

CREDIT OPINION

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City of Minneapolis, MN

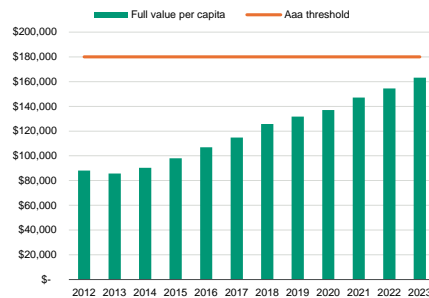
Update following upgrade to Aaa

Summary

[The City of Minneapolis](#) (Aaa stable) will continue to benefit from its position at the center of a strong and diverse regional economy with solid employment growth, new development activity and rising incomes. The city's economy benefits from several large and stabilizing institutions, including the University of Minnesota, and consistently favorable demographic trends with a stable to growing population that remains relatively young compared to an aging state and nation.

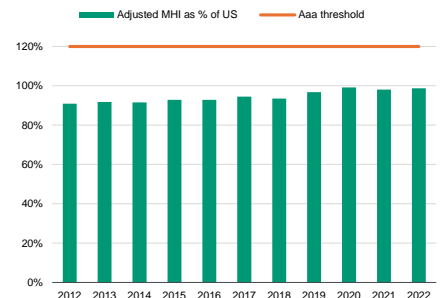
Minneapolis is facing higher labor expenses, stemming from both the higher than usual salary increases in the current police contract and efforts to bring actual police staffing levels up to the city's charter funding requirement. The largest revenue sources include state aid and property taxes, both of which are increasing materially, providing the capacity to absorb cost growth while maintaining ample reserves. The fixed costs ratio is very low and the long-term liabilities ratio has declined to levels that now compare favorably to peers and medians.

Exhibit 1
Minneapolis' full value per capita now approaching Aaa threshold...



Source: Audited financial statements, official statements and Moody's Ratings

Exhibit 2
... while the adjusted MHI has improved but remains a weakness for the rating category



Source: US Census Bureau, Moody's Ratings, US Bureau of Economic Analysis

Credit strengths

- » Stable regional economy with strong labor force participation rates, low unemployment rates and favorable demographic trends with a relatively young population compared to an aging state and nation
- » Very stable financial operations supported by strong financial management practices that include multiyear budgeting and long-term capital planning
- » Relatively low long-term liability and fixed cost ratios

Credit challenges

- » Resident income ratio trail medians
- » Like other public sector employers, Minneapolis is facing higher labor costs stemming in large part from public safety expenses

Rating outlook

The stable outlook reflects the expectation that the strong regional economy will continue supporting sound economic metrics and that the city's consistently strong financial profile will allow it to absorb cost pressures related to employee compensation and public safety staffing.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » A weakening of demographic trends or prolonged declines in labor force participation trends, resident incomes, or full value per capita
- » A materially weakened financial profile with an available fund balance ratio approaching 30%
- » A long-term liabilities ratio increasing to levels well above 250%

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

Key indicators

Exhibit 3

Minneapolis (City of) MN

	2020	2021	2022	2023	Aa Medians
Economy					
Resident income ratio (%)	99.2%	98.1%	98.7%	N/A	114.1%
Full Value (\$000)	\$58,139,146	\$62,526,635	\$65,938,298	\$69,629,877	\$2,888,367
Population	424,536	425,091	426,877	N/A	22,430
Full value per capita (\$)	\$136,948	\$147,090	\$154,467	N/A	\$125,640
Annual Growth in Real GDP	-3.1%	4.8%	1.4%	N/A	2.0%
Financial Performance					
Revenue (\$000)	\$1,212,865	\$1,129,084	\$1,317,401	\$1,381,853	\$52,335
Available fund balance (\$000)	\$565,391	\$544,825	\$630,591	\$673,511	\$29,526
Net unrestricted cash (\$000)	\$891,148	\$1,029,776	\$1,123,956	\$1,114,158	\$41,432
Available fund balance ratio (%)	46.6%	48.3%	47.9%	48.7%	57.1%
Liquidity ratio (%)	73.5%	91.2%	85.3%	80.6%	79.6%
Leverage					
Debt (\$000)	\$829,988	\$879,064	\$875,352	\$904,460	\$37,305
Adjusted net pension liabilities (\$000)	\$2,172,527	\$1,765,003	\$1,406,305	\$1,194,371	\$45,496
Adjusted net OPEB liabilities (\$000)	\$39,941	\$46,013	\$46,177	\$108,801	\$4,376
Other long-term liabilities (\$000)	\$47,724	\$238,112	\$231,334	\$252,651	\$1,726
Long-term liabilities ratio (%)	254.8%	259.3%	194.3%	178.0%	210.2%
Fixed costs					
Implied debt service (\$000)	\$60,324	\$59,438	\$61,657	\$61,134	\$2,477
Pension tread water contribution (\$000)	\$54,342	\$68,326	\$44,658	\$96,478	\$1,199
OPEB contributions (\$000)	\$2,257	\$2,538	\$2,663	\$6,287	\$179
Implied cost of other long-term liabilities (\$000)	\$3,255	\$3,418	\$16,701	\$16,156	\$115
Fixed-costs ratio (%)	9.9%	11.8%	9.5%	13.0%	9.6%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area Metropolitan Statistical Area.

Sources: US Census Bureau, Minneapolis (City of) MN's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

The City of Minneapolis is located in Hennepin County in eastern Minnesota and is directly west of St. Paul, with the Mississippi River creating the border between the two cities. Minneapolis is the largest city in the state, with a population that exceeds 420,000 residents. Governmental services primarily consist of police, fire, health services, public works and general governmental functions. The city's major enterprise funds include sanitary sewer, stormwater, water treatment, municipal parking, solid waste and community planning.

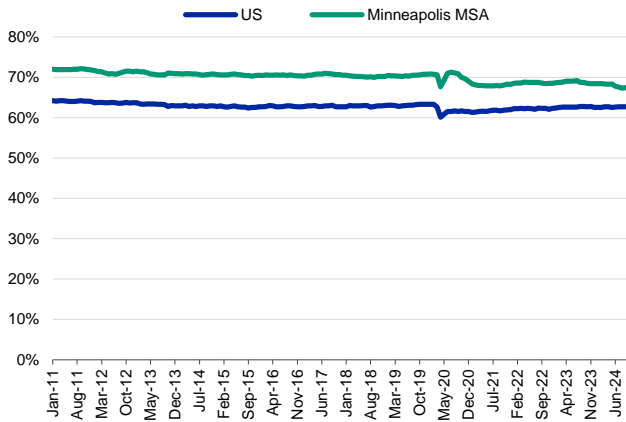
Detailed credit considerations

Economy: remarkably stable economic base, but expansion trails faster growing peers

Minneapolis will continue to benefit from remarkable economic stability because of its highly educated work force, its role as regional economic center and a strong "eds and meds" employment base. The latter of which includes the [University of Minnesota](#) (Aa1 stable) with more than 55,000 students, [Allina Health System](#) (A1 stable) and [Fairview Health Services](#) (Baa1 stable). While positive, growth in the gross domestic product and employment have both slightly trailed the nation post-pandemic because the expansion has lagged rapidly growing regions of the country in the south and west.

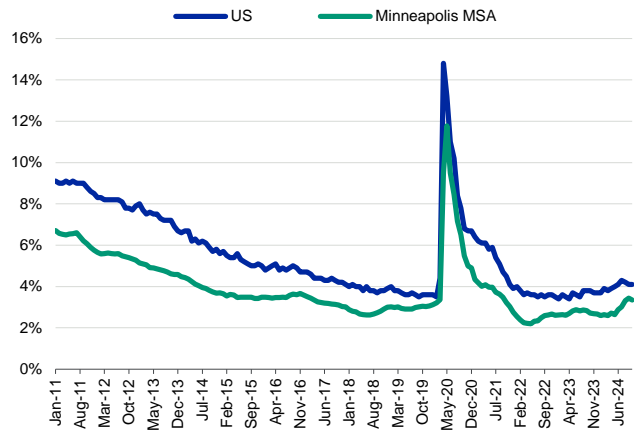
The Minneapolis economy has exhibited consistent strength over the past two decades, however, indicated by a labor participation rate that consistently exceeds the nation (Exhibit 4), an unemployment rate that is consistently lower than the nation (Exhibit 5) and material strengthening of the tax base (Exhibit 1). The resident income ratio trails medians although it is not an outlier among highly rated, large cities and it has been improving.

Exhibit 4
Minneapolis labor force participation consistently exceeds the US...



Source: Moody's Ratings, US Bureau of Economic Analysis

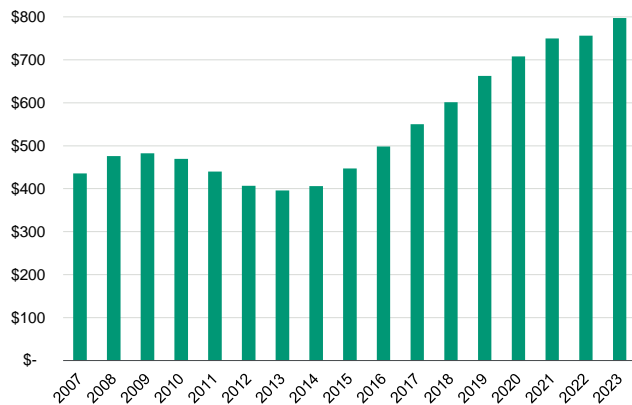
Exhibit 5
...and its unemployment rate is consistently lower



Source: Moody's Ratings, US Bureau of Economic Analysis

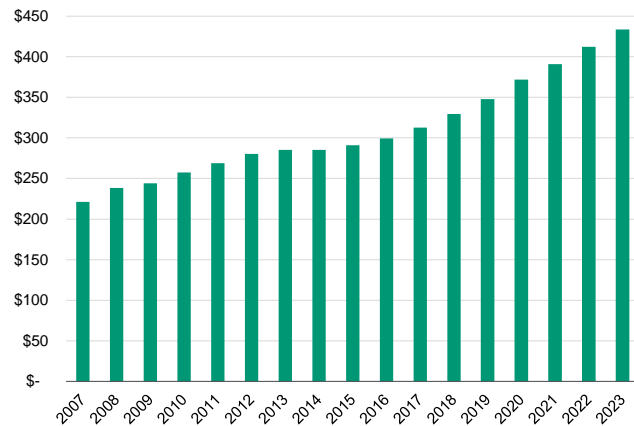
Like most large cities, Minneapolis has exposure to [commercial real estate stress](#) with about 30% of the city's net tax capacity (assessed valuation) comprised of commercial and industrial properties. The city benefits from a property tax system that supports very stable property tax revenue because changes in market values or net tax capacity do not directly increase or decrease revenue. Minneapolis establishes its property tax levy in terms of a dollar yield for collection in the subsequent fiscal year. The Hennepin County Auditor then calculates tax rates based on the net tax capacity to reach the dollar yield established in the levy. The city is not subject to tax rate or levy limitations.

Exhibit 6
Net tax capacity declined following the financial crisis...
Net tax capacity (\$ in millions)



Source: City of Minneapolis, MN's official statements

Exhibit 7
...but property tax revenue remained mostly positive
Property tax collections (\$ in millions)



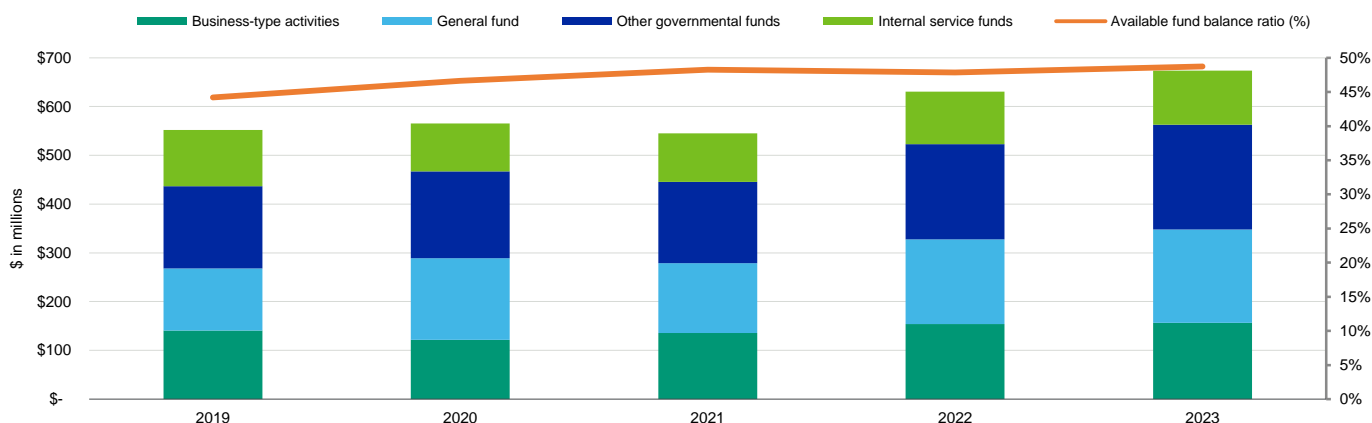
Source: City of Minneapolis, MN's official statements

Financial operations: strong and stable finances

Minneapolis will maintain a strong financial position because revenue growth is generally keeping pace with expenditure growth. The city's available fund balance ratio has consistently hovered between 45% and 50% for several years. The original 2024 general fund budget included an \$18 million use of fund balance but subsequent adjustments increased the use of fund balance, which is now expected to total about \$40 million. Fund balance across the special revenue funds is on track to decline by about \$15 million while enterprise funds are on generally stable with no material changes. Despite these declines, the available fund balance ratio will likely remain around 45%.

Exhibit 8

Available fund balance ratio generally hovers between 45% and 50%, a trend that will likely continue



Source: Audited financial statements and Moody's Ratings

Minneapolis is facing rising labor expenses driven by higher than historical police salary increases and efforts to increase police staffing levels to the city's charter funding requirement, which specifies the minimum number of police officers the city needs to fund (about 730 officers). Staffing for sworn officers declined significantly in recent years leading to a lawsuit to enforce the charter requirement that was later dropped. The city recently settled a three year police contract that included a 21.7% salary increase over the three years. The city budgets for the full charter requirement, but only has about 580 sworn officer leading to positive budget variances.

Continued strong revenue growth will be key to absorbing cost pressure while maintaining strong reserves. The city is not subject to any property tax caps and has shown a willingness to steadily increase revenue with a 6.5% levy increase for fiscal 2024, a 6.8% levy increase for fiscal 2025 and a proposed 10.7% increase for fiscal 2026 though that figure may change. The State of Minnesota's (Aaa stable) [budget for fiscal years 2024 and 2025](#) includes a 14% increase in Local Government Aid appropriations versus the prior biennium, one-time public safety aid appropriations, funding for [lead line replacement](#) and funding for [polyfluoroalkyl substances \(PFAS\)](#) abatement.

About three-quarters of the city's revenue base is governmental activities and a quarter business type. Taxes comprise about half of governmental revenue, which includes \$300 million in property taxes. State revenue comprises about a quarter. In addition to the \$670 million of available fund balance, the city had more than \$300 million in restricted governmental fund balance. We typically consider restricted fund balances as providing additional flexibility not reflected in the scorecard when it is available for core governmental operations. The majority of Minneapolis' restricted fund balance is held in such funds including the Community Planning and Economic Development Fund. Adding in those balances raises the fund balance ratio to more than 60% though the city will likely spend some of the restricted balances down over several years.

Liquidity

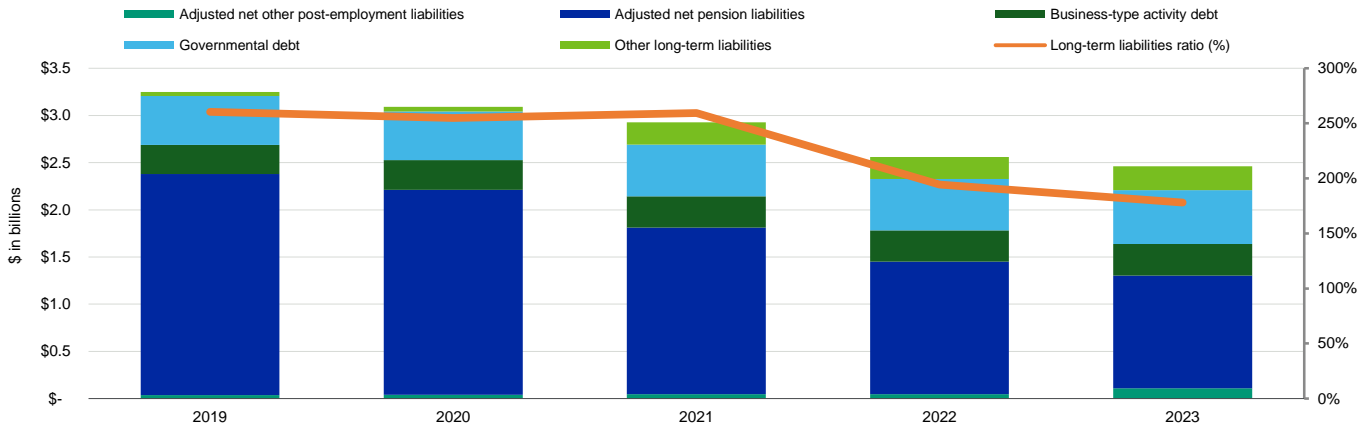
The liquidity ratio is significantly higher than the available fund balance ratio primarily because of the aforementioned restricted funds and about \$80 million in federal grant funds that are recorded as unearned revenue and therefore not included in fund balance. The cash in the federal grant fund is primarily the remaining balance of the substantial \$271 million that Minneapolis was awarded through ARPA, all of which will be allocated by the close of fiscal 2024

Leverage: declining long-term liabilities ratio comprised primarily of pensions

Minneapolis' leverage has declined in recent years and will remain generally stable because of steady revenue growth, relatively rapid amortization of existing debt and the expectation for continued declines in pension liabilities. Pensions comprise about half of the city's long-term liabilities ratio and have declined significantly in recent years because [higher market interest rates push down the adjusted present value of liabilities and state legislation that changed pension benefits](#) and increased contributions by employers and employees. The city expects to issue \$100 to \$130 million in debt annually over the next several years, which roughly matches the amortization of existing principal.

Exhibit 9

Long-term liabilities ratio continues to decline as higher interest rates push down pension liabilities



Source: Audited financial statements, Moody's Ratings

Legal security

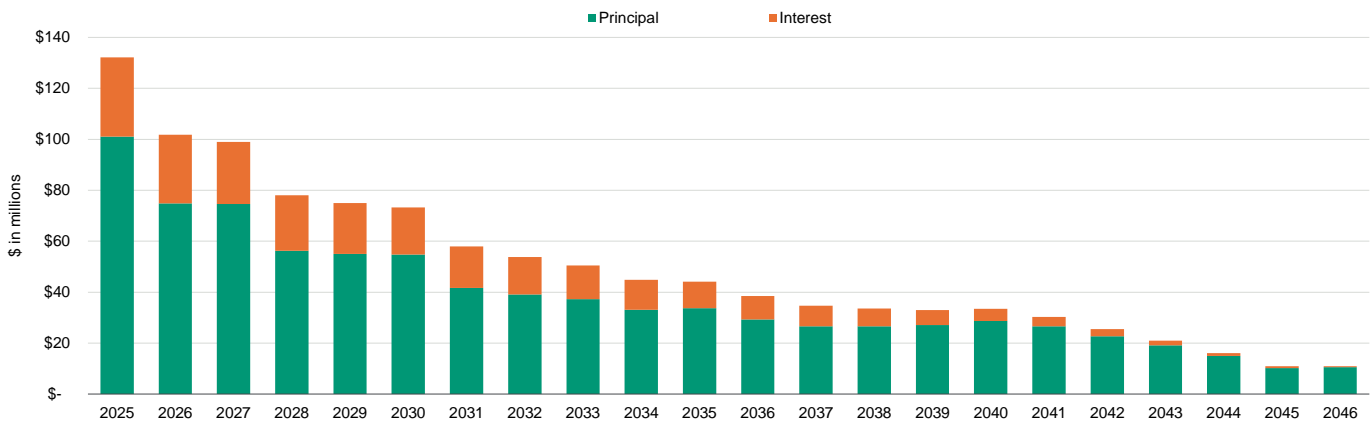
The GOULT bonds are backed by the city's full faith and credit pledge and authority to levy a dedicated property tax unlimited as to rate and amount. The bonds are additionally secured by statute.

Debt structure

The city's debt service schedule is rapidly descending. The fast amortization of debt is a strength reflected in its very low adjusted fixed cost ratio relative to the city's higher actual fixed costs. Future debt will likely be wrapped around the current schedule keeping actual annual debt service relatively level, but the descending schedule is a credit positive because it provides the city flexibility in structuring future bond issuances without having material budget impact.

Exhibit 10

City's descending debt service schedule provides flexibility to address future capital needs without material impact on fixed costs



Source: Official statements

The city has modest exposure to variable rate risk consisting of one series of GOULT variable rate bonds (2011B bonds) that is equal to about 3% of total outstanding GOULT debt. The variable rate debt stems from a direct purchase loan with [US Bank National Association](#) (long term senior unsecured debt rated A2 negative). Per the term loan agreement, rates are reset the first of every week based on the SIFMA index plus a spread based on the city's GOULT rating. The city's ample liquidity mitigates the risks of unbudgeted increases in interest rates.

Debt-related derivatives

The city is not a party to any derivative agreements.

Pensions and OPEB

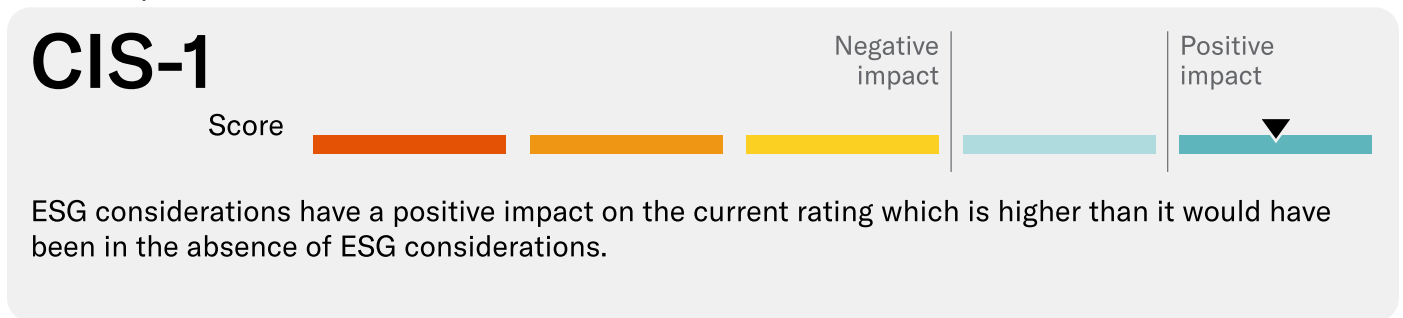
The city participates in two cost-sharing pension plans, the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF). Minnesota statute establish local government retirement contributions as a share of annual payroll. The city's proportion of the net pension liability for those plans is based on the city's contribution as a percentage of payroll. Most employees hired before 1980 are covered by one of three closed pension plans that were subsequently merged into the state plan in 2011. In addition payroll contributions, the city is required to make additional fixed contributions for the closed plans through 2031. The city's net pension liability for the closed plans is calculated by taking the net present value of the fixed contributions. At the close of fiscal 2023 the city held about \$40 million in the employee retirement fund, a reserve it established to provide a cushion should the state require increased pension contributions.

The state's 2023 Pension Budget Omnibus Bill lowered the plan's discount rate to 7% which is positive for participating governments' credit quality because it lowers the chances that unexpectedly higher costs will develop in the future. The bill also included modest one-time contributions to help reduce the plans' unfunded liabilities. Based on the plan level reporting, we project cities' ANPLs will fall by around 15% in fiscal 2024. While results will vary across US public pension systems, we generally expect local governments' fiscal year 2025 ANPLs to fall by another 20% based on our aggregate estimates, due to rising interest rates and above-target investment returns in 2024.

ESG considerations

Minneapolis (City of) MN's ESG credit impact score is CIS-1

Exhibit 11
ESG credit impact score



Source: Moody's Ratings

Minneapolis' **CIS-1** reflects the positive impact on the rating of the city's strong policy and credibility and effectiveness that is resulted in very stable operations and the positive impact of social considerations such as high educational attainment, good demographic trends and a healthy labor force.

Exhibit 12
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Minneapolis' **E-2** incorporates its inland location that provides minimal exposure to physical climate risks. The Mississippi River provides an abundant source of fresh water. The river has not caused significant flooding events given the city's geography. The city is not facing any material discernible risks related to carbon transition, natural capital or waste and pollution.

Social

Minneapolis' **S-1** incorporates the city's strong educational attainment with a substantially higher share of the population with a bachelor's degree or higher relative to the nation. Demographic trends are also positive with a relatively young and growing population despite net outmigration. The labor force is healthy with consistently low unemployment rates, improving income metrics and materially higher labor force participation relative to the nation. Although housing costs are rising, they remain affordable in comparison to many other large cities.

Governance

Minneapolis' **G-1** reflects the city's strong budget management practices including an adoption of a two-year budget (that is updated in the interim year) that includes a multi-year forecast of revenue and expenditures. Policy credibility is good with a long track-record of very stable finances supported by conservative budgetary adjustments and increases to the property tax levy that are marginal and steady to match expenditures, rather than choppy large increases. The city also has a history of planning for downside scenarios as reflected in establishment of a pension reserve as a contingency if the state increases required contributions and the city's early financial response to the potential for revenue loss related to the covid pandemic including a significant slowdown in spending. Also incorporated is a favorable institutional structure that does not have any caps on the property tax levy.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 13

Minneapolis (City of) MN

	Measure	Weight	Score
Economy			
Resident income ratio	98.7%	10.0%	A
Full value per capita	163,935	10.0%	Aa
Economic growth metric	-0.9%	10.0%	Aa
Financial Performance			
Available fund balance ratio	48.7%	20.0%	Aaa
Liquidity ratio	80.6%	10.0%	Aaa
Institutional Framework			
Institutional Framework	Aaa	10.0%	Aaa
Leverage			
Long-term liabilities ratio	178.0%	20.0%	Aa
Fixed-costs ratio	13.0%	10.0%	Aa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa1
Assigned Rating			Aaa

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Minneapolis (City of) MN's financial statements and Moody's Ratings

Appendix

Exhibit 14

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Ratings

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