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Summary:

Maplewood, Minnesota; General Obligation

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US\$3.07 mil GO imp bnds ser 2022A dtd 06/15/2022 due 02/01/2038

Long Term Rating

AA+/Stable

New

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Maplewood, Minn.'s \$3.07 million series 2022A general obligation (GO) improvement 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 2022A bonds and is the tax pledge on which we base the rating. Officials will pay debt service with ad valorem property tax revenues. Proceeds from the debt issuance will be used to partially finance improvements to Cope Avenue and McMenemy Street.

Credit overview

The rating reflects our view of Maplewood's consistently strong financial performance. The fiscal 2021 general fund results estimate shows a sizable surplus due to reduced expenditures and the receipt of federal COVID-19 pandemic relief stimulus, although that surplus will be spent on one-time expenditures in fiscal 2022. The city's tax base is supported by what we consider to be large, stable employers. Furthermore, we expect the excellent levels of unassigned fund balance reserves will 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 achieve stable and structurally balanced 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 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 127.6% of total governmental fund revenue, but rapid amortization, with 73.8% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Environmental, social, and governance

We have analyzed environmental, social, and governance risks relative to the city'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

We could lower the rating if Maplewood's budgetary performance weakened to such an extent that significant losses occur, or deficit operations become a trend, leading to a material diminution of available reserves.

Upside scenario

We could raise the rating if the city's economic profile improved to levels commensurate with those of higher-rated issuers, coupled with a decrease in its overall debt burden.

Credit Opinion

Strong and stable economy

We consider Maplewood's economy strong. The city, with a 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 100.8% of the national level and per capita market value of \$110,122. Overall, the city's market value increased by 4.9% during the past year to \$4.7 billion in 2021.

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. In addition to strong single-family home demand, the multifamily housing market is also growing, as there are several developments underway totaling 1,100 units. Management reports that the top employers and taxpayers, a 3M Co. research and development facility and HealthEast Care System-St. John's Hospital, are both expanding their facilities and services offered, respectively. Furthermore, 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%). We believe the city's historical tax base growth, coupled with its generally steady economy and proximity to the Twin Cities, will allow the local economy to remain stable 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 that 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 cyberattack mitigation policies.

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 at 0.4% in fiscal 2020. While we expect Maplewood will have at least balanced operating results, we do not expect results will be as favorable as they had been in 2020.

The fiscal 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 were driven primarily by temporary police department vacancies, although we understand that some cost-cutting initiatives were sustained in fiscal 2021. Our analysis includes transfers into and from enterprise funds.

The fiscal 2021 general fund estimates show a \$3.735 million surplus, operationally spurred by lower-than-budgeted public safety expenditures, higher-than-budgeted building permit and plan fee revenue, and lower public works expenditures. In addition, the city recognized \$4.468 million in federal pandemic relief aid, which it spent in 2021 on public safety services.

The fiscal 2022 general fund budget calls for break-even operations, but Maplewood plans to spend the previous year's surplus on one-time expenditures. The year-to-date actuals are trending well, as expenditures are slightly lower, building revenue is strong, and the lower public safety costs are persisting. Based on Maplewood's 2021 estimates and 2022 budget, we believe the city will maintain a strong budgetary performance profile.

Although city officials typically aim for a 3.0% annual tax levy increase, the fiscal 2021 budget reflected no increase in the tax levy, partially due to pandemic-related considerations. To offset this, a 5.0% tax levy increase was included in fiscal 2022 general fund budget to support a break-even result. 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 will remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Based on estimates for fiscal 2021 and budgeted 2022 results, 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 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, as evidenced by annual GO debt issuances.

The city maintains a single privately placed bank loan that it 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 127.6% of total governmental fund revenue.

Approximately 73.8% 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 \$55.5 million. It plans to issue approximately \$6.7 million of new-money bonds over the next two years, primarily for 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 view debt and annual carrying charges as high, creating some risk related to a 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, 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. Although the city funds its other postemployment benefits (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 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2021 Update Of Institutional Framework For U.S. Local Governments

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