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Ratings

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Summary:

Anoka County, Minnesota; General Obligation

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Summary:

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Credit Profile		
US$10.585 mil GO bnds ser 2018A due 02/01/2030		
Long Term Rating	AA+/Stable	New
Anoka Cnty GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating to Anoka County, Minn.'s series 2018A general obligation (GO) bonds. At the same time, we affirmed our 'AA+' ratings on the county's outstanding GO debt. The outlook is stable.

The bonds are secured by the county's full faith and credit GO pledge and ability to levy unlimited ad valorem property taxes. Officials will use bond proceeds to finance library improvement projects and to refinance outstanding debt for interest cost savings.

The 'AA+' rating reflects our view of the county's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good 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 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 46% of operating expenditures;
- Very strong liquidity, with total government available cash at 63.6% of total governmental fund expenditures and 8.9x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 7.1% of expenditures and net direct debt that is 31.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 84.3% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider the county's economy strong. Anoka County, with an estimated population of 348,629, is just north of Hennepin and Ramsey counties. It is the fourth-most populated county in Minnesota. It encompasses the northwestern portion of the Minneapolis-St. Paul-Bloomington MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income (EBI) of 108.1% of the national level and per capita market value of $98,474. Overall, market value grew by 7.7% over the past year to $34.3 billion in 2018. The county unemployment rate was 3.3% in 2017.

Following a period of exceptionally rapid population growth in the 1990s and 2000s as the Minneapolis MSA expanded northward, the southern portion of the county in particular is now well integrated into the MSA and continues to see strong population growth, even if slower than in prior decades. And we understand as well that several of the county's northern cities have been expanding rapidly as commuter suburbs. The county's largest cities are along the southern border and include Anoka (the county seat), Coon Rapids, Blaine, Columbia Heights, and Fridley. County residents have access to downtown Minneapolis via I-35W, downtown St. Paul via I-35E, and the northern MSA via I-694, while the Northstar commuter rail line--operational since 2009 and running northwest out of downtown Minneapolis--has several stops in Anoka County.

The number and value of building permits issued in the county have increased each year since 2011, contributing to consecutive years of solid tax base growth over approximately the same period. Management reports that several of the larger communities in southern Anoka County are seeing significant new home construction, given the area's proximity to Minneapolis, along with greater home affordability and lower tax rates than in the city, and we understand that new commercial development is running strong as well. Management is anticipating next year's valuations will reflect increases that are similar to those seen in the previous few years (in the high single digits), and we similarly expect the county to continue to experience strong valuation growth in the near term as many of the southernmost parts of the county continue to develop.

Over the past five years, the countywide unemployment rate has tended to fall more or less in line with the state rate and slightly above that of the MSA as a whole. Leading employers in Anoka County remain stable, with several expanding in recent years, and include: Medtronic Corp. (medical device services, employs 11,000), Anoka-Hennepin Independent School District No. 11 (7,291), Mercy and Unity Hospital (3,775), the county itself (2,361), and Target Corp. (including six stores and a distribution center, 1,900). Management reports that top employers and taxpayers are stable, and we understand there are no material tax appeals pending.

While we expect the county economy to remain at least strong and to continue to develop at a good pace through the next several years, we recognize that the key measures of economic health--per capita wealth and projected per capita EBI, in particular--are currently well under what we would typically associate with 'AAA' rated credits. Ongoing growth in these key measures could create upward rating potential, but we expect that significant enough change to warrant a higher rating, while possible in the medium-to-long term, is unlikely to materialize within our two-year outlook horizon.

Strong management

We view the county's management as strong, with good financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

We have revised our overall FMA score to good from strong as we understand that the county is not providing budget-to-actual reporting to the full county board as frequently as we had previously understood.

Highlights to the FMA include:

- Traditional line-item budgeting incorporating a two- to three-year trend analysis and data from external sources, with recent budget-to-actuals reflecting conservative or on-target budgeting;

- Budget reporting to the county board three times a year, with the ability to amend the budget as needed;
- Informal long-term financial projections to assist with the current-year budget;
- A formal, rolling five-year capital improvement plan that includes cost estimates and funding sources;
- A formal investment policy with reporting on investment holdings provided to the county board four times annually;
- A formal debt management policy that sets quantitative and qualitative restrictions around debt issuance and to which the county has historically adhered; and
- A formal fund balance policy requiring an unassigned general fund balance of 35%-50% of expenditures minus nonproperty tax revenues and state aid to allow for sufficient cash flow between semiannual property tax receipts.

Strong budgetary performance

Anoka County's budgetary performance is strong, in our opinion. The county had operating surpluses of 2.4% of expenditures in the general fund and 6.5% across all governmental funds in fiscal 2017.

We have adjusted fiscal 2017 (ended Dec. 31) results to remove investment losses recorded in the county's general fund revenues, to include some transfers out in expenditures, and to exclude the expenditures in governmental funds that were funded with bond proceeds. The county's general fund budget is funded primarily from property taxes (51% of general fund revenues), service charges (24%), and intergovernmental aid (18%), all of which have been stable-to-growing in recent years, supporting the county's generally positive operating performance. Results across governmental funds have likewise been positive in recent years after data adjustments.

The fiscal 2018 budget was structured with incremental changes over the prior year and reflected a small operating surplus. Management reports that current expectations are for year-end results that align approximately with the budget. Going into the 2019 budget cycle, we understand that the budget will again reflect mainly incremental changes over the prior year and similar results. Given the strong economic growth the county has experiences recently and will likely continue to experience, we expect operations to remain stable and strong through at least the next two years, with strong tax base growth supporting incremental levy increases and with little foreseeable near-term pressure in any of the county's key revenue sources.

Very strong budgetary flexibility

Anoka County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 46% of operating expenditures, or $51.1 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 available fund balance includes $39.4 million (35.5% of expenditures) in the general fund and $11.7 million (10.6%) that is outside the general fund but legally available for operations.

The county's reserves that we consider available include the unassigned and assigned general fund balance, along with its asset preservation fund balance (totaling approximately $11.7 million at the end of fiscal 2017). The county's general fund balance policy requires a minimum 35%-50% unassigned fund balance (excluding certain expenditure items), and management has historically been in compliance with the policy. While we expect the county to spend down some of its asset preservation fund reserves, we also expect the general fund balance to remain stable, if not grow, in the next two years, supporting ongoing, very strong overall available reserves in excess of 30% of expenditures.

Very strong liquidity

In our opinion, Anoka County's liquidity is very strong, with total government available cash at 63.6% of total governmental fund expenditures and 8.9x governmental debt service in 2017. In our view, the county has strong access to external liquidity if necessary.

Anoka County had over $202 million in cash, cash equivalents, and pooled investments available for liquidity purposes as of fiscal year-end 2017. The county has demonstrated strong access to the capital markets with a history of issuing GO debt. Its investments are mostly in U.S. Government and municipal securities and money market funds, and we do not consider its investment portfolio a source of contingent liquidity risk. The county's only bank-placed obligation is a small capital lease (dated 2017), where remedies on default only allow the bank to require the county to pay amounts appropriated for the current year, which are trivial in comparison to its cash levels. We expect the county's overall cash position to remain stable, if not improve, through the next two years, and its liquidity to remain very strong.

Very strong debt and contingent liability profile

In our view, Anoka County's debt and contingent liability profile is very strong. Total governmental fund debt service is 7.1% of total governmental fund expenditures, and net direct debt is 31.2% of total governmental fund revenue. Overall net debt is low at 2.9% of market value, and approximately 84.3% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

We understand that the county could pursue a small bond issuance within the next few years (approximately $5 million to $9 million) to finance upgrades to a park wavepool, though it could elect to cash-fund the project as well. In addition, the county is in the early stages of planning a large project within roughly three-to-five years to construct a county jail facility, though the timing and potential debt issuance associated with the project are undetermined at this time.

Anoka County's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 3.9% of total governmental fund expenditures in 2017. Of that amount, 2.8% represented required contributions to pension obligations, and 1.1% represented OPEB payments. The county made 100% of its annual required pension contribution in 2017.

Anoka County participates in three defined-benefit pension plans administered by the Public Employees Retirement Association of Minnesota, including the General Employees' Retirement Fund (GERF), the Public Employees Police and Fire Plan (PEPFF), and the Public Employees Correctional Plan (PECF). All are cost-sharing, multiple-employer defined-benefit with statutory contribution rates that are set by the state legislature. With the passage of the 2018 Omnibus Retirement Bill in May 2018, benefit reforms and increased contributions should result in improved plan funding levels. We note, however, that statutory contribution rates have historically fallen short of actuarial rates, and a continuation in this trend could result in underfunding over time, increasing the likelihood of accelerating contributions in the future. Still, we believe that the county's current contribution levels are modest as a share of total spending, and believe that it is well-positioned to manage near-term cost increases without a substantial effect on the budget. (For more information on the 2018 pension reform package, see "Minnesota’s New Pension Bill Is A Positive Step Toward Sustainable Funding," published on RatingsDirect on June 7, 2018).

As of Dec. 31, 2017, the county reported a liability of $93.9 million for its proportionate share of the net pension liability for GERF (75.9% funded, per the plan's 2017 annual report), $15.4 million for PEPFF (85.4% funded), and $17.3 million for PEC (67.9%) F.

The county also supports retirees' health insurance premiums, and created an irrevocable trust in 2009 and deposited proceeds from OPEB bonds into that trust. Its most recent OPEB report, dated Dec. 31, 2013, indicated an unfunded actuarial accrued liability of $14.9 million and a 81% funded ratio.

Strong institutional framework

The institutional framework score for Minnesota counties with a population greater than 5,000 is strong.

Outlook

The stable outlook reflects our expectation that Anoka County's financial profile will remain strong-to-very strong through at least the next two years. While the county is experiencing strong growth as the MSA develops outward, and we expect that its strong growth prospects will continue in the medium-to-long term, we also note that its economic metrics are still well below those that we would typically associate with 'AAA' rated credits and will likely take several years to develop sufficiently to become comparable. Therefore, we do not expect a rating change in the two-year outlook period.

Upside scenario

We could raise the rating if ongoing growth results in an economic profile that we believe is consistent with 'AAA' rated peers.

Downside scenario

However unlikely, we could lower the rating if deterioration in operating performance leads to significantly weaker reserves.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of October 19, 2018)		
Anoka Cnty GO		
Long Term Rating	AA+/Stable	Affirmed
Anoka Cnty GO		
Long Term Rating	AA+/Stable	Affirmed
Anoka Cnty Hsg & Redev Auth, Minnesota		
Anoka Cnty, Minnesota		

Ratings Detail (As Of October 19, 2018) (cont.)		
Anoka Cnty Hsg & Redev Auth GO		
Long Term Rating	AA+/Stable	Affirmed
Anoka Cnty Hsg & Redev Auth GO		
Long Term Rating	AA+/Stable	Affirmed
Anoka Cnty Hsg & Redev Auth (Anoka Cnty) GO		
Long Term Rating	AA+/Stable	Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.