S&P Global Ratings

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Summary:

Minneapolis; General Obligation

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Summary:

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Credit Profile		
US$123.59 mil GO bnds ser 2024 due 12/01/2043		
Long Term Rating	AAA/Stable	New
Minneapolis GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the City of Minneapolis' $123.59 million series 2024 general obligation (GO) bonds, based on the application of its "Methodology For Rating U.S. Governments," published Sept. 9, 2024.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's GO debt outstanding.
- The outlook is stable.

Security

The bonds are secured by the full faith and credit of the city; a portion of the bonds' intended repayment source will be special assessments and net revenue of the water, sanitary sewer, and storm water systems. The bonds will be used for improvements to the city's water, storm and sanitary sewer systems; various assessable public projects, and capital projects.

Credit overview

The 'AAA' rating reflects Minneapolis' highly productive economy and robust tax base, the willingness and ability to increase property taxes to match expenditures, and a management team that consistently has built reserves to a high level by responding to unexpected budgetary changes and forward planning. We believe the risk associated with balancing the operational budget with the city's use of pandemic aid over the past several years, has waned given the positive revenue trend.

Key factors supporting the 'AAA' rating include the following:

- We expect the city's reserves will be held at a high level, despite planned drawdowns over the next few years. The multiyear budget forecast details how the city will have budgetary balance without the use of ARPA funds or a material amount of reserves by 2025.
- Management is strong, with long-term planning to address key challenges while preserving a healthy fiscal position. Practices include multiyear financial and capital planning, periodic budget monitoring, a 17% fund balance policy, and robust planning around cyber security and environmental risk.
- Debt ratios are favorable compared with those of other large and growing U.S. cities and pension and other postemployment benefit exposure is moderate although the funding levels improved due to higher funding and investment performance, but with little medium-term likelihood of meaningful cost acceleration.

Environmental, social, and governance

With the city entering a consent decree with the U.S. Justice Department regarding the practice of conduct in violation of the U.S. Constitution and federal law, we view the social capital risk as waning and transitioning to the risk management phase of this issue, which could lead to governance issues in the long term if not successfully resolved. The city is budgeting and saving for these costs, however, should these amounts be insufficient and result in budgetary stress from the aforementioned public safety staffing challenges or compliance with the consent decree, we could view risk management issues as an underpinning weakness in our credit analysis. We view social and environmental factors as neutral in our credit rating analysis.

Rating above the sovereign

Minneapolis' GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions" (published Nov. 19, 2013), U.S. local governments have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy and independent treasury management with no history of federal government intervention, and we believe Minneapolis's financial flexibility is sufficiently demonstrated by its very strong budgetary reserves and liquidity.

Outlook

The stable outlook reflects the continued stronger revenue recovery, economic growth even with some risks around commercial real estate, and a five-year plan that shows a measured use of reserves and stimulus funds but a return to structurally balanced operations in the next two years with reserves remaining above the fund balance policy.

Downside scenario

We could lower the rating if the city draws down its general fund reserves more rapidly than planned, which we believe could signify unanticipated budgetary pressure and would leave less room for fiscal maneuvering in outyear budgets.

Credit Opinion

Five-year projection details reveal easing budgetary pressure while preserving reserves in alignment with policy

The fiscal 2023 (year-end Dec. 31) general fund results continued the trend of surpluses, largely due to increased local and state-level revenue and investment earnings; this outperformed the budgeted deficit. The city continued to use American Rescue Plan Act (ARPA) funds as revenue replacement ($47 million or 6.5% of general fund revenue) to move toward pre-pandemic service levels. Public safety spending increased with the additional recruitment and retaining of staff but is falling short of the goal of 731 sworn officers, with 569 currently. The downtown assets fund outperformed its budget with revenues at 150% of budget; this fund collects several types of sales tax with net residual revenues transferred to the general fund. The city's self-insurance fund had a $14.3 million operating loss, resulting in a net position of negative $76.2 million. This negative position was due partially to an uptick in claims liabilities, related, in part, to police post-traumatic stress disorder claims and lawsuits during the 2020 civil unrest. We believe there are no pressing liquidity issues with the fund, as liabilities will be paid out over the long term.

For fiscal 2024, the city increased the levy by 6.1%, is using ARPA funds of $36.5 million (5% of revenue), and budgeted for a $44 million general fund deficit (6% of revenue); projections suggest that the city is on track with the budget. This deficit is largely due to the public safety salary pay increase that averages 7.2% annually for fiscal years 2023 to 2025--with the retroactive payments made in August 2024. The downtown assets fund is projected to collect revenue at 110% of budget and will make the scheduled $22.9 million transfer to the general fund.

The mayor's proposed 2025 general fund $13 million deficit budget (2% of revenue) includes an 8.5% levy increase that exceeds the five-year projection of 6.1%, to accommodate rising salaries. As the ARPA money is now exhausted, the downtown assets fund is budgeted to resume pre-pandemic-level transfers, with $41.9 million scheduled for 2025. With the expected drawdown in general fund reserves, management forecasts that fund balance will remain within its policy and use of fund balance will be spent on nonrecurring expenditures.

Tax base growth and new development continue apace, with other key economic measures continuing to recover

The city's robust economy continues to expand and although building permits hit another all-time high in 2023 at 17,483, the value of the properties was down about 30% from 2022. We are monitoring commercial office vacancies, as Minneapolis' are elevated relative to those of many peer cities but management estimates the amount of taxes shifted to residential properties will be nominal in the near term. In addition, the city has strong residential development and is working with developers to convert some spaces into residential property.

Sophisticated management team with long-term planning that can identify future challenges while preserving a healthy fiscal position

Our view of management reflects the following:

- Strong, well-grounded revenue and expenditure assumptions consistently embedded in the city's annual budget, which, for example, includes reference to historical trends and detailed analyses explaining expected variance from these trends and which places current-year revenue and expenditure forecasts in the context of a multiyear financial plan;
- Quarterly budget-to-actual reporting to the city council to identify potential sources of budget variance and the ability to amend the budget as needed;
- An annually updated, multiyear financial plan that identifies and discusses upcoming issues or variances and possible solutions;
- An annually updated, six-year capital improvement plan (CIP) that includes detailed descriptions of specific projects, along with cost estimates and funding sources;
- A council-approved investment management policy and quarterly reporting to the council of investment holdings and earnings;
- A basic debt management policy that, while lacking detailed quantitative restrictions or limits, includes substantive qualitative guidelines; and
- A formal reserve policy, to which the city has historically adhered, requiring it to maintain a minimum unrestricted

general fund balance equal to 17% of the subsequent-year budgeted expenditures to facilitate cash flow and meet unanticipated contingencies.

The city has robust planning around cyber security and environmental risk and has policies addressing both.

Favorable debt profile relative to peers, with six-year CIP indicating stable liability profile

The 2025-2030 CIP includes net bond debt as flat to slightly increasing and is below the maximum levels until 2028, but plans to exceed the maximum in 2029-2030. Although we expect the city to issue new-money debt as part of its CIP in the next year or so, a similar amount of principal is scheduled to roll off during the same period.

Moderate pension and OPEB exposure with some long-term risks, although medium-term costs are unlikely to accelerate

We do not believe that pension and OPEB represent a near-term credit pressure for Minneapolis, as the cost-sharing, multiple-employer, defined-benefit pension plans in which the city participates are reasonably well-funded, and annual costs represent only a modest share of total spending. Therefore, we expect the likelihood of near-term cost acceleration will be limited.

For more information on our institutional framework assessment for Minnesota, see "Institutional Framework Assessment: Minnesota Local Governments," published Sept. 10, 2024.

Table 1

Minneapolis, Minnesota--credit summary	
Institutional framework (IF)	1
Individual credit profile (ICP)	1.61
Economy	1.0
Financial performance	2
Reserves and liquidity	1
Debt and liabilities	2.75
Management	1.30

Table 2

Minneapolis, Minnesota--key credit metrics	Most recent	2023	2022	2021
Economy				
GCP per capita % of U.S.	184	--	184	180
County PCPI % of U.S.	138	--	138	134
Market value ($000s)	69,629,877	69,629,877	65,938,298	62,526,635
Market value per capita ($)	161,976	161,976	154,019	147,849
Top 10 taxpayers % of taxable value	5	5	6	6
County unemployment rate (%)	2.6	2.6	2.4	3.8
Local median household EBI % of U.S.	100	100	99	98
Local per capita EBI % of U.S.	116	116	116	115
Local population	429,877	429,877	428,119	422,909
Financial performance				
Operating fund revenues ($000s)	--	582,100	510,040	484,840

Table 2

Minneapolis, Minnesota--key credit metrics (cont.)				
	Most recent	**2023**	**2022**	**2021**
Operating fund expenditures ($000s)	--	574,799	509,748	469,578
Net transfers and other adjustments ($000s)	--	29,352	30,597	(40,088)
Operating result ($000s)	--	36,653	30,889	(24,826)
Operating result % of revenues	--	6.3	6.1	(5.1)
Operating result three-year average %	--	2.4	2.9	2.6
Reserves and liquidity				
Available reserves % of operating revenues	--	32.9	34.1	29.5
Available reserves ($000s)	--	191,370	173,717	142,828
Debt and liabilities				
Debt service cost % of revenues	9.0	9.0	9.9	7.8
Net direct debt per capita ($)	2,175	1,991	1,954	1,934
Net direct debt ($000s)	935,150	855,897	836,487	817,853
Direct debt 10-year amortization (%)	67.0	39.0	--	--
Pension and OPEB cost % of revenues	6	6	7	8
Net pension liabilities per capita ($)	1,172	1,172	2,038	922
Combined net pension liabilities ($000s)	503,909	503,909	872,687	389,859

GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of September 23, 2024)		
Minneapolis taxable GO hsg imp area bnds ser 2021 due 12/01/2040		
Long Term Rating	AAA/Stable	Affirmed
Minneapolis GO		
Long Term Rating	AAA/Stable	Affirmed
Minneapolis GO		
Long Term Rating	AAA/Stable	Affirmed
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Ratings Detail (As Of September 23, 2024) (cont.)		
Minneapolis GO		
Long Term Rating	AAA/Stable	Affirmed
Minneapolis GO		
Long Term Rating	AAA/Stable	Affirmed
Minneapolis GO		
Long Term Rating	AAA/Stable	Affirmed
Minneapolis GO		
Long Term Rating	AAA/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.