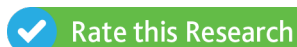


CREDIT OPINION

29 May 2019



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Ramsey (County of) MN

Update to credit analysis

Summary

[Ramsey County](#) (Aaa stable) benefits from a very large and growing tax base bolstered by a vibrant local economy that includes the capital of the [State of Minnesota](#) (Aa1 stable) and surrounding suburbs. The county's strong financial management continues to support stable operations and healthy reserves. The county has a modest debt burden and a moderate pension burden.

Credit strengths

- » Strong regional economy encompassing the [City of St. Paul](#) (Aa1 negative), the capital of the State of Minnesota
- » Strong financial operations with ample reserves and conservative budgeting practices
- » Low debt burden

Credit challenges

- » Modest deficit balances in several enterprise funds, including nursing home funds

Rating outlook

The stable outlook reflects our expectation that the county's economic and financial performance will remain strong.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Material declines in reserves or liquidity
- » Significant deterioration in the tax base and demographic profile
- » Deterioration in enterprise funds that negatively impacts operations

Key indicators

Exhibit 1

Ramsey (County of) MN	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value (\$000)	\$40,482,589	\$41,510,388	\$43,872,959	\$46,139,971	\$49,248,460
Population	515,732	521,265	527,411	531,528	537,893
Full Value Per Capita	\$78,495	\$79,634	\$83,186	\$86,806	\$91,558
Median Family Income (% of US Median)	110.0%	111.7%	111.5%	111.4%	112.1%
Finances					
Operating Revenue (\$000)	\$458,585	\$473,557	\$487,042	\$508,369	\$505,976
Fund Balance (\$000)	\$237,241	\$229,020	\$253,140	\$258,527	\$276,669
Cash Balance (\$000)	\$245,470	\$247,979	\$229,268	\$272,653	\$265,938
Fund Balance as a % of Revenues	51.7%	48.4%	52.0%	50.9%	54.7%
Cash Balance as a % of Revenues	53.5%	52.4%	47.1%	53.6%	52.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$234,684	\$223,065	\$217,787	\$225,514	\$193,602
3-Year Average of Moody's ANPL (\$000)	\$666,503	\$742,543	\$721,730	\$841,132	\$901,823
Net Direct Debt / Full Value (%)	0.6%	0.5%	0.5%	0.5%	0.4%
Net Direct Debt / Operating Revenues (x)	0.5x	0.5x	0.4x	0.4x	0.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.6%	1.8%	1.6%	1.8%	1.8%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.5x	1.6x	1.5x	1.7x	1.8x

Source: US Census Bureau; audited financial statements

Profile

Ramsey County covers 170 square miles and is the second largest county in Minnesota by population. The City of St. Paul is the state capital and the county seat. The county provides a large array of services, including human services, community corrections, public health, public safety, economic development, and information and public records. The county employs approximately 4,400 people and serves a population exceeding 530,000 residents.

Detailed credit considerations

Economy and tax base: strong economy includes Minnesota state capital and surrounding suburbs

We expect Ramsey County's tax base and economy to remain a credit strength given the diverse mix of industries, institutional stability and significant redevelopment projects. Ramsey County is home to the state capital of St. Paul and is an integral component of the Twin Cities regional economy. In addition to government employment (State of Minnesota with over 14,000 employees; Ramsey County with more than 4,400 employees; and the City of St. Paul with nearly 3,000 employees), employment opportunities are also provided by the [University of Minnesota](#) (Aa2 stable, 18,000 employees) and numerous health care organizations.

The county's large \$53 billion tax base has grown annually since 2014. The assessor's market value shows continued growth through fiscal 2019. Management expects ongoing development in the strong multi-family housing market and appreciating residential and commercial sectors to drive continued valuation growth. The Central Corridor transit route, which connects Minneapolis and St. Paul downtown areas is contributing to residential and commercial development along the light rail corridor. Significant development projects within the county include the Rice Creek Commons project which is the redevelopment of a 427 acre site where the Twin Cities Army Ammunition Plant (TCAAP) was located and the Riverfront Properties project which is a five acre development site located in downtown Saint Paul. Additional notable developments underway include the former Ford assembly plant site and the Rosedale Mall.

As of March 2019, the county's unemployment rate (3.4%) was below the state's rate (4.1%) and the national rate (3.9%). The county's median family income is estimated at 112% of the national figure.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Financial operations and reserves: strong financial management expected to continue supporting stable operations and healthy reserves

We expect the county's financial position to remain strong as it's supported by sizeable reserves, a history of operating surpluses, and strong fiscal management with conservative budgeting assumptions. The county has consistently produced annual operating surpluses achieved from overall positive budgetary variances. The county's available operating fund balance grew to \$277 million in fiscal 2017 from \$254 million in fiscal 2012, now totaling an ample 55% of revenue across the General Fund and Debt Service Funds. The county adopts biennium budgets that mirror the state's budgeting cycle and regularly include contingencies.

The county's fund balance policy calls for unassigned General Fund reserves no less than two months of the subsequent year's budget, an unrestricted General Fund balance of no more than 50% of the current year revenues, current year expenditures, or the subsequent year's operating budget. Unrestricted fund balance in excess of the 50% threshold is typically transferred to the Capital Projects Fund. The county closed fiscal 2017 with a cash balance of \$33 million in the Capital Projects Fund, of which \$25 million is unspent bond proceeds, \$6 million is restricted for current project liabilities and the remaining \$2 million is available, by Board resolution, to transfer back to the General Fund if needed. Although audited fiscal 2018 figures are not yet available, management expects to close the year similar to fiscal 2017, with positive operations resulting in a \$7 million General Fund surplus. The county additionally approved a balanced fiscal 2019 budget that includes a 4.3% increase in property taxes.

Although the General Fund has demonstrated very strong financial performance, several of the county's enterprise funds have pressured or narrow operations, requiring some General Fund support. The county's assisted living facilities (Ramsey County Care Center and Lake Owasso Residence) continue to experience operating losses and require transfers from the General Fund. The combined transfers totaled \$2.6 million in fiscal 2017, or a very modest 0.5% of total General Fund Revenue. In April 2014, the county purchased the Vadnais Sports Center with a \$9.8 million inter-fund loan from its Capital Projects Fund. The loan will be repaid over 20 years and is interest free. The loan advance totaled \$8.7 million at the close of fiscal 2017. The Sports Center's operations are currently self-supporting and are not expected to require General Fund support going forward.

LIQUIDITY

The county closed fiscal 2017 with a net cash position of \$266 million, equal to 53% of revenue across the General Fund and Debt Service Fund.

Debt and pensions: conservative debt profile; moderate pension burden

The county has a modest debt burden and moderate pension burden. Inclusive of the 2019 Bonds, the county has approximately \$176 million in outstanding debt, equal to a modest 0.3% of full value and 0.4x fiscal 2017 operating revenue. Regional cooperation for debt management is reflected in the Joint Property Tax Advisory Committee which includes Ramsey County, the City of St. Paul, the [St. Paul Independent School District 625](#) (Aa2 stable), and the St. Paul Port Authority. The committee annually reviews overall debt plans and coordinates property tax levies for the region. Ramsey County officials plan to continue issuing moderate amounts of debt annually to finance various projects in the county's multiyear Capital Improvement Plan. The county's fiscal 2020 debt plans include approximately \$25 million in bonding while the 2021 debt plan includes an additional \$27 million in bonding with the potential for approximately \$20 million in additional spending on the Rice Creek Commons Infrastructure Project.

The county's three year average Moody's Adjusted Net pension Liability (ANPL) totals just over \$900 million, equal to a moderate 1.7% of full value and 1.8x fiscal 2017 operating revenue. In comparison, the county's reported net pension liability, based on the use of different discount rates, was approximately \$280 million.

The county's total fixed costs, inclusive of debt service, pension contributions, and other post-employment benefit (OPEB) costs, are equal to 14% of fiscal 2017 operating revenue.

DEBT STRUCTURE

All of the county's GO debt is secured by its general obligation unlimited tax (GOULT) pledge to levy a dedicated property tax not limited by rate or amount. The GO bonds also benefit from a statutory lien but not a lock box structure.

In addition to the county's \$172 million in GOULT debt, the county has \$4 million of general obligation Transportation Revolving Loan Fund (TRLF) loan from the Minnesota Public Facilities Authority. More than 70% of the county's direct debt obligations will be retired within 10 years. All of the county's outstanding debt is fixed rate.

DEBT-RELATED DERIVATIVES

The county has no exposure to any debt-related derivatives.

PENSIONS AND OPEB

The county participates in three multiple employer cost sharing plans, the General Employees Retirement Plan (GERP), Public Employees Police and Fire Plan (PEPFP) and the Public Employees Correctional Plan (PECP). Minnesota statutes establish local government retirement contributions as a share of annual payroll. The employer contribution rate are currently set at 7.5% of payroll for GERP, at 16.2% of payroll for PEPFP and at 8.75% for PECP. The county's total fiscal 2017 pension contribution was \$21 million, or 4% of operating revenue.

Statutory contribution levels have generally not kept pace with growing unfunded liabilities in state-wide pension plans. Contributions to PEPFP from all participating governments in aggregate amounted to 90% of the plan's "tread water" indicator in 2017.¹ The state of Minnesota approved legislation in 2018 that will modify benefits and modestly increase contributions for some pension plans. Employer contributions from counties, for example, to the police and fire plan will modestly increase to 17.7% by 2020 from the current rate of 16.2%. Because employer contributions will not rise significantly, counties are unlikely to contend with material budget strain from the increases.

The county created an internal service fund in 2008 that was dedicated to the county's Other Post Employment Benefit (OPEB) liability with an initial General Fund transfer of more than \$23 million. The county has made additional transfers to the fund since its inception and the fund closed fiscal 2017 with a balance exceeding \$66 million. During 2018, the county transferred the funds into an irrevocable OPEB trust. As of the most recent valuation date, the county's total OPEB liability was \$221 million while the assets totaled approximately \$71 million, resulting in a Net OPEB Liability (NOL) of \$150 million.

Management and governance: strong institutional framework; conservative financial policies

Minnesota counties have an Institutional Framework score of Aa, which is strong. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The sector has one or more major revenue sources that are not subject to any caps. Revenues tend to be predictable, as counties rely primarily on property taxes. Revenue-raising flexibility is moderate as counties generally benefit from unlimited levying authority, except during years in which the state has imposed limits. Levy limits are not currently in place for counties. Across the sector, fixed and mandated costs are generally moderate. Minnesota has public sector unions, which can limit the ability to cut expenditures. Expenditures mostly consist of personnel costs, which are highly predictable.

The county's primary sources of revenue include property taxes (54%), intergovernmental revenue (33%), and charges for services (9%).

Rating methodology and scorecard factors

The US Local Government General Obligation Rating Methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 2

Ramsey (County of) MN

Ramsey (County of) MN		
Rating Factors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$52,977,454	Aaa
Full Value Per Capita	\$96,732	Aa
Median Family Income (% of US Median)	112.1%	Aa
Notching Factors: ^[2]		
Other Analyst Adjustment to Economy/Taxbase Factor: Institutional presence & strong regional economy		Up
Finances (30%)		
Fund Balance as a % of Revenues	54.7%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	4.4%	A
Cash Balance as a % of Revenues	52.6%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	0.4%	A
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.3%	Aaa
Net Direct Debt / Operating Revenues (x)	0.3x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.7%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	1.8x	A
Notching Factors: ^[2]		
Standardized Adjustments [3]: Unusually strong or weak security features: Secured by statute		Up
	Scorecard-Indicated Outcome	Aaa
	Assigned Rating	Aaa

Source: US Bureau of Economic Analysis, Moody's Investors Service, Audited Financial Statements

^[1] Economy measures are based on data from the most recent year available.^[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology dated December 16, 2016.^[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs Updated for 2019 publication

Endnotes

- 1 Employer contributions that tread water equal the sum of current year service cost and interest on reported net pension liabilities at the start of the year, using reported assumptions. If plan assumptions are met exactly, contributions equal to the tread water indicator will prevent the reported net pension liabilities from growing.

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