

# RatingsDirect®

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## Summary:

# Maplewood, Minnesota; General Obligation

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## Summary:

# Maplewood, Minnesota; General Obligation

### Credit Profile

US\$8.3 mil GO rfdg bnds ser 2021B dtd 11/18/2021 due 02/01/2035

*Long Term Rating*

AA+/Stable

New

### Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Maplewood, Minn.'s anticipated \$8.3 million series 2021B general obligation (GO) capital improvement bonds. At the same time, we affirmed our 'AA+' rating on the city's existing GO bonds. The outlook is stable.

The city's full-faith-and-credit pledge and ability to levy unlimited ad valorem property taxes secure the series 2021B bonds and is the tax pledge on which the rating is based. Officials intend to pay debt service with a combination of ad valorem property tax revenues, special assessment revenues from benefitted properties, and tax increment revenues. Proceeds from the debt issuance will be used to currently refund the remaining outstanding portions of the series 2012A, 2013A, and 2014A bonds. The series 2021B bonds are being issued for interest cost savings only. Upon issuance of the series 2021B debt, we will remove our rating on the series 2014A refunded bonds.

### Credit overview

The rating reflects our view of Maplewood's consistently strong financial performance. While the fiscal 2021 budget and multi-year projections reflect much more modest surpluses compared to fiscal 2020, we anticipate operations will remain structurally balanced. Also, the city's tax base is supported by what we consider to be large stable employers. Further, we expect the excellent levels of unassigned fund balance reserves to remain stable and continue to exceed the city's policy as management also reports no plans to significantly spend down these funds. That said, offsetting factors include our view of Maplewood's debt burden as high relative to its operating budget, but its rapid amortization schedule somewhat mitigates associated risks. Maplewood's central location in the Minneapolis-St. Paul metropolitan statistical area (MSA) supports economic stability and residential growth, however underlying economic factors remain a limiting credit factor in our view. We believe Maplewood is well positioned to continue to successfully achieve stable and structurally balance operations based on the city's historical tax base stability and resilience, coupled with our view of its very strong reserves, significant taxing flexibility, and robust policies and strong management.

The 'AA+' rating reflects our assessment of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating results that we expect could moderate in the near term relative to fiscal 2020, which closed with an operating surplus in the general fund and break-even operating results at the total governmental fund level in fiscal 2020;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2020 of 49% of operating expenditures;
- Very strong liquidity, with total government available cash at 108.1% of total governmental fund expenditures and 5.2x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 20.9% of expenditures and net direct debt that is 134.3% of total governmental fund revenue, but rapid amortization, with 77.9% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### **Environmental, social, and governance factors**

We have analyzed ESG risks relative to the school's economy, management, financial measures, and debt and liability profile and have determined all factors are neutral within our credit rating analysis.

## **Stable Outlook**

### **Downside scenario**

A lower rating is possible if the budgetary performance were to weaken to such an extent that significant losses occur, or deficit operations become a trend, leading to a material diminution of available reserves.

### **Upside scenario**

While unlikely within the two-year outlook period given macroeconomic conditions and expectations, a positive rating action is possible if the city's economic profile were to improve to levels commensurate with those of its higher-rated peers, coupled with a decrease in its overall debt burden.

## **Credit Opinion**

### **Strong and stable economy**

We consider Maplewood's economy strong. The city, with an estimated population of 42,773, is in Ramsey County in the Minneapolis-St. Paul-Bloomington, MN-WI MSA, which we consider broad and diverse. The city has a projected per capita effective buying income of 102.5% of the national level and per capita market value of \$111,082. Overall, the city's market value grew by 5.8% during the past year to \$4.8 billion in 2021.

Management reports that disruption to the economy due to the COVID-19 pandemic remains limited. City officials anticipate that favorable residential property trends should continue supported in part by increasing valuations and several new housing projects in various phases of development. Likewise, we understand that the city is not anticipating any significant changes to its employment or commercial tax base, which includes top employers and taxpayers such as a 3M Co. research and development facility and a HealthEast Care System-St. John's Hospital. Further, the city is moving forward with two regional transit projects that will connect residents to job centers, housing options, and other key area destinations. Residences make up most of the tax base (45%), followed by commercial/industrial (35%). Unemployment at the county level peaked in 2020 at 6.5%, but has since fallen to 4.0% (August 2021). We believe the city's historic tax base growth, coupled with its generally steady economic and proximity to the Twin Cities, will allow the local economy to remain stable in the near term, although we recognize

that continued uncertainty regarding the broader economic recovery could pressure key economic metrics in the medium term.

### **Very strong and stable management**

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Elements include management's:

- Realistic and well-grounded assumptions when setting the annual budget;
- Monthly monitoring of budget-to-actual performance;
- Ten-year financial forecast that projects out general fund revenue, expenditures, and assumptions;
- Five-year rolling capital plan that it updates annually;
- Formal investment-management policy that mirrors state guidelines, coupled with monthly investment reports;
- Formal debt-management policy that is more restrictive than state law and limitations; and
- Formal fund-balance policy that calls for a minimum available fund balance at 41.67% (equal to five months of operating expenditures).

The city has cyber-attack mitigation policies and insurance coverage through the MN league of cities.

### **Strong budgetary performance with continued structural balance anticipated**

Maplewood's budgetary performance is strong in our opinion. The city had surplus operating results in the general fund of 16% of expenditures, and balanced results across all governmental funds 0.4% in fiscal 2020. While we expect Maplewood to have at least balanced operating results, we do not expect results to be as favorable as they had been in 2020.

In our opinion, the increasing surplus operations during the past several fiscal years help mitigate any potential lingering pandemic related pressure and that Maplewood can likely absorb near term operating stress to maintain a stable overall financial profile.

The fiscal year 2020 budget initially called for a \$450,000 general fund surplus. The budget was amended to accommodate an increase in other financing sources, namely, \$3.1 million in CARES Act funding. In fiscal 2020, net changes to the budget resulted in a planned surplus of \$2.6 million; the city exceeded that result, achieving an audited surplus of \$3.5 million. In addition, we understand that revenues were higher than budget due to an increase in building permit collections, which helped offset lower service charges, particularly for motor vehicle and passport fees. Expenditures were below budget in all departments but primarily were driven by temporary police department vacancies, although we understand that some cost cutting initiatives will be sustained in fiscal 2021. Our analysis includes transfers into and from enterprise funds.

The fiscal 2021 general fund budget is calling for a better than break-even result adding roughly \$100,000 to fund balance (or 0.4%) and driven primarily by temporary vacancies in the police department. The city reports that it expects year-end results to meet or exceed budgeted expectations partly due to higher-than-expected building permit

fees and because all other revenues and expenditures are tracking well to budget. Furthermore, the city anticipates recognizing approximately \$2.2 million of American Rescue Plan Act funding (50% of the total \$4.2 million allocation) placed in a special revenue fund with about \$100,000 covering the expense of additional employees added for COVID-19 related procedures and the remainder utilized for business assistance and equipment purchases

While city officials typically aim for a 3.0% annual tax levy increase, the fiscal 2021 budget reflects no increase in the tax levy, partly due to pandemic-related considerations and that to offset this, a 5.0% tax levy increase will likely occur in fiscal 2022 to support a breakeven general fund budget. The general fund benefits from a revenue structure that has historically been stable and predictable, consisting mostly of property taxes (76%), with only 7% coming from state aid based on the fiscal 2020 audit. We believe the city is well placed to manage expenditures and make appropriate budgetary adjustments to maintain structural balance.

### **Very strong and stable budgetary flexibility and liquidity**

Maplewood's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2020 of 49% of operating expenditures, or \$10.9 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Based on audited 2020 results and expectations for fiscal 2021, we believe the city's available fund balance will remain at very strong levels that meet or exceed city policy, as officials report no plans to significantly spend down available reserves in the near term.

In our opinion, Maplewood's liquidity is very strong, with total government available cash at 108.1% of total governmental fund expenditures and 5.2x governmental debt service in 2020. In our view, the city has strong access to external liquidity if necessary.

Based on the fiscal 2020 audit, the city has approximately \$51.0 million in available cash and investments held primarily in U.S. Treasury notes, U.S. government agency securities, certificates of deposit, and money-market accounts; we do not believe its investments are aggressive. We believe Maplewood has strong access to capital markets, evidenced by annual GO debt issuances.

The city maintains a single privately placed bank loan that was entered into in June 2020. The \$5.5 million loan was issued to refund the city's series 2011A GO bonds for interest cost savings. The terms do not contain any permissive events of default or acceleration provisions; therefore we do not view this as a contingent liability risk. We believe the city has sufficient liquidity to withstand near-term pandemic related pressures and that it will maintain a very strong liquidity profile.

### **Weak debt and contingent liability profile is an offsetting credit factor**

In our view, Maplewood's debt and contingent liability profile is weak. Total governmental fund debt service is 20.9% of total governmental fund expenditures, and net direct debt is 134.3% of total governmental fund revenue. Approximately 77.9% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

The city's direct debt totals \$57.8 million. It plans to issue approximately \$8.0 million of new-money bonds over the next two years, primarily for a variety of street projects. However, city officials remain committed to a debt reduction

plan reflecting the declining pro-forma debt service schedule that reduces total debt by approximately \$12.5 million by fiscal year end 2024, more than offsetting the additional new debt anticipated. We understand that the construction of the Maplewood North Fire Station, financed in part by the series 2021A bonds, is proceeding on time and on budget. We therefore expect the overall debt profile to remain stable. That said, we view debt and annual carrying charges as high creating some risk related to future potential and prolonged economic downturn whereby these fixed costs could pressure the budget.

Maplewood's pension contributions totaled 4.2% of total governmental fund expenditures in 2020. The city made its full required pension contribution in 2020.

We do not believe that pension liabilities represent a medium-term credit pressure, as contributions are only a modest share of the budget, and we believe the city has the capacity to absorb higher costs without pressuring operations. Maplewood participates in two multiple-employer, defined-benefit pension plans that have seen recent improvements in funded status, though 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. Although the city funds its OPEBs on a pay-as-you-go basis, exposing it to cost acceleration and volatility, we expect that medium-term costs will remain only a small share of total spending, and are therefore not a significant budgetary pressure.

The city participates in the following plans:

- Minnesota General Employees Retirement Fund (GERF): 79.1% funded (as of June 30, 2020), with a city proportionate share of the plan's net pension liability of \$6.0 million.
- Minnesota Police and Fire Fund (PEPFF): 87.2% funded (June 30, 2020), with a proportionate share of \$9.5 million.
- A single-employer, defined-benefit OPEB plan: 0% funded, with a net OPEB liability of \$2.7 million.

Total contributions to GERF and PEPFF were 85% and 96%, respectively, of our minimum funding progress metric and were slightly above static funding in both cases. Annual contributions are based on a statutory formula that has typically produced contributions lower than the actuarially determined contribution for each plan. In our view, this increases the risk of underfunding over time, if the state legislature does not adjust to offset future funding shortfalls. Other key risks include a 7.5% investment rate-of-return assumption (for both plans) that indicates some exposure to cost acceleration due to market volatility, and an amortization method that significantly defers contributions through a lengthy, closed 30-year amortization period based on a level 3.25% payroll growth assumption. Regardless, costs remain only a modest share of total spending, and we believe they are unlikely to pressure the city's medium-term operational health.

### **Strong institutional framework**

The institutional framework score for Minnesota cities with a population greater than 2,500 is strong.

## Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2020 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of October 20, 2021)		
Maplewood GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maplewood GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maplewood GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maplewood GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

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