S&P Global Ratings

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Summary:

Anoka County, Minnesota; General Obligation

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Summary:

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Credit Profile		
US$17.185 mil GO cap imp rfdg bnds ser 2017A 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+' long-term rating to Anoka County, Minn.'s series 2017A general obligation (GO) capital improvement refunding bonds. At the same time, we affirmed our 'AA+' ratings on the county's outstanding GO bonds. The outlook is stable.

The county's unlimited ad valorem tax GO pledge secures the bonds. Bond proceeds will be used to crossover refund the county's series 2008A and 2008C GO capital improvement bonds for expected interest cost savings. Some of the county's outstanding bonds also pledge other revenue sources, but all ratings are based on the county's unlimited ad valorem tax GO pledge.

The rating reflects our assessment of the following factors for the county, specifically its:

- 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 results that we expect could improve in the near term relative to fiscal 2015, which closed with slight deficits after transfers in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 41% of operating expenditures;
- Very strong liquidity, with total government available cash at 48.5% of total governmental fund expenditures and 6.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 7.8% of expenditures and net direct debt that is 37.5% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 82.0% 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 344,858, is in the Minneapolis-St. Paul-Bloomington MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 107.7% of the national level and per capita market value of $87,031. Overall, market value grew by 6.0% over the past year to $30.0 billion in 2016. The county unemployment rate was 3.6% in 2015.

In addition to access to Minneapolis and St. Paul and the surrounding area, residents have access to various employment opportunities in the county itself. Leading employers include Medtronic (9,000 employees), Anoka-Hennepin Independent School District 11 (7,435), Mercy and Unity Hospital (3,775), Target (1,900), and the county itself (1,820). The tax base is mostly residential at 72% of tax capacity, followed by commercial/industrial, railroad, and public utility at 25%.

Very strong management

We view the county'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.

Strengths of the assessment, in our opinion, include strong revenue and expenditure assumptions and the use of historical data when formulating the budget. Other highlights include quarterly updates to the county board on budget and investment performance, informal long-term financial planning to assist in setting the current-year budget and levy, and the maintenance of a detailed capital improvement plan. The county has detailed investment and debt management policies. Also, it has a fund balance policy that the general fund will maintain an unassigned portion equivalent to 35% to 50% of general fund 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 slight deficits after transfers of negative 1.0% of expenditures in the general fund and negative 0.6% across all governmental funds in fiscal 2015. Our assessment accounts for operating results that we expect could improve in the near term relative to fiscal 2015.

We adjusted general fund revenues and expenditures for recurring transfers and one-time expenditures. For fiscal 2016 (Dec. 31), estimates show a small use of general fund reserves as the county transferred to its asset preservation fund. Additional transfers were made for future capital improvements. We expect status quo for the total governmental funds. The fiscal 2017 general budget is break-even and status quo total governmental funds, which we view as likely. Property taxes accounted for 49% of general fund revenues, followed by charges for services (26%), and intergovernmental (19%). We expect budgetary performance to remain strong.

Very strong budgetary flexibility

Anoka County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 41% of operating expenditures, or $43.0 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 $37.3 million (35.6% of expenditures) in the general fund and $5.7 million (5.4%) that is outside the general fund but legally available for operations.

We included reserves in the capital projects fund assigned for asset preservation ($5.7 million) as available reserves. We do not expect to change our view of the county's very strong budgetary flexibility given break-even budgets for fiscal years 2016 and 2017.

Very strong liquidity

In our opinion, Anoka County's liquidity is very strong, with total government available cash at 48.5% of total governmental fund expenditures and 6.2x governmental debt service in 2015. In our view, the county has strong access to external liquidity if necessary.

Anoka County had over $156 million in cash available for liquidity purposes as of fiscal year-end 2015. 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. Also, Anoka County has no direct-purchase or variable-rate debt that we expect could pose a liquidity risk, and we expect the liquidity profile will 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 7.8% of total governmental fund expenditures, and net direct debt is 37.5% of total governmental fund revenue. Overall net debt is low at 2.8% of market value, and approximately 82.0% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors. The funded ratio for the largest plan is 78.1%.

The county currently has no formalized plans to issue additional debt.

Anoka County's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 3.8% of total governmental fund expenditures in 2015. Of that amount, 3.0% represented required contributions to pension obligations, and 0.9% represented OPEB payments. The county made 100% of its annual required pension contribution in 2015.

Anoka County participates in the defined-benefit pension plans administered by the Public Employees Retirement Association of Minnesota, including the Public Employees Retirement Fund, the Public Employees Police and Fire Fund, and the Local Government Correctional Service Retirement Fund. At June 30, 2015, the county's proportion was 1.47% for GERF, 1.13% for PEPF, and 6.05% for PECF. In addition, it contributes to retirees' health insurance premiums. The county created an irrevocable trust in 2009 and deposited proceeds from OPEB bonds into that trust. It continues to make ARCs toward the cost of the benefit as well as contributing to the trust. The county's most recent OPEB report, dated Dec. 31, 2013, indicated an unfunded actuarial accrued liability of $13.9 million and a 77% 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 view of Anoka County's very strong flexibility and liquidity profile, which is supported by very strong management and well-embedded policies. We do not expect to change the rating in the two-year outlook period given our view of the county's current financial position and projections and our expectation that all other credit characteristics will remain relatively unchanged.

Upside scenario

We could raise the rating if the county's economic profile improves to levels we view as commensurate with higher rated peers, which we do not expect in the outlook period.

Downside scenario

Although unlikely, in our view, prolonged deterioration in financial performance and a significant use of reserves could pressure the rating.

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

Ratings Detail (As Of March 22, 2017)		
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		
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.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.