STANDARD & POOR'S

PUBLIC FINANCE

Chanhassen, Minnesota

Credit Profile		
US$6.265 mil GO imp rfdg bnds ser 2009A dtd 06/03/2009 due 02/01/2017		
Long Term Rating	AAA/Stable	New
Chanhassen		
Long Term Rating	AAA/Stable	Upgraded

Primary Credit Analysts:
Linda Merus
Chicago
(1) 312-233-7017
linda_merus@
standardandpoors.com

Secondary Credit Analysts:
Steffanie Dyer
Chicago
(1) 312-233-7007
steffanie_dyer@
standardandpoors.com

RatingsDirect
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Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) on Chanhassen, Minn.'s general obligation (GO) debt one notch to 'AAA' from 'AA+' due to the city's stable financial operations, very strong reserves, and "strong" financial management assessment (FMA). The outlook is stable.

Standard & Poor's revised its financial management assessment to "strong" from "good" due to additional information it received on the city's management practices. A financial management assessment of "strong" indicates financial practices are strong, well imbedded, and likely sustainable.

In addition, Standard & Poor's assigned its 'AAA' long-term rating, and stable outlook, to the city's series 2009A GO improvement refunding bonds.

In our opinion, the ratings reflect the city's:

- Participation and access to the strong Minneapolis-St. Paul (Twin Cities) metropolitan area, coupled with the city's own steadily growing and diverse employment base;
- Very strong income and wealth levels; and
- Maintenance of very strong reserves, coupled with conservative and strong financial and debt management policies that include long-range budget and capital plans.

The city's full faith and credit GO pledge secures the bonds. Officials will use bond proceeds to refund the maturities of the city's series 2005 and 2006 bonds outstanding for interest costing savings.

The primarily residential Chanhassen, 17 miles southwest of Minneapolis ('AAA'/Stable), is primarily in Carver County with a small portion in Hennepin County ('AAA'/Stable). With the Twin Cities metropolitan area's westward expansion, the city continues to experience rapid population and property tax base growth. The city's population, which grew by 73.2% during the 1990s, is currently 24,321 in 2009, a 19.7% increase since 2000. The city's access to Minneapolis and the availability of land and affordable housing prices have attracted new residents to the city. City officials expect growth to continue over the course of the next several years with buildout expected around 2025 with 35,000 residents.

The city's proximity to the Twin Cities metropolitan area provides city residents with access to a deep and diverse economic base and ample employment opportunities. Residents also have access to jobs within Chanhassen limits: The city serves as the headquarters for Life Time Fitness and Super Valu and offers employment in various sectors, including services, manufacturing, and retail.

Leading city employers include:

- Emerson Process Management/Rosemount Inc. (1,600 employees);
- Super Valu (950), the grocery supplier's corporate offices;
- IWOC-Direct/United Mailing Inc. (850), commercial printing;
- General Mills (350), baking goods; and
- Chanhassen Dinner Theatres (300).

The recent opening of Highway 212, which provides residents with a direct route to the Twin Cities metropolitan area, should attract a number of commercial projects to the city and surrounding neighborhoods.

In our opinion, Chanhassen's income levels, as measured through median household effective buying income, are a very strong 166% of state levels and 183% of national levels. The city's property tax base has been strong, and taxable market value grew by 9.2% annually between tax years 2004 and 2008 to roughly $3.5 billion. Estimated full market value, a more-accurate representation of market prices, was $3.9 billion in fiscal 2008, or, in our opinion, an extremely strong $159,684 per capita. The tax base primarily consists of residential homestead properties (66%) and commercial properties (24%). The 10 leading taxpayers are very diverse, accounting for just 7.7% of net tax capacity.

Chanhassen's conservative management practices led to the maintenance of very strong financial reserves. Over the past five years, general fund reserves have ranged between 57% and 85% of expenditures. As of fiscal year-end Dec. 31, 2007, the most recent and available audit, the city reported an unreserved general fund balance of $5.5 million, or, in our opinion, a very strong 62.3% of expenditures. City officials expect to close fiscal 2008 with a $100,000 surplus. The city is a recipient of market value homestead credit aid, but it does not account for this aid in the annual budget. The city's market value homestead credit unallotment in 2008 was $80,000; and officials expect a reduction of $120,000 in 2009.

In fiscal 2009, city officials are projecting break-even operations despite declines in building permits, which account for about 17% of the revenue stream. They are also projecting a shortfall of $500,000 in permit revenues. To offset this reduction, however, management has put together a contingency plan that identifies $787,000 of potential cost-savings measures. Property taxes (65%) are the city's largest revenue stream with licenses and permits (17%) generating most of the remaining general fund balance.

Standard & Poor's FMA of "strong" indicates financial practices are strong, well imbedded, and likely sustainable. Highlights of these policies include management's:

- Formalized debt management policy,
- Monthly reports to the city council on budgeted numbers compared to actual performance,
- Four-year financial forecast and capital improvement plan that it updates annually and includes estimated costs and revenue sources, and
- Formal reserve policy of keeping a general fund balance of at least 50% of the next year's property tax revenue and state aid for cash flow purposes.

The city also has a current informal general fund policy, discussed on an annual basis, to keep an additional 15% catastrophic reserve of the following year's expenditures.

Overall net debt levels, excluding self-supporting utility debt, are a high $5,994 per capita, or a moderate 3.8% of market value. Overlapping debt, mainly from local school districts, accounts for 75% of overall net debt. Carrying charges, as a percent of total governmental funds expenditures less capital outlay, were an elevated 17.8% in fiscal 2007. Amortization is above average with officials retiring 66% of principal over 10 years and 97% over 20 years. Management has identified roughly $86 million of capital needs in its 2008-2012 capital improvement plan. The city plans to issue debt (approximately $3 million) for street improvements in 2010.

Outlook

The stable outlook reflects Standard & Poor's expectation that the city will sustain its strong financial reserves and that management will continue to monitor expenditures because the local economy's exposure to broader economic conditions could have an effect on general fund revenues. The city's participation and access to the Minneapolis-St. Paul metropolitan statistical area (MSA) provides further rating stability.

Related Research

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

Ratings Detail (As Of 07-May-2009)		
Chanhassen GO		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded
Chanhassen GO wtr rev bnds		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded
Carver Cnty Hsg & Redev Auth, Minnesota		
Chanhassen, Minnesota		
Carver Cnty Hsg & Redev Auth hsg dev rev rfdg bnds unltd tax go (Chanhassen Apts Proj) dtd 09/01/2004 due 01/01/2005-2025		
Unenhanced Rating	AAA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.