

RATING ACTION COMMENTARY

Fitch Rates Minneapolis, MN's \$123.59MM GO Bonds Series 2024 'AAA'; Outlook Stable

Wed 18 Sep, 2024 - 2:16 PM ET

Fitch Ratings - Chicago - 18 Sep 2024: Fitch Ratings has assigned a 'AAA' rating to \$123,590,000 of general obligation (GO) bonds series 2024 to be issued by the city of Minneapolis, MN.

Proceeds are being used to finance the construction of various assessable public projects, utility system improvements, and other capital projects. The bonds are expected to sell during the week of September 30.

In addition, Fitch has affirmed the 'AAA' ratings on the following city of Minneapolis, MN securities:

--Approximately \$813.85 unlimited tax general obligation (ULTGO) bonds;

--Long-Term Issuer Default Rating (IDR).

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT ↕

RATING ↕

PRIOR ↕

Minneapolis (MN) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
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[VIEW ADDITIONAL RATING DETAILS](#)

The city of Minneapolis' 'AAA' Issuer Default Rating (IDR) and GO ratings reflect the city's 'aaa' financial resilience, given a 'high midrange' level of budgetary flexibility and Fitch's expectations that general fund reserves will be maintained at or above 10% of spending and transfers out. The ratings also incorporate 'strong' demographic level metrics driven by high levels of educational attainment and a history of relatively low unemployment rates and a 'midrange' long-term liability composite.

The ratings also reflect the application of a +1 notch additional analytical factor for economic and institutional strength due to the city's role as a vital component of the Minneapolis-St. Paul-Bloomington metropolitan statistical area (MSA), which contributes 1.4% to U.S. GDP.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

- Sustained declines in financial resilience leading to general fund reserves falling to below 10% of spending and transfers out;
- Marked deterioration of demographic and economic metrics;
- Material increase in long-term liabilities assuming current levels of personal income, governmental revenues and spending.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

- Not applicable given the 'AAA' ratings.

SECURITY

The bonds are general obligations of the city, backed by the city's full faith and credit and

The Local Government Rating Model generates Model Implied Ratings, which communicate the issuer's credit quality relative to Fitch's local government rating portfolio. (The Model Implied Rating will be the Issuer Default Rating except in certain circumstances explained in the applicable criteria.) The Model Implied Rating is expressed via a numerical value calibrated to Fitch's long-term rating scale that ranges from 10.0 or higher (AAA), 9.0 (AA+), 8.0 (AA), and so forth down to 1.0 (BBB- and below).

Model Implied Ratings reflect the combination of issuer-specific metrics and assessments to generate a Metric Profile and a structured framework to account for Additional Analytical Factors not captured in the Metric Profile that can either mitigate or exacerbate credit risks. Additional Analytical Factors are reflected in notching from the Metric Profile and are capped at +/-3 notches.

RATINGS HEADROOM & POSITIONING

Minneapolis Model Implied Rating: 'AAA' (Numerical Value: 11.41)

-- Metric Profile: 'AAA' (Numerical Value: 10.41)

-- Net Additional Analytical Factor Notching: +1.0

Individual Additional Analytical Notching Factors:

-- Economic and Institutional Strength: +1.0

Minneapolis' Model Implied Rating is 'AAA'. The associated numerical value of 11.41 is at the upper end of the range for its current 'AAA' rating.

KEY RATING DRIVERS

FINANCIAL PROFILE

Financial Resilience - 'aaa'

Minneapolis' financial resilience is driven by the combination of its 'High' revenue control assessment and 'Midrange' expenditure control assessment, culminating in a 'High Midrange' budgetary flexibility assessment.

-- Budgetary flexibility assessment: High Midrange

-- Minimum fund balance for current financial resilience assessment: $\geq 10.0\%$

-- Current year fund balance to expenditure ratio: 31.5% (2023)

-- Five-year low fund balance to expenditure ratio: 25.2% (2023)

Revenue Volatility - 'Strongest'

Minneapolis' weakest historic three-year revenue performance is neutral to the Model Implied Rating.

The revenue volatility metric is an estimate of potential revenue volatility based on the issuer's historical experience relative to the median for the Fitch-rated local government portfolio. The metric helps to differentiate issuers by the scale of revenue loss that would have to be addressed through revenue raising, cost controls or utilization of reserves through economic cycles.

-- Lowest three-year revenue performance (based on revenues dating back to 2005): 3.0% increase for the three-year period ending fiscal 2015

-- Median issuer decline: -4.5% (2023)

DEMOGRAPHIC AND ECONOMIC STRENGTH

Population Trend - 'Midrange'

Based on the median of 10-year annual percentage change in population, Minneapolis' population trend is assessed as 'Midrange'.

Population trend: 1.0% 2022 median of 10-year annual percentage change in population (52nd percentile)

Unemployment, Educational Attainment and MHI Level - 'Strong'

government rating portfolio. This is due to very high education attainment levels and very low unemployment rate offsetting midrange median-issuer indexed adjusted MHI.

-- Unemployment rate as a percentage of national rate: 72.2% 2023 (86th percentile), relative to the national rate of 3.6%

-- Percent of population with a bachelor's degree or higher: 53.5% (2022) (91st percentile)

-- MHI as a percent of the portfolio median: 97.4% (2022) (46th percentile)

Economic Concentration and Population Size - 'Strongest'

Minneapolis' population in 2022 was of sufficient size and the economy was sufficiently diversified to qualify for Fitch's highest overall size/diversification category.

The composite metric acts asymmetrically, with most issuers (above the 15th percentile for each metric) sufficiently diversified to minimize risks associated with small population and economic concentration. Downward effects of the metric on the Metric Profile are most pronounced for the least economically diverse issuers (in the 5th percentile for the metric or lower). The economic concentration percentage shown below is defined as the sum of the absolute deviation of the percentage of personal income by major economic sectors relative to the U.S. distribution.

-- Population size: 422,003 (2022) (above the 15th percentile)

-- Economic concentration: 32.2% (2023) (above the 15th percentile)

Demographic and Economic Strength Additional Analytical Factors and Notching: +1.0 notch (for Economic and Institutional Strength)

Minneapolis is a vital component of the Minneapolis-St. Paul-Bloomington MSA, the 15th largest MSA in the country in terms of GDP contribution at 1.4% of U.S. GDP as of 2022. The city is home to several large corporation headquarters and is an important contributor to the MSA which had job levels of approximately 2 million in May 2024, according to the Bureau of Labor Statistics.

Minneapolis' liabilities to personal income and liabilities to governmental revenue have improved while carrying costs to governmental expenditures remain midrange. The long-term liability composite metric in 2023 is at the 64th percentile, indicating a somewhat lower liability burden relative to the Fitch's local government rating portfolio.

-- Liabilities to personal income: 3.9% Analyst Input (65th percentile) (vs. 3.6% 2023 Actual)

-- Liabilities to governmental revenue: 125.4% Analyst Input (75th percentile) (vs. 116.4% 2023 Actual)

-- Carrying costs to governmental expenditures: 14.1% Analyst Input (55th percentile) (vs. 13.7% 2023 Actual)

Direct debt was updated to reflect 2024 scheduled amortization and the 2024 rated issuance.

PROFILE

Minneapolis is the largest city in the state of Minnesota. Population growth has been strong as educated, younger workers have been attracted to the diverse employment opportunities in the city, as well as to the city's amenities and cultural attractions and easy commutability. Along with its sister city of St. Paul, Minneapolis forms the core for the second-largest economic center in the U.S. Midwest, after Chicago.

The city's broad and diverse economic base benefits from major employers in the stable health care, higher education and state and county government sectors. Minneapolis's economy is very diverse. Major employers include entities in health care, banking, higher education and the retail trade. The city also includes a significant public-sector sector given the proximity of the state government. The five largest employers in the city are the University of Minnesota (17,691), Allina Health (10,856), Target Corporation (8,500), the Hennepin Health Care (7,111) and Wells Fargo Bank (7,000).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit

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FITCH RATINGS ANALYSTS

Ashlee Gabrysch

Director

Primary Rating Analyst

+1 312 368 3181

ashlee.gabrysch@fitchratings.com

Fitch Ratings, Inc.

One North Wacker Drive Chicago, IL 60606

Kristine Tjia

Senior Analyst

Secondary Rating Analyst

+1 312 606 2837

kristine.tjia@fitchratings.com

Michael D'Arcy

Director

Committee Chairperson

+1 212 908 0662

michael.darcy@fitchratings.com

MEDIA CONTACTS

Sandro Scenga

New York

+1 212 908 0278

sandro.scenga@thefitchgroup.com

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APPLICABLE CRITERIA

[U.S. Public Finance Local Government Rating Criteria \(pub. 02 Apr 2024\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

U.S. Local Government Rating Model, v1.2.0 (1)

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