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Ratings

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Summary:

Ramsey County, Minnesota; General Obligation

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Summary:

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Credit Profile		
US$19.0 mil GO cap imp plan bnds ser 2022A due 02/01/2042		
Long Term Rating	AAA/Stable	New
Ramsey Cnty GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Ramsey County, Minn.'s $19 million series 2022A general obligation (GO) capital improvement plan bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the county's GO bonds outstanding. The outlook is stable.

The bonds are secured by the county's GO; full-faith and credit pledge; and power to levy direct, general ad valorem taxes on all taxable property within its borders.

The bonds will be used to finance various capital improvement projects.

Ramsey County's bonds are eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the nation in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions" (published Nov. 19, 2013), we consider state and local governments to have moderate sensitivity to country risk. The county's local property tax revenue is the primary source of security on the bonds, which significantly limits the possibility of negative sovereign intervention in the payment of debt or operations. The institutional framework in the nation is predictable for local governments, allowing them significant autonomy and independent treasury management; there has been no history of negative federal government intervention in local finances.

Credit overview

Ramsey has maintained operational stability throughout the COVID-19 pandemic, with a general fund surplus in fiscal 2020 and almost break-even results estimated in 2021. With essentially break-even budgets in fiscal years 2022 and 2023, federal stimulus allowed the county to maintain service levels while minimizing property tax levy increases. The county's management is committed to financial stability, maintaining its high fund balance, and has historically balanced revenues and expenditures. The county continues to see residential development throughout the pandemic, but the near-to-medium-term demand for office real estate is uncertain. The debt profile is strong relative to the budget as well as market value, which we expect will continue. Following the passage of pension reform legislation for the state cost-sharing pension plans several years ago, we view the county's pension burden to be improving.

The 'AAA' rating reflects our view of the county's:

- Very strong economy with strong residential growth and overall economic stability supported by multiple government and higher education institutions;

- Continued strong financial performance with operational balance maintained through the pandemic;
- Low debt levels without plans to materially increase debt, with only modest pension and other postemployment benefit (OPEB) costs and little medium-term likelihood of meaningful cost acceleration; and
- Very strong management with history of well-managed budgets that has consistently produced balanced results.

Environmental, social, and governance

We analyzed Ramsey's environmental, social, and governance risks relative to the county's economy, management, financial measures, and debt and liability profile, and determined that all are in line with our view of the sector standard. The county is on the Mississippi River, but has no recent history of significant flooding, so its environmental risks align with those of sector peers. Even still, the county takes active steps to mitigate its exposure to environmental risks, including working with a multijurisdictional watershed management organization that serves the capital region.

Stable Outlook

Downside scenario

Downside pressure would most likely come via weakening across multiple factors, such as a slowdown leading to declining economic metrics, significantly lower revenue performance, and materially lower reserves. Given that we do not expect such a scenario in the next few years, we do not anticipate lowering the rating within the outlook horizon.

Credit Opinion

Strong residential growth, uncertain future demand for office real estate

Ramsey County is home to some of the state's largest public- and private-sector employers, including the University of Minnesota's St. Paul campus (with approximately 18,000 employees), the state of Minnesota (14,000), 3M Co. (industrial and consumer products, 10,500), and Independent School District No. 625 (6,000). Management reports that there are still uncertainties regarding the COVID-19 pandemic's long-term impact on office real estate and in-person retail, but also reports that the single-family housing and apartment markets are very strong.

The prominence of state government, many large city governments, and the county itself, as well as multiple higher education institutions and several large hospitals, supports our view that the county benefits from stabilizing institutions, which we view as an additional strength that is not necessarily reflected in wealth and income measures.

Ramsey County's market values have demonstrated steady growth during the pandemic, increasing 8% over the past year. Preliminary estimates from the county assessor indicate on-trend increases during the coming year. The City of St. Paul makes up approximately half of the county's total tax base and is undergoing an economic resurgence, with strong commercial as well as multiresidential growth. St. Paul and Ramsey County reported their highest valuation of building permits ever in 2017, partially due to the construction of Allianz Field, a $150 million professional soccer stadium, as well as development in the surrounding area. Residential development around the stadium is moving forward, and two apartment buildings were recently completed and two more are underway.

We expect the economic growth will continue, as there are several large developments in the county in the planning and early construction stages: a 150-acre redevelopment at the former Ford assembly plant site; a five-acre downtown riverfront site owned by Ramsey County, called Riverfront Properties; and a 17-acre redevelopment of a former Sears site adjacent to the Capitol.

For S&P Global Economics' latest U.S. economic forecast, see "Economic Outlook U.S. Q1 2022: Cruising At A Lower Altitude," published Nov. 29, 2021, on RatingsDirect.

Very strong management with history of well-managed budgets

Our assessment of management indicates the county's consistent maintenance of balanced operations. Over the past three years, general fund operating results have ranged from negative 0.4% to 5.0%.

Highlights of the Financial Management Assessment include:

- Strong budgeting framework that includes the use of performance-based budgeting, tying programs to outcomes and objectives, and where revenue and expenditure forecasts are informed by historical data and numerous external data sources;
- Standard budget monitoring practices, where the county manager and department heads, although not the full county board, routinely review budget-to-actual performance and budget updates are made in a timely fashion in accordance with well-established procedures, as reflected in consistently on-target or conservative budget results;
- Detailed, two-year budget that demonstrates a goal of long-term structural balance and addressing issues from a multiyear perspective, even if the budget only extends a year into the future;
- Rolling six-year capital improvement plan that lays out capital project specifications in detail and ties project costs to funding sources and strategies;
- Formal investment policy with quarterly reporting on investment holdings and earnings to management, and annual reporting to the county board;
- Detailed debt management policy that sets qualitative and quantitative parameters around debt structure and issuance; and
- Formal fund balance policy requiring a minimum unassigned general fund balance of no less than two months of the subsequent year's budget and an unrestricted fund balance no more than half of current year revenues, expenditures, or the subsequent year's budget, with the policy thresholds chosen to mitigate revenue volatility and maintain an emergency reserve.

Operational balance maintained through the pandemic, using federal stimulus to minimize levy

We have adjusted general and total governmental fund revenues and expenditures to account for routine transfers. The fiscal 2020 (year-end Dec. 31) result significantly outperformed the break-even budget, as management tightened expenditure at the onset of the pandemic and then received $97 million in CARES Act local government funding and COVID-19-related grants.

For fiscal 2021, the county estimates a slight general fund deficit of $3.9 million (0.5% of expenditures), in line with the revised budget that included a 0% levy increase. The proposed fiscal year 2022 and 2023 budgets have levy increases of 1.55% and 4.54%, respectively. Both budgets are essentially breakeven in the general fund, with deficits of less than

0.5% of expenditures. The county was allotted $107 million of American Rescue Plan Act funds distributed in fiscal years 2021 and 2022. It is using $20 million of that to maintain current service levels, while minimizing the levy. The remaining amount will be spent on a variety of initiatives.

Given Ramsey County's operational stability, we expect reserves will remain in line with its policy requirements and overall budgetary flexibility, and liquidity will remain very strong.

Ramsey County has one GO note that was privately placed with the Minnesota Public Facilities Authority in 2001. There is currently $3.227 million outstanding, which we do not view as a liquidity risk.

Property taxes represent the largest revenue source (50%), followed by intergovernmental (35%), and charges for services (9%).

Low debt levels without plans to materially increase debt

The county plans to issue GO debt of approximately $19 million, annually over the next two years. It could issue some additional debt to finance a share of a strategic initiative. Given the amount of debt that the county will amortize over the next two years, we do not believe the additional issuances will have a material effect on its overall debt profile. In addition, because of the large amount of money the county has been able to transfer to its capital projects fund, it will continue to be able to fund many projects on a pay-as-you-go basis.

Pensions and OPEB do not represent a medium-term risk

Pension contributions are only a modest share of the budget, and we believe the county has the capacity to absorb higher costs without pressuring operations.

The county's two largest pension plans have seen improvements in funded status in recent years, although plan statutory contributions have regularly fallen short of actuarial recommendations. Along with certain plan-specific actuarial assumptions and methods, this introduces some long-term risk of funding volatility and cost acceleration. The county's OPEB has an irrevocable trust, although it currently pays its OPEBs on a pay-as-you-go basis.

The county participates in the following defined-benefit plans:

- Minnesota General Employees Retirement Fund (GERF): 79% funded (as of June 30, 2020), with a county proportionate share of the plan's net pension liability at $201 million.
- Minnesota Police and Fire Fund (PEPFF): 87% funded (as of June 30, 2020), with a proportionate share of $24 million.
- Public Employees Correctional Fund (PECF): 98% funded (as of June 30, 2019), with a proportionate share of $1.7 million.
- A single-employer OPEB plan that is 43% funded with a net OPEB liability of $133 million (as of Dec. 31, 2020).

Annual contributions are based on a statutory formula, which we view as a negative credit factor. We think this increases risk of underfunding over time if future funding shortfalls are not met with offsetting adjustments by the state legislature. Statutory rates did not meet our minimum funding progress metric last year; however, funding levels are higher than in the previous year. Another key risk is a 7.5% investment rate of return assumption (for GERF and

PEPFF plans), which is higher than our 6.0% guideline. This indicates some exposure to liability acceleration from market volatility. Regardless, costs remain only a modest share of total spending and, in our view, are unlikely to pressure the county's medium-term operational health.

Ramsey County began prefunding the OPEB liability through a trust in 2012. For the near-to-medium term, the county plans to continue to pay its OPEBs on a pay-as-you-go basis, rather than draw on the trust, and allow the trust to grow through investment earnings. OPEB costs have generally been small as a share of total spending in recent years; as with pension contributions, we do not view them as a significant source of budgetary pressure.

Strong institutional framework

The institutional framework score for Minnesota counties is strong.

Ramsey County, Minnesota--Key Credit Metrics

	Most recent	Historical information		
		2020	2019	2018
Very strong economy				
Projected per capita EBI % of U.S.	105			
Market value per capita ($)	113,531			
Population		557,675	555,680	547,670
County unemployment rate(%)		6.9		
Market value ($000)	63,313,151	59,657,537	56,476,047	53,037
Ten largest taxpayers % of taxable value	4.4			
Strong budgetary performance				
Operating fund result % of expenditures		5.0	(0.4)	5.0
Total governmental fund result % of expenditures		8.2	6.2	8.6
Very strong budgetary flexibility				
Available reserves % of operating expenditures		27.8	28.8	48.5
Total available reserves ($000)		220,822	204,420	232,980
Very strong liquidity				
Total government cash % of governmental fund expenditures		67	63	74
Total government cash % of governmental fund debt service		2663	2301	1703
Very strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		2.5	2.8	4.4
Net direct debt % of governmental fund revenue	17			
Overall net debt % of market value	2.8			
Direct debt 10-year amortization (%)	66			
Required pension contribution % of governmental fund expenditures		2.4		
OPEB actual contribution % of governmental fund expenditures		1.5		
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 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2021 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of February 8, 2022)		
Ramsey Cnty taxable GO cap imp plan hsg bnds ser 2021C due 02/01/2041		
Long Term Rating	AAA/Stable	Affirmed
Ramsey Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Ramsey Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Ramsey Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Ramsey Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Ramsey Cnty GO cap imp plan bnds ser 2021B due 02/01/2041		
Long Term Rating	AAA/Stable	Affirmed
Ramsey Cnty GO solid waste fac rev bnds (green bnds) ser 2021A due 02/01/2041		
Long Term Rating	AAA/Stable	Affirmed