

RatingsDirect®

Summary:

Maplewood, Minnesota; General Obligation

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Table Of Contents

Rationale

Outlook

Related Research

Summary:

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Credit Profile

US\$7.155 mil GO bnds ser 2018A due 02/01/2034

Long Term Rating AA+/Stable New

Maplewood GO

Long Term Rating AA+/Stable Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Maplewood, Minn.'s series 2018A general obligation (GO) bonds and affirmed its 'AA+' rating, with a stable outlook, on the city's existing GO debt.

Officials intend to use series 2018A bond proceeds to finance various street-improvement projects and the construction of a new park facility building.

The series 2018A bonds are a GO of Maplewood, for which the city will pledge its full-faith-and-credit-and-taxing power to levy direct general ad valorem taxes. In addition, the city will pledge special assessments against benefited properties and tax-abatement revenue for the series 2018A bonds. We base our rating on the GO pledge because we view it as the stronger pledge.

The rating reflects our opinion 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 a slight operating deficit in the general fund but an operating surplus at the total-governmental-fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 40% of operating expenditures;
- Very strong liquidity, with total government available cash at 76.5% of total-governmental-fund expenditures and 2x governmental debt service, and access to external liquidity we consider strong;
- Weak debt-and-contingent-liability position, with debt service carrying charges at 38.5% of expenditures and net direct debt that is 159.6% of total-governmental-fund revenue, but rapid amortization, with 79.5% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Strong economy

We consider Maplewood's economy strong. The city, with an estimated population of 41,368, is in Ramsey County in the Minneapolis-St. Paul-Bloomington MSA, which we consider broad and diverse. The city has a projected per capita

effective buying income of 104% of the national level and per capita market value of \$92,617. Overall, market value grew by 4.5% during the past year to \$3.8 billion in fiscal 2017. The county unemployment rate was 3.6% in 2016.

Maplewood is northeast of Saint Paul and part of the Minneapolis-St. Paul metropolitan area. Maplewood is home to such notable employers as 3M Co.'s corporate headquarters and HealthEast Care System-St. John's Hospital. 3M Co. recently completed the construction of a new research-and-development facility, which we believe adds stability to the economy. Management reports there are various ongoing transit projects, as well as major updates to Maplewood Mall and several other commercial and residential developments. Therefore, we expect the city's economy to continue to improve and market value to continue to rise.

Very strong 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.

We have revised our view of the city's FMA to strong from good because it has adopted a formal debt-management policy that is more restrictive than state law and limitations.

Elements include management's:

- Realistic and well-grounded assumptions when setting the annual budget;
- Monthly monitoring of budget-to-actual performance;
- 10-year financial forecast that projects out general fund revenue, expenditures, and assumptions;
- Five-year rolling capital plan 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 40% of operating expenditures.

Strong budgetary performance

Maplewood's budgetary performance is strong, in our opinion. The city had slight deficit operating results in the general fund of 0.6% of expenditures but a surplus result across all governmental funds of 1.8% of expenditures in fiscal 2016.

Our analysis includes adjustments for the spending of bond proceeds, the transfers into and from enterprise funds, the receipt and spending of large grant proceeds, and the one-time capital-outlay costs.

The city's current practice is to maintain reserves at or near 40% of operating expenditures and transfer any excess into capital-projects funds or other funds, which it did in fiscal 2015. Property taxes generated 70% of general fund revenue while service charges accounted for 14% in fiscal 2016.

The fiscal 2016 budget called for breakeven operations. The city reported a \$121,000 deficit. Management primarily attributes this to a reduction in internal charges for services, which was a planned, phased-in approach to eliminate these charges in the capital-project funds. Across total governmental funds, adjusted results show a \$649,000 surplus.

Fiscal 2017 general fund unaudited results show an \$841,038 surplus, or 2.4% of expenditures. Management expects general fund balance to improve to \$8.5 million at the close of the audit. Management expects flat total-governmental-fund results. The fiscal 2018 budget shows a \$194,000 surplus; management reports it is currently on track with the budget.

Due to fiscal 2017 estimates and 2018 projections, we expect budgetary performance will likely remain, at least, strong.

Very strong budgetary flexibility

Maplewood's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 40% of operating expenditures, or \$7.6 million. We expect available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

The formal fund-balance policy calls for available reserves of, at least, 40% of operating expenditures with an informal target of 50%. The city complied with its policy in fiscal 2016, and it expects to comply in fiscal years 2017 and 2018. Therefore, we expect flexibility will likely remain very strong.

Very strong liquidity

In our opinion, Maplewood's liquidity is very strong, with total government available cash at 76.5% of total-governmental-fund expenditures and 2x governmental debt service in fiscal 2016. In our view, the city has strong access to external liquidity if necessary.

We believe Maplewood has strong access to capital markets, evidenced by annual GO debt issuance. We do not expect liquidity to worsen during the next two fiscal years. The city primarily invests in U.S. Treasury notes, U.S. government agency securities, certificates of deposit, and money-market accounts; we do not believe investments are aggressive. The city does not have any alternative financings that could pose a liquidity risk.

Weak debt-and-contingent-liability profile

In our view, Maplewood's debt-and-contingent-liability profile is weak. Total-governmental-fund debt service is 38.5% of total-governmental-fund expenditures, and net direct debt is 159.6% of total-governmental-fund revenue. Approximately 79.5% of direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The city's current plans show issuances of \$12.5 million during the next two years for street and economic development. However, the city hopes to reduce issuance by approximately \$1 million annually by finding other revenue sources for projects. Due to rapid amortization, current projections indicate debt will decrease considerably during the next five years.

Maplewood's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 4.7% of total-governmental-fund expenditures in fiscal 2016. The city made its full annual required pension contribution in fiscal 2016.

Maplewood participates in two cost-sharing, multiemployer, defined-benefit pension plans: the general employees' retirement fund (GERF) and the public employees' police and fire fund (PEPFF), both of which Minnesota Public

Employees' Retirement Assn. (PERA) administers. State statute determines required pension contributions to these plans. Statutory-contribution rates have generally not kept pace with actuarially determined contribution rates, indicating a potential for payment acceleration.

The GFRF and PEPFF funds were 75.9% and 85.4% funded, respectively, in fiscal 2017. Currently, proposed pension legislation exists that could lead to increases in employer contributions for PERA plans. However, because pension costs are currently 4.4% of total-governmental-fund expenditures and Maplewood has sufficient taxing and operational flexibility, we believe the city would likely absorb increases during the next few fiscal years. However, if pension contributions were to absorb a larger share of the budget, our view of the debt-and-contingent-liability profile could weaken.

City retirees could remain on the health-care plan at a 100% cost to the retiree, creating an implicit subsidy, which Maplewood funds on a pay-as-you-go basis. In 2015, Maplewood contributed \$81,000 for OPEB.

Strong institutional framework

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

Outlook

The stable outlook reflects S&P Global Ratings' opinion that Maplewood will likely maintain its very strong budgetary flexibility and liquidity during the two-year outlook period. We believe Maplewood's location and participation in the Twin Cities MSA provides additional rating stability.

Upside scenario

We could raise the rating if wealth and income were to improve to levels we consider commensurate with 'AAA' rated peers, coupled with an improved debt-and-liability profile.

Downside scenario

We could lower the rating if budgetary pressure occurs, substantially lowering available reserves.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2017 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 11, 2018)		
Maplewood GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maplewood GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Ratings Detail (As Of May 11, 2018) (cont.)

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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