

Revised Criteria Leads To Higher Ratings For 19 Small Midwestern Municipalities

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Standard & Poor's Ratings Services has raised the ratings on 19 municipal obligors in Illinois, Iowa, Kentucky, Minnesota, Missouri, and Wisconsin. The upgrades follow our review of smaller or more remote communities. While size and location have weighed heavily on our ratings in the past, in our view, these credits can, and often do, exhibit many of the same economic and financial strengths as their larger counterparts. The key to a higher rating, in our opinion, is achieving a balance between location and economic opportunity that helps maintain financial stability (for more information, see the article "Does Bigger Always Mean Better? Sizing Up The Impact of Size On Municipal Ratings," published April 22, 2008, on RatingsDirect). The upgraded municipalities in table 1 represent a wide range of Midwestern communities.

Revised Perspective On Location As A Credit Factor

Similarly, while location remains an important credit factor in a rating, we no longer believe it is the overriding factor. Although limited access to a metropolitan area can restrict access to a larger employment base, in our view it does not necessarily translate into an economy that is less stable. In our opinion, striking a balance between location and economic opportunity is critical to maintaining financial stability, and that can happen either near a major metropolitan area, or in a remote county (see the article "Location, Location, Location: What Does It Mean For My Community's Rating," published April 22, 2008, on RatingsDirect).

Reading beyond credit ratios is an important part of our ratings analysis. This applies to economic data, financial metrics, administrative and debt factors. For example, while a household effective buying income of 90% of the U.S. level is below the median, we may still consider it high enough to support a typical tax burden. We believe the rating should focus primarily on this question of sufficiency.

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Having said that, there will continue to be cases when our ratings are tied more closely to their median ratios. Such would be the case if fund balances were low and we considered revenue to be volatile, or if household income is low in conjunction with elevated debt levels. However, we generally do not consider median ratios alone as a limiting factor.

Prudent Financial Policies

The higher debt ratings on many of the issuers in table 1 are also supported by a Financial Management Assessment score of “good,” which indicates that we believe financial policies or planning practices are in place to buttress that community in times of economic or financial stress.

Many of the upgraded issuers are either small, rural or both. In general, many Midwestern economies have shown stability and have been isolated from the housing bubble seen in other parts of the country. Going forward, we expect that the national economy will continue to pressure municipalities in different ways. As a result of economic challenges, the state governments of some of the communities on this list have already made state-shared revenue cuts. Midwestern states, like the rest of the country, will face economic pressures. However, it is our belief that these upgraded municipalities are strong enough to withstand the potential pressures and perform at levels commensurate to their new ratings.

Issuer Review

Table 1

Issuer Review				
Issuer	Rating	Previous Rating	Analyst	Comments
<i>Illinois</i>				
Bradley	AA-	A	John M. Sauter	The Village of Bradley is located along Interstate 57 in Kankakee County, approximately 60 miles south of Chicago. Serving as the retail and hotel center of Kankakee County, the Village's State Equalized Valuation has grown to \$264 million, increasing at an average annual rate of 9% per year since 2003. Median household EBI levels are 97% of national levels. In our opinion, the Village maintains sound financial operations backed by high reserves levels. FY 2008 ended with a \$353,000 surplus, increasing the general fund balance to \$7.426 million, or 74% of expenditures. The Village reports it expects break even operations for FY end 2009. Overall debt levels are moderate at \$1,988 per capita and 3.5% of market value. The Village has no significant debt plans for the near future.
Charleston	AA-	A	John M. Sauter	Charleston is situated in east central Illinois in Coles County. The City's economy is anchored by Eastern Illinois University, which has an increasing enrollment of 12,000 and staff of 1,800. An estimated 70% of the student body resides in the Charleston, which heavily impacts the city's median household EBI levels that are 57% of national averages, a figure we consider to be low. State Equalized Valuation in 2007 grew to \$171.794 million, and is expected to continue growing over the next few years by about 3% a year. The unreserved general fund balance totaled \$4.066 million in audited FY 2007, which equaled 34% of expenditures and which we consider very strong. Preliminary reports indicate a general fund surplus of \$465,000 in FY 2008. The city reports it expects break even operations for FY 2009. The city has an overall debt burden at 3.9% of market value and \$1,008 per capita. There are no significant debt plans at this time.

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Table 1

Issuer Review (cont.'d)

Homer Twp	AA	AA-	John Kenward	Homer Township (estimated population 36,170) is located in Will County, about 40 miles southwest of downtown Chicago. The township's tax base continues to grow due to new commercial properties, although housing development has slowed in 2008. Market value is estimated at \$4.3 billion, or in our view an extremely strong \$118,500 per capita. Income levels are what we consider very strong, with median household effective buying income at 171% of the national level. Although small in terms of amount, the township's fiscal 2008 general fund cash balance is, in our opinion, strong in terms of percent of expenditures (20%). For fiscal 2009, the township projects a general fund surplus. Direct debt is low at \$230 per capita and 0.2% of market value. We understand that there are no additional debt plans at this time.
Kane County	AA+	AA	Helen Samuelson	Kane County (estimated population 505,000) is one of Chicago's suburban collar counties. According to the county, its rapid residential development has stalled during the downturn and the foreclosure rate is higher than most other area counties; certain revenues, such as recorder fees, have been noticeably affected by the downturn. However, management, buoyed by financial practices we deem to be good, continues to manage its expenditure budget to protect its sizable unreserved general fund balance, which, in our opinion, was a very strong \$44 million (56% of expenditures) at fiscal-year end Nov. 30, 2007. For fiscal 2008, the county passed a balanced budget but expects to report a deficit. In our opinion, median household effective buying incomes for county residents are a strong 129% of the national average; market value per capita is a very strong \$87,845. We view the county's debt levels as moderate at \$3,740 per capita and 4.6% of market value.
Streamwood	AA	AA-	Helen Samuelson	Streamwood, with a population of about 36,000, is located in the northwestern section of Cook County. In our opinion, conservative financial management has led to consistently very strong reserve levels. The village reported an unreserved general fund balance of \$10 million, or 46% of expenditures at the close of fiscal 2007 (Dec. 31). In our view, the village is working through a difficult revenue climate, which may result in some use of reserves over the next two fiscal years, although the village expects overall reserves to be in a range that we consider very strong and also to be in compliance with the fund balance policy. In our view, overall debt levels are moderate at \$2,972 per capita and 4.4% of market value. We understand that the village currently has no immediate plans to issue additional debt.
East Hazel Crest	A	A-	John M. Sauter	East Hazel Crest is located in southern Cook County, approximately 20 miles south of downtown Chicago. The median household EBI is 97% of national averages. State Equalized Valuation grew to \$29.79 million in 2007, and has increased at an annual rate of 4% since 2004. The village reports that the receipt of \$575,000 in land asset sales in 2006 helped it build up its fund balance and reserves. The village reports it is trying to bring expenditures in line with revenues. Fiscal 2008 ended with a fund balance of \$584,000, which was 32.9% of expenditures, a figure we consider to be very strong. Debt levels are in our view moderate at 4.7% of market value and \$2,795 per capita. We understand that there are no significant debt plans for the future.

Iowa

Mount Vernon	A+	A	Steffanie Dyer	Mount Vernon (population 4,207) is located in east-central Iowa in Linn County. The total general fund (cash basis) increased by \$68,873 in fiscal 2007 (June 30) to \$364,581 (all unreserved), which is, in our opinion, a very strong 33.6% of expenditures. Management's estimates for fiscal 2008 indicate an ending general fund balance of about \$486,000, or an addition of approximately \$121,000. Management expects a slight increase in the general fund balance for fiscal 2009. The 2007 median household effective buying income was 114.3% of the national level, which is strong in our view. We consider the city's market value per capita of \$53,510 to be adequate. In our view, overall net debt levels are moderate at \$2,529 per capita and 4.7% of market value. We understand that the city does not have any plans to issue general obligation debt at this time.
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Kentucky

Table 1

Issuer Review (cont.'d)				
Shelbyville	AA-	A+	Scott Garrigan	Shelbyville has a population of 11,537 and is located along Interstate 64 between Louisville and Frankfort. Residents have easy access to both Louisville and Frankfort, with each located within 20 miles in either direction. Median household and per capita effective buying income equal 55% and 83% of national averages, respectively. For the fiscal year ended June 30, 2007, the unreserved general fund balance was \$7.2 million, which was 125% of expenditures, a figure we consider to be very strong. For 2008, the city expects a cash balance of \$5 million, and a \$4.2 million cash balance has been budgeted for 2009. Although overlapping debt figures are not available, we consider the city's direct debt burden to be low at \$202 per capita and 0.1% of estimated market value. We understand that the city does not have any immediate plans for additional debt.
Hillview	A	BBB+	Linda Merus	Hillview (population 7,395) is in Bullitt County about 15 miles south of Louisville, Kentucky. The city benefits from its access to the deep and diverse Louisville area, where most residents commute to work. The area is mainly residential with some light manufacturing and retail activity. With a general fund balance of \$157,000 at fiscal year-end 2007, we consider the city's reserves as a percentage of expenditures to be strong at 9.8%. In 2008, the city ended the general fund is expected to end with a surplus of about \$193,000 due to a rise in occupational tax revenues. The city has budgeted to end fiscal 2009 with break-even operations. In our view, debt levels are low at \$1,059, as measured on a per capita basis. We understand that the city does not have any debt plans in the near future.
<i>Minnesota</i>				
Luverne	A+	A-	Justin Formas	Luverne (population 4,415) is located in Rock County, approximately 25 miles east of Sioux Falls, South Dakota. Median household effective buying income (EBI) and per capita EBI are, in our opinion, adequate at 88% and 90% of national averages. Total market value of \$202 million translates to what we consider to be an adequate \$45,924 per capita. For fiscal 2007, the unreserved general fund balance was \$1.65 million, or in our opinion, a very strong 67.2% of expenditures. For fiscal 2008, the city expects a \$233,000 surplus and has conservatively budgeted for fiscal 2009 a reduction of \$57,000 in the general fund. We consider net overlapping debt levels to be moderate at \$2,711 per capita, but moderately high at 6.4% of market value. We understand that the city does not have any additional debt plans in the near future.
Minnetonka Beach Vill	AAA	AA	Corey Friedman	Minnetonka Beach is a small residential community in the western Minneapolis-St. Paul area in Hennepin County. It covers nearly 300 acres on a peninsula on Lake Minnetonka. The city serves a stable population of 660 residents. The fully built-out city consists almost exclusively of residential properties. City residents commute to jobs in nearby Minneapolis, which is just 13 miles away. Income and wealth indicators for the city have remained exceptionally strong, in our view. The city has also maintained very strong financial reserves, in respect to its budget size, at \$820,000, or 105% of expenditures. For fiscal 2008, the city's unaudited result was a planned \$180,000 drawdown due to one-time needs, while keeping what we consider a very strong fund balance. Direct debt levels have remained, in our view, low at 0.4% of market value and \$1,750 per capita. We believe future debt needs are very modest.
Nobles County	AA-	A	Corey Friedman	In our opinion, Nobles County's very strong financial position is exemplified by its maintenance of very solid reserves, with an ending general fund balance in fiscal 2007 (Dec. 31) of \$5.3 million, or 76% of expenditures. The county expects break-even results in the general fund for fiscal 2008 and is also budgeting for a similar performance in fiscal 2009. We understand that the county may issue bonds in fiscal 2010 or 2011 for road work, but we expect it will keep the debt burden at least moderate, which is currently nearly \$3,400 per capita and 3.5% of market value.

Table 1

Issuer Review (cont.'d)				
Rockville	AA-	A-	Corey Friedman	Rockville was formed in June 2002 through a merger of the legacy city of Rockville, the city of Pleasant Lake, and Rockville Township. The consolidated population is approximately 2,660. Rockville is about seven miles from St. Cloud. Most residents of Rockville commute to St. Cloud or other areas on the Interstate 94 corridor to Minneapolis-St. Paul. The local employment base centers mostly on the granite industry; granite is a local natural resource, and as such there are several granite fabricators and processors in the area. City income and wealth indicators, in our opinion, have been very strong. In our opinion, the financial operations have been very good, backed by maintenance of very strong financial reserves and good management practices. Fiscal 2007 closed with a \$832,000 general fund balance, or a very strong 63% of expenditures, in our view. The unaudited fiscal 2008 result was a small drawdown, with fiscal 2009 budgeting for a break-even result. In our view, the debt burden is relatively low at 1.4% of market value, but carrying charges are moderate at 14% of the total governmental budget.
<i>Missouri</i>				
Creve Coeur	AAA	AA+	Justin Formas	Creve Coeur, with an estimated population of 16,625, is located in St. Louis County, approximately 10 miles west of downtown St. Louis. Median household effective buying income and per capita EBI, in our opinion, are very strong at 157% and 211% of national averages, respectively. Total market value is \$4.25 billion, or, in our view, an extremely strong \$256,235 per capita. For fiscal 2008 ended June 30, the unreserved general fund balance was \$10.387 million, or, in our opinion, a very strong 76.9% of expenditures. For 2009, the city has budgeted for a \$400,000 surplus in the general fund. We consider net overlapping debt levels to be moderate at \$2,301 per capita, but low at 0.9% of market value. We understand that the city does not have any additional debt plans in the near future.
Parkville	A+ (approp .)	A (approp .)	Corey Friedman	Parkville is located in southern Platte County, about 11 miles northwest of Kansas City, Missouri. The city has maintained a relatively stable population (4,833 in 2007) for some time. The city reported surpluses in the general fund in fiscals 2005-2007, with fiscal 2007 ending with a total general fund balance of 22% of expenditures, which is very strong in our view. The city expects to maintain at least the same fund balance levels for the near term. In our opinion, the debt burden is moderate as a percentage of market value, at 4.1%. We understand that there are no additional debt plans at this time.
Raytown	A+ (approp .)	A (approp .)	Corey Friedman	Raytown is a mature, 10.4-square-mile residential city southeast of Kansas City in Jackson County with a population of about 28,000-30,000. Residents participate in the Kansas City metropolitan area economy, which we consider to be well diversified among the communications, government, health care, education, and manufacturing sectors. In our view, income levels are good, with unemployment consistently below state and national averages. We consider the city's overall financial position to be very strong, with an ending general fund balance in fiscal 2007 at \$4.9 million, or 40% of expenditures, and the expectation the city will improve upon that balance. We view debt levels are moderate at \$2,025 per capita and 3.9% of market value.
St Charles Cnty	AA+	AA	Corey Friedman	St. Charles County (estimated population 342,895) has established itself from outgrowth from the city and county of St. Louis economic bases. Unemployment in the county has remained below national averages. The financial position has consistently remained what we consider strong. The unreserved general fund balance of \$14.7 million in fiscal 2007 is, in our view, a very strong 29% of expenditures. Debt needs have remained moderately low, in our view, and are reflected in a \$2,196 per capita burden and a low 2.6% of market value.
<i>Wisconsin</i>				
Schofield	A+	A-	Scott Garrigan	Schofield has a population of 2,143 and is located in north-central Wisconsin in Marathon County. The city borders the city of Wausau, which is the economic center for the region. Median household and per capita effective buying income equal 87% and 95% of national averages, respectively, which we consider to be good. For the fiscal year ended Dec. 31, 2007, the unreserved general fund balance was \$564,000, or 27.5% of expenditures, a figure we consider to be very strong. For 2008, the city expects an unreserved balance of \$500,000, while a drawdown to \$300,000 has been budgeted for 2009.

Table 1

Issuer Review (cont.'d)				
Windsor Town	AA-	A+	Adam Watson	The town of Windsor (estimated population 5,540) is in Dane county, approximately 10 miles north of Madison. The town is a bedroom community, with access to a wide variety of employment opportunities throughout the Madison metropolitan area. In the metropolitan area, the unemployment rate has historically remained below state and national averages. Through August 2008, it has averaged a low 3.6% despite the recession. In our view, the median household effective buying income (EBI) and per capita EBI for the town are very strong at 148% and 137% of the national averages. In our view, the town's wealth levels are extremely strong with a per capita market value of \$105,000. At fiscal year-end 2007, the town had a general fund balance of \$304,000, equal to what we consider a strong 14% of expenditures; however, most of this balanced was reserved in 2008 after being loaned to the town's other funds. The town expects to repay the loan in fiscal 2009. In our view, the town's overall net debt is low at 2.8% of market value.

Table 2

Selected Credit Ratios					
Issuer	Med H'hold EBI (% U.S.)	MV Per Cap (\$)	Unres Gen Fund Bal (% op exp)	FMA	DSCC (%)
Bradley, IL	97	57,300		74 Standard	4.1
Charleston, IL	57	22,634		34 Standard	5.9
Creve Coeur, MO	157	256,235		77 Good	4.4
East Hazel Crest, IL	97	58,881		31 Standard	4.2
Hillview, KY	99	58,963		10 Standard	6.3
Homer Twp, IL	171	118,504		20 Standard	17.9
Kane Cnty, IL	129	87,845		56 Good	14.0
Luverne, MN	88	45,924		67 Good	15.6
Minnetonka Beach Vill, MN	281	484,309		105 Standard	14.4
Mount Vernon, IA	114	47,032		34 Standard	27.0
Nobles Cnty, MN	87	96,612		76 Standard	9.7
Parkville, MO	157	179,134		16 Standard	24.6
Raytown, MO	96	52,442		34 Good	9.4
Rockville, MN	105	151,192		63 Good	28.0
Schofield, WI	87	89,962		28 Standard	26.6
Shelbyville, KY	89	54,711		125 Standard	9.9
St. Charles Cnty, MO	130	97,900		29 Standard	2.6
Streamwood, IL	140	79,115		49 Good	10.0
Windsor Town, WI	148	105,266		14 Standard	33.0

EBI-effective buying income; MV-market value; FMA-Financial Management Assessment; DSCC-debt service carrying charges

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Table 3

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