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Ratings

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Summary:

Hopkins, Minnesota; General Obligation; Note

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Table Of Contents

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Credit Profile		
US$8.285 mil GO temp bnds ser 2023A dtd 03/14/2023 due 02/01/2026		
Short Term Rating	SP-1+	New
Hopkins GO		
Long Term Rating	AA+/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Hopkins, Minn.'s series 2023A $8.3 million general obligation (GO) temporary bonds
- At the same time, we affirmed our 'AA+' long-term rating on the district's GO bonds outstanding
- The outlook on the long-term rating is stable.

Security

The series 2023A temporary bonds are secured by the city's full-faith-and-credit pledge and ability to levy unlimited ad valorem property taxes. Officials intend to pay debt service with special assessments, net revenues of the sewer, water, and storm systems, and ad valorem property taxes, but the rating is based on the unlimited ad valorem tax pledge. The city's existing GO debt also includes various other pledged revenues such as tax-increment, tax-abatement, special-assessment revenues, and various enterprise fund revenues, but in each case, we rate to the city's GO pledge.

The series 2023A bonds scheduled to be sold on March 14, 2023, with final maturity occurring on Feb. 1, 2026, which is less than a three-year maturity. The temporary bonds are expected to be taken out with a long-term GO bond. Therefore, we are applying a short-term rating on the series 2023A temporary bonds. The short-term note rating reflects our criteria for evaluating and rating bond anticipation notes (BANs). In our view, Hopkins maintains a very strong capacity to pay principal and interest when the notes come due. In our view, and in accordance with our criteria, "Bond Anticipation Note Rating Methodology" (published Aug. 31, 2011), the city maintains a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

Proceeds of the bonds will be used for road improvements and utility reconstruction projects, and the purchase of a truck.

Credit overview

Hopkins has a track record of healthy finances, ending fiscal 2022 with its fourth consecutive surplus based on preliminary results. Applying a portion of its allocation of American Rescue Plan (ARP) funds, the city reduced large general fund receivables of its Art Center and other under performing funds. Hopkins is backed by a strong management team that implemented robust policies and practices. We anticipate Hopkins' salary expenses to increase with the completion of compensation study in the summer of 2023 and expect management will continue to maintain balanced operations. The city's debt profile, while somewhat elevated, has been historically managed within its budget and, even given sizable debt service carrying charges, we expect that will continue. In addition, its other long-term liabilities (pension and other postemployment benefits [OPEB]) are manageable, further supporting its underlying credit quality.

The rating reflects our opinion of the city's:

- Healthy incomes and wealth levels in a Twins Cities suburb, with consistent valuation growth;
- Solid financial performance, maintenance of strong reserves expected to continue based on budget, and robust liquidity levels;
- Strong financial policies and practices under our Financial Management Assessment (FMA), and a strong institutional framework score; and
- Weak debt and liability profile, with debt service carrying charges at 27% of expenditures and net direct debt that is 203% of total governmental fund revenue, but rapid amortization with 87% schedule to be retired in 10 years.

Environmental, social, and governance

We reviewed the district's environmental, social, and governance (ESG) risks and view them as neutral in our credit rating analysis. We also note the city has policies and practices in place to mitigate cyber-security risks. For our latest ESG report card for the Midwest region, see "ESG U.S. Public Finance Report Card: Midwest And Central Region Governments And Not-For-Profit Enterprises," published July 13, 2022, on RatingsDirect.

Outlook

The stable outlook reflects our expectation Hopkins will maintain balanced operations and very strong reserves over the outlook horizon. In addition, we view the city's other credit factors as stable and unlikely to materially change within the outlook period.

Downside scenario

We could take a negative rating action if the city's budgetary performance weakens, if reserves are materially drawn down, or if debt increases substantially beyond current expectations.

Upside scenario

We could take positive rating action if the city experiences material improvements in income levels and market value per capita values commensurate with those of 'AAA' peers, or reduction in debt service costs, all other credit factors remaining equal.

Credit Opinion

Growing tax base, high income and wealth levels, and economy supported by access to an MSA

Hopkins is in Hennepin County in the Minneapolis-St. Paul-Bloomington MSA, which we consider to be broad and diverse. Hopkins' proximity to the Twin Cities allows easy access to employment and retail opportunities and will become more easily accessible with the expansion of the Minneapolis METRO light-rail system, which will include three new stops in Hopkins that are currently under development.

Development throughout the city remains strong, including ongoing expansions and redevelopment, as well as steady growth in both multi- and single-family housing. The city tax base is approximately $2.7 billion, consistently growing annually. The tax base consists primarily of residential (homestead/non-homestead) properties (64%), followed by commercial and industrial properties (35%). We think that the city's historic tax base growth, coupled with general economic stability and access to the larger Twin Cities MSA, will lead to continued strength in our view of the local economy.

Reduction in general fund receivables, maintenance of strong reserves, and positive operating results

Hopkins generated surplus results in fiscal 2021 ($1.2 million) and anticipates posting another healthy surplus ($962,000) in its 2022 estimates. Management attributes surplus results based on increased revenue from permits and inspections, revenues from fees collected for issuing private activity bonds, and cost savings from vacant positions. Reserves grew as the city consistently added to the general fund balance with its surpluses in the past three years. In previous years, the city had large interfund loans due to the general fund that have since been fully eliminated or significantly reduced with ARP funds.

Fiscal 2023 budget is structured as breakeven, and performance is trending in line with expectations. The city expects to make salary and benefit adjustments for city employees after the completion of a compensation study expected to be done this summer.

The city has no plans to draw down its available fund balance. Hopkins maintains very strong available liquidity, with $42 million at fiscal year-end 2021 across all funds available for short term purposes. The city received $2 million in ARP funds, of which $1.5 was remaining in fiscal 2022. Main uses for the funds include transfers to reduce the Art Center and Pavilion deficit, covering the salaries through 2024 for an additional city planner and police officer, funding economic development grants, and various capital improvements.

Strong FMA, highlighted by long-term planning and formalized policies

Highlights of the city's financial practices and policies include:

- Historical look-back in the formulation of revenue and expenditure assumptions, using outside sources to produce the annual budget;
- Quarterly reporting of budget-to-actual performance to the council, with the ability to make amendments as needed;
- A five-year, rolling long-term financial plan that projects revenues and expenditures;
- A five-year long-term capital plan that addresses capital needs with sources and uses of funds identified;
- Formalized investment management policy, with quarterly reporting of investments and holdings;
- Formalized debt management policy that sets guidelines for short-term borrowing, maturity lengths, and minimum allowable coverage on revenue debt; and
- Formalized fund balance policy to maintain 42% of expenditures for cash-flow needs, with which the city has mostly complied, which we calculate differently than the city given our adjustments to available reserves.

Weak debt profile, with elevated fixed costs relative to budget but with rapid amortization

We calculate total direct debt at $83.1 million; when excluding self-supporting GO debt paid from the city's enterprise funds, net direct debt amounts to approximately $69.6 million. In addition to the planned GO issuance to take out the temporary GO bonds, the city plans to issue approximately $8 million in new money GO debt in 2025, and $8.0 million in 2026 for ongoing street and utility projects. While debt service costs make up a considerable portion of the budget, the city has historically managed these costs well, which we expect will continue. In addition, Hopkins amortizes approximately the same amount that it issues every year, so we expect the debt profile will remain stable over the near term.

Pension and OPEB liabilities not a near-term pressure

- We do not believe that pensions represent a near-term credit pressure for Hopkins because the cost-sharing, multiple-employer, defined-benefit pension plans in which the city participates are reasonably well funded, and annual costs represent only a modest share of total spending.
- Although the city funds its OPEB on a pay-as-you-go basis, exposing it to cost acceleration and volatility, we expect that medium-term costs will remain only a small share of total spending and, therefore, not a significant budgetary pressure.

Hopkins participates in the following plans:

- Minnesota General Employees Retirement Fund (GERF): 87% funded (as of June 30, 2021), with a proportionate share of the plan's net pension liability (NPL) of $3.3 million (as of Dec. 31, 2020).
- Minnesota Public Employees Police and Fire Fund (PEPFF): 94% funded (June 30, 2021), with a city proportionate share of the plan's NPL of $2.3 million (as of Dec. 31, 2020).
- An implicit rate subsidy arising from retirees staying on the city's health insurance plan while paying active premium rates: pay-as-you-go, with a net OPEB liability of $1.1 million.

Both GERF and PEPFF have seen improvements in funded status in recent years, although plan statutory formula contributions have regularly fallen short of actuarial recommendations. Annual contributions are based on a statutory formula that typically produced contributions lower than the actuarially determined contribution for each plan, and we think that this increases the risk of underfunding over time if the state legislature does not make adjustments to offset future funding shortfalls. Other key risks include a 7.5% investment rate-of-return assumptions, above our 6.0% guidance, and lengthy amortization periods. Nevertheless, pension costs remain only a modest share of total spending, and we believe they are unlikely to pressure the city's medium-term operational health.

Hopkins, Minn.--Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	116.6			
Market value per capita ($)	136,094			
Population		19,553	19,484	19,213

Hopkins, Minn.--Key Credit Metrics (cont.)				
	Most recent	Historical information		
		2021	2020	2019
County unemployment rate(%)		3.4		
Market value ($000)	2,661,045	2,499,240	2,378,345	
Ten largest taxpayers % of taxable value	24.1			
Strong budgetary performance				
Operating fund result % of expenditures		7.8	8.5	3.2
Total governmental fund result % of expenditures		6.8	10.9	6.9
Very strong budgetary flexibility				
Available reserves % of operating expenditures		46.0	17.3	20.9
Total available reserves ($000)		6,859	2,596	3,024
Very strong liquidity				
Total government cash % of governmental fund expenditures		140.5	120.2	86.6
Total government cash % of governmental fund debt service		521.7	495.6	363.0
Very strong management				
Financial Management Assessment	Strong			
Weak debt and long-term liabilities				
Debt service % of governmental fund expenditures		26.9	24.3	23.8
Net direct debt % of governmental fund revenue	202.8			
Overall net debt % of market value	3.9			
Direct debt 10-year amortization (%)	87.4			
Required pension contribution % of governmental fund expenditures		3.8		
OPEB actual contribution % of governmental fund expenditures		0.4		
Strong institutional framework				

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

Related Research

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

Ratings Detail (As Of February 9, 2023)		
Hopkins GO bnds		
Long Term Rating	AA+/Stable	Affirmed
Hopkins GO bnds ser 2017B dtd 07/13/2017 due 02/01/2033		
Long Term Rating	AA+/Stable	Affirmed
Hopkins GO bnds ser 2021A dtd 04/06/2021 due 02/01/2036		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of February 9, 2023) (cont.)		
Hopkins GO imp bnds		
Long Term Rating	AA+/Stable	Affirmed
Hopkins GO tax abatement bnds		
Long Term Rating	AA+/Stable	Affirmed
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
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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.