical information**		
		2021	**2020**	**2019**
Very strong economy				
Projected per capita EBI % of U.S.	110			
Market value per capita ($)	102,711			
Population		3,138	3,087	3,058
County unemployment rate(%)		3.1		
Market value ($000)	322,307	293,074	272,384	
Ten largest taxpayers % of taxable value	10.8			
Strong budgetary performance				
Operating fund result % of expenditures		4.3	3.3	8.4
Total governmental fund result % of expenditures		5.6	(16.3)	45.9
Very strong budgetary flexibility				
Available reserves % of operating expenditures		53.7	58.3	47.6
Total available reserves ($000)		1,289	1,493	1,071
Very strong liquidity				
Total government cash % of governmental fund expenditures		109	100	213
Total government cash % of governmental fund debt service		416	150	458
Strong management				
Financial Management Assessment	Good			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		26.3	67.1	46.4
Net direct debt % of governmental fund revenue	293			
Overall net debt % of market value	4.6			
Direct debt 10-year amortization (%)	70			
Required pension contribution % of governmental fund expenditures		3.3		
OPEB actual contribution % of governmental fund expenditures		--		
Strong institutional framework				

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

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022