

**Summary:**

**Maplewood, Minnesota; General  
Obligation**

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**Table Of Contents**

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Rationale

Outlook

Related Research

## Summary:

# Maplewood, Minnesota; General Obligation

### Credit Profile

US\$4.7 mil GO bnds ser 2019A dtd 07/18/2019 due 02/01/2035

<i>Long Term Rating</i>	AA+/Stable	New
Maplewood GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maplewood GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

## Rationale

S&P Global Ratings assigned its 'AA+' rating and stable outlook to Maplewood, Minn.'s series 2019A general obligation (GO) bonds and affirmed its 'AA+' rating, with a stable outlook, on the city's existing GO debt.

Officials intend to use bond proceeds to finance street and utility improvements.

The city pledges its full-faith-and-credit-and-taxing power to levy direct general ad valorem taxes for the repayment of the series 2019A bonds. The city anticipates it will pay a portion of the improvement debt service from special assessments from benefitted properties and the remainder from property taxes. It will pay the utility portion with net utility revenues.

### Credit overview

Maplewood is a suburb northeast of St. Paul; we believe the city benefits from its proximity to the Twin Cities. The city also benefits from an exceptional management team, as exhibited in consistent general fund performance, and very strong reserves and liquidity. We view Maplewood's debt burden as high relative to its operating budget, but its rapid amortization schedule mitigates this, somewhat.

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 operating surpluses in the general fund and at the total governmental fund level in fiscal 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 43% of operating expenditures;
- Very strong liquidity, with total government available cash at 112.6% of total governmental fund expenditures and 2.5x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability position, with debt service carrying charges at 45.2% of expenditures and net direct debt that is 161.3% of total governmental fund revenue, but rapid amortization, with 78.9% of debt scheduled

to be retired in 10 years; and

- Strong institutional framework score.

### **Strong economy**

We consider Maplewood's economy strong. The city, with an estimated population of 41,911, 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 100.7% of the national level and per capita market value of \$94,803. Overall, the city's market value grew by 3.7% over the past year to \$4.0 billion in 2018. The county unemployment rate was 2.7% in 2018.

Maplewood is home to such notable employers as 3M Co.'s corporate headquarters and HealthEast Care System-St. John's Hospital. The city had \$57.7 million of new construction in 2018, including 3M's construction of a \$14 million research-and-development facility, which we believe adds stability to the economy. Management reports various ongoing transit projects, major updates to Maplewood Mall, and several other commercial, retail, and residential developments. Therefore, we expect the city's economy and market value to continue improving.

### **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.

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 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 operating surpluses of 1.6% of expenditures in the general fund and of 13.7% across all governmental funds in fiscal 2018 (year ended Dec 31).

Our analysis includes adjustments for the spending of bond proceeds, expenditures relating to bond refunding, and the transfers into and from enterprise funds.

Property taxes generated 74% of general fund revenue while intergovernmental accounted for 9%, in fiscal 2018.

The fiscal 2018 general fund of \$319,000 surplus is fairly typical for the city, given its conservative budgeting practices. The fiscal 2019 budget calls for a \$200,000 general fund surplus and management reports its on track to achieve the budgeted results. The 2020 budget is under construction, but officials expect that it will be similar to the previous year,

with a slight surplus.

Due to fiscal 2019 budget and 2020 expectations, 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 2018 of 43% of operating expenditures, or \$8.8 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.

The formal fund-balance policy calls for available reserves of at least 40% of operating expenditures with an informal goal of building the fund balance to 50%. The city complied with its policy in fiscal 2018, and it expects to comply in fiscal years 2019 and 2020. 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 112.6% of total governmental fund expenditures and 2.5x governmental debt service in 2018. 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 its investments are aggressive. It 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 45.2% of total governmental fund expenditures, and net direct debt is 161.3% of total governmental fund revenue. Approximately 78.9% of the direct debt is to be repaid within 10 years, which is in our view a positive credit factor.

The city's plans show issuances of \$12 million during the next two years for a fire station, and street and utility improvements. Debt is very high and during an economic downturn, it could pressure the budget. However, Maplewood implemented a debt reduction plan that will reduce debt by funding increasing amounts of street improvement costs with other revenue. Based on the city's projections, Maple will reduce its direct debt by 17% in 2024. Given the city's history of rapid amortization, we believe this goal is realistic.

Maplewood's pension contributions totaled 5.0% of total governmental fund expenditures in 2018. The city made its full annual required pension contribution in 2018.

All full-time and certain part-time employees are covered by defined-benefit pension plans administered by the Public Employee Retirement Association of Minnesota (PERA). PERA administers the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are cost-sharing, multiple-employer retirement plans. The city makes its statutorily required contributions each year. Required pension contributions to these plans are determined by state statute. Statutory contributions rates have generally not kept pace with actuarially determined contribution rates, indicating potential for future payment acceleration. The state recently passed pension legislation that will marginally increase contributions (for PEPFF only), reduce the investment rate of return to 7.5% (from 8.0%),

and reduce some employee benefits (primarily cost-of-living adjustments). While we view these as positive changes for future plan funding, the lack of an actuarial funding policy remains a weakness in these plans. For more information about the reforms included in the 2018 omnibus retirement bill and potential cost increases, see "Minnesota's New Pension Bill Is A Positive Step Toward Sustainable Funding," published June 7, 2018, on RatingsDirect.

The GFRF and PEPFF were 79.5% and 87.1% funded, respectively. Because pension costs are 5% 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.

### Strong institutional framework

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

## Outlook

The stable outlook reflects our expectation that Maplewood will maintain very strong budgetary flexibility and liquidity during the two-year outlook horizon. The city's location and participation in the Twin Cities MSA adds additional stability. We do not expect to lower or raise the rating during the two-year outlook period.

### Upside scenario

We could consider a higher rating if the city's wealth and income indicators were to improve coupled with an improvement in the debt and liability profile.

### Downside scenario

We could consider a lower rating if Maplewood faced budgetary pressure and substantially lowers its available reserve position.

## Related Research

- 2018 Update Of Institutional Framework For U.S. Local Governments
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013

Ratings Detail (As Of June 20, 2019)		
Maplewood GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Maplewood GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

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Ratings Detail (As Of June 20, 2019) (cont.)

Maplewood GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

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