S&P Global
Ratings

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Summary:

Minneapolis; General Obligation

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Credit Profile		
US$128.455 mil GO bnds ser 2023 due 12/01/2042		
Long Term Rating	AAA/Stable	New
Minneapolis GO		
Long Term Rating	AAA/Stable	Affirmed
Minneapolis GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to the City of Minneapolis' $128.455 million series 2023 general obligation (GO) bonds.
- At the same time, we affirmed our 'AAA' rating on the city's GO debt outstanding.
- The outlook is stable.

Security

The bonds are secured by the full faith and credit of the city; a portion of the bonds' intended repayment source will be special assessments and net revenue of the water, sanitary sewer, and storm water systems. The bonds will be used for improvements to the city's water and sanitary sewer systems, various assessable public projects, and capital projects.

Credit overview

Minneapolis finished fiscal 2022 (year-end Dec. 31) with a surplus of approximately $30.9 million (unaudited) with the aid of a $47 million use of ARPA funds for operational expenditures. This result outperformed the budgeted use of $17 million of general fund reserves; management attributed the performance to lower expenditures due to vacancies in police staff (saving about $11 million), and unspent contingency allocations and ARPA appropriations. The downtown assets fund outperformed its budget and doubled collections compared with the previous year; this fund collects several types of sales tax with net residual revenues transferred to the general fund. The city's self-insurance fund had an $8.2 million (unaudited) operating income and the net position improved to negative $61.9 million from negative $100 million following a $24 million transfer from the general fund. This negative position was due partially to an uptick in claims liabilities, related, in part, to police post-traumatic stress disorder claims and lawsuits during the 2020's civil unrest. The liabilities of this fund will be paid out over the long term and there are no pressing liquidity issues with the fund. Management indicated that all known claims related to this event have been settled and we do not expect the net position of the fund to worsen.

For fiscal 2023, the city increased the levy by 6.5% and budgeted for a general fund deficit that included a $4.8 million use of general fund reserves and $30 million of the previous year's surplus. The city continues to struggle with public safety recruitment and retention and is falling short of its goal of 888 sworn officers, with 586 currently. The city is planning for public safety pay increases and incentives that will be reflected in a supplemental budget and five-year projection released in the next several weeks. The updated five-year projection of expenditures includes the charter required sworn officer count of 731. In addition, officials indicate that revenue, particularly in the downtown assets fund, is coming in higher and it will be revising revenue estimates in the projections.

The city projects that it will be able to maintain operational balance in fiscal 2025, once ARPA money is exhausted with increasing transfers from the downtown assets fund; $13 million is budgeted for 2023 and $32 million will be needed to plug the 2025 budget gap. Aiding in this growth will be $8.7 million of additional annual revenue following the early repayment of debt previously paid from the downtown assets fund. The current five-year projection also includes the use of $20 million of general fund reserves in fiscal years 2023 through 2025. There could be pressure on the city's finances if the downtown asset revenue recovery is not as rapid as projected. In addition, on the expenditure side, projections include an average 2.5% cost-of-living increase across all staff, but officials indicate that this will likely rise in subsequent projections.

The mayor's proposed 2024 budget will be released within the next several weeks, but management expects that fund balance will remain within its policy and future surpluses will be spent on non-recurring expenditures.

Key factors supporting the 'AAA' rating include the following:

- We expect the city's very strong reserves will remain above 17% despite planned drawdowns over the coming few years. The multiyear budget forecast details how the city will have budgetary balance without the use of ARPA funds or reserves by 2025.
- The city's robust economy continues to expand. Although building permits have declined from the all-time high in 2021, 2022 permits are still higher than in 2018-2020. We are monitoring commercial office vacancies, as Minneapolis' are elevated relative to those of many peer cities but management estimates the amount of taxes shifted to residential properties will be nominal in the near term. In addition, the city has strong residential development and is working with developers to convert some spaces into residential property.
- Management is strong with notable long-term planning to address key challenges while preserving a healthy fiscal position. Practices include: multiyear financial and capital planning, periodic budget monitoring, a 17% fund balance policy, robust planning around cyber security and environmental risk; and a strong institutional framework score.
- Debt ratios are favorable compared with those of other large and growing U.S. cities and pension and other postemployment benefit (OPEB) exposure is moderate although the funding levels worsened in 2022 due to low investment performance, but with little medium-term likelihood of meaningful cost acceleration.

Environmental, social, and governance

Following the George Floyd killing, the U.S. Justice Department investigated practices used by the Minneapolis Police Department (MPD) and concluded that it and the city engaged in a pattern or practice of conduct in violation of the U.S. Constitution and federal law. The city and MPD agreed to resolve the findings through a court enforceable consent decree. We believe that ongoing public safety reforms could limit the likelihood of future unrest. However, the policy trajectory around policing remains fluid, and, although we view this as an unlikely scenario, should operational costs stemming from compliance with the consent decree and other reforms result in budgetary stress, we could view social capital risks as weakening the city's credit profile. We view governance and environmental factors as neutral in our credit rating analysis.

Outlook

The stable outlook reflects the stronger-than-expected revenue recovery, still-strong economic growth even with some risks around commercial real estate, and a five-year plan that shows a measured use of reserves and stimulus funds but a return to structurally balanced operations in a few years with reserves remaining above the fund balance policy.

Downside scenario

We could lower the rating if the city draws its general fund reserves down more rapidly than planned, which we believe could signify unanticipated budgetary pressure and would leave less room for fiscal maneuvering in outyear budgets.

Rating above the sovereign

Minneapolis' GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign—Corporate And Government Ratings: Methodology And Assumptions" (published Nov. 19, 2013), U.S. local governments have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy and independent treasury management with no history of federal government intervention, and we believe Minneapolis's financial flexibility is sufficiently demonstrated by its very strong budgetary reserves and liquidity.

Minneapolis, Minnesota--Key credit metrics				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Very strong economy				
Projected per capita EBI % of U.S.	117			
Market value per capita ($)	164,645			
Population			422,909	422,904
County unemployment rate(%)		2.5		
Market value ($000)	69,629,877	65,938,298	62,526,635	
Ten largest taxpayers % of taxable value	4.6			
Adequate budgetary performance				
Operating fund result % of expenditures		5.1	(4.7)	8.1
Total governmental fund result % of expenditures		5.5	(0.6)	10.5
Very strong budgetary flexibility				
Available reserves % of operating expenditures		30.7	27.0	34.3
Total available reserves ($000)		173,717	142,828	167,654
Very strong liquidity				
Total government cash % of governmental fund expenditures		31	35	37
Total government cash % of governmental fund debt service		301	461	249

Minneapolis, Minnesota--Key credit metrics (cont.)				
	Most recent	Historical information		
		2022	2021	2020
Very strong management				
Financial Management Assessment	Strong			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		10.4	7.7	15.0
Net direct debt % of governmental fund revenue	67			
Overall net debt % of market value	2.1			
Direct debt 10-year amortization (%)	66			
Required pension contribution % of governmental fund expenditures		6.4		
OPEB actual contribution % of governmental fund expenditures		0.3		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of July 28, 2023)		
Minneapolis GO		
Long Term Rating	AAA/Stable	Affirmed
Minneapolis taxable GO hsg imp area bnds ser 2021 due 12/01/2040		
Long Term Rating	AAA/Stable	Affirmed
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