S&P Global Ratings

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Summary:

Anoka County Regional Railroad Authority, Minnesota; General Obligation

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Credit Profile		
US$4.395 mil GO ltd tax crossover rfdg bnds ser 2022A due 02/01/2027		
Long Term Rating	AA+/Stable	New
Anoka Cnty GO		
Long Term Rating	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to Anoka County Regional Railroad Authority (RRA), Minn.'s $4.395 million series 2022A taxable general obligation (GO) limited-tax crossover refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on Anoka County's existing GO debt. The outlook is stable.

The 2022A bonds are crossover refunding bonds of the series 2015A bonds for interest savings, with a crossover date of Feb. 1, 2024; we have determined that there is no escrow reliance as the GO pledge covers the full life of the bonds. The bonds are secured by a limited-tax pledge of the RRA's ad valorem property tax, limited to 0.04835% of the estimated market value of all taxable property located within Anoka County. We rate the limited property taxes pledged to the bonds on par with the creditworthiness of Anoka County. We view the likelihood of payment as being tied to the credit fundamentals of the county, the shared tax base between the county and the RRA, the significant oversight the county has over the RRA and its debt issuance, and the core function the RRA provides for the county. There are no other issues with fungibility of resources, thus we rate the bonds on par with the GO rating. For more information regarding the link between the county and RRA see our article published July 24, 2018, on RatingsDirect.

Credit overview

Anoka County is the state's fourth-largest county by population and is in the northwestern portion of the broad and diverse Minneapolis-St. Paul-Bloomington metropolitan statistical area (MSA). The county's economic base continues to develop and diversify at a solid pace, a trend that shows little sign of abating in the near term, as evident in the high volume of ongoing commercial, industrial, and residential development and consecutive years of high-single-digit percentage growth in market value. Strong economic fundamentals have enabled the county's forward-thinking management to maintain a consistently balanced operating budget with very strong reserves and liquidity. And its debt and liabilities profile is favorable compared with those of peers, characterized by low direct debt and manageable pension and other postemployment benefit (OPEB) exposure. We anticipate that the county will issue significant additional debt during the outlook period but expect the county will have the capacity to absorb the debt anticipated within the next two years. Overall, we think that the county's credit fundamentals, except for the debt profile, will likely continue to improve, though we still see a gap between its core economic measures--per capita wealth and income in particular--and those of more highly rated peers, and we expect that it will take several years for this gap to narrow enough to support a higher rating.

The 'AA+' rating additionally reflects our view of Anoka County's:

- Strong economy, with access to a broad and diverse MSA;
- Conservative budgeting practices and historically strong budgetary performance that translated into robust reserve and liquidity levels;
- Very strong debt and contingent liability profile, although it may weaken with the anticipated debt in the near term; and
- Strong institutional framework score and management, with good financial policies and practices under our Financial Management Assessment methodology.

Environmental, social, and governance

We have analyzed the county's environmental, social, and governance (ESG) risks relative to its economy, management, financial measures, and debt and liability profile and have determined all are in line with what we typically observe with sector peers.

Stable Outlook

Upside scenario

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

Downside scenario

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

Credit Opinion

Strong economy, with access to a broad and diverse MSA

Anoka County, with an estimated population of 358,904, is in the Minneapolis-St. Paul-Bloomington MSA, which we consider to be broad and diverse. The county's largest cities are along the southern border and include Anoka (the county seat), Coon Rapids, Blaine, Columbia Heights, and Fridley. 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, although slower than in prior decades. 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.

Management reports that Anoka County continues to see 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 and industrial development are running strong as well. We expect that economic market value, which has grown at a rate of 7% per year on average over the past three years, will continue to see strong growth in the medium term given the volume of new development underway. And management is anticipating that market value will increase by close to 8% over the next few years.

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. The county average unemployment rate grew to 6.3% in 2020 due to the pandemic, but the year-to-date average unemployment rate dropped to 4.2% in 2021. Leading employers in Anoka County remained stable, with several expanding in recent years, and include Anoka-Hennepin Independent School District No. 11 (7,310), Medtronic Corp. (medical device services, employs 4,064), Mercy and Unity Hospital (3,101), the county itself (2,327), and Target Corp. (including six stores and a distribution center, 1,486). Top 10 employers only accounted for 3.82% of total tax capacity, reflecting pretty diverse economy. We understand there is no material tax appeal 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 effective buying income, in particular--currently trail what we would typically associate with 'AAA' rated issuers, and we note what we still see as a significant gap between the county's economic metrics and those of 'AAA' rated counties in the Twin Cities metro area. 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.

Conservative budgeting practices and historically strong budgetary performance that translated into robust reserve and liquidity levels

We have adjusted fiscal 2020 (ended Dec. 31) results to include recurring transfers in and out in revenue and expenditures, and to exclude certain one-time revenues and expenses relating to the COVID pandemic. The county's general fund budget is funded primarily from property taxes (52% of general fund revenues), service charges (20%), and intergovernmental aid (18%, after adjusting $51.9 million of one-time funding), 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 county received approximately $44 million in CARES Act funds and $7.1 million in State Business Subsidy funds in fiscal 2020, all of which were used in the same fiscal year. The county received $34.5 million in American Rescue Plan Act (ARPA) funds in fiscal 2021 and expects to receive an additional $34.5 million in fiscal 2022. Official plans to deploy approximately one-third of those funds largely to support various eligible capital projects within next few years. The remaining funds are planned to be deployed over the next several years to aid in the recovery effort of the community within Anoka County related to the COVID-19 pandemic.

The fiscal 2021 budget was structured with incremental changes over the prior year and reflected essentially break-even performance. Management indicates that year-to-date performance and projections for the remainder of the year suggest operating surpluses in both the general fund and total governmental funds in line with fiscal 2019 levels. Given the strong economic growth the county has experienced recently and will likely continue to see, we expect operations will 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 or in any key expenditure categories.

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 $53 million at the end of fiscal 2020). Management expects the asset preservation fund balance to remain stable in fiscal 2021 but anticipates gradually drawing down from the fund for capital projects over the next four years. While we understand asset preservation fund balance could fluctuate over time, we recognize the consistent positive operations of the county could help replenish the fund after drawdown.

The county's general fund balance policy requires a minimum 35%-50% unassigned fund balance (excluding certain expenditure items), and it 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.

Anoka County had over $324 million in cash, cash equivalents, and pooled investments available for liquidity purposes as of fiscal year-end 2020, reflecting a $66 million increase from last year that was largely driven by about $51.9 million one-time CARES Act and state Business Subsidy funds. 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 to 2017), where remedies on default only 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, although it may weaken with the anticipated debt in the near term

After the issuance of the series 2022A crossover refunding bonds, the county's total outstanding debt will be around $74 million. We understand that the county is in the design phase of a new Jail, Emergency Communications Center (911), and Parking Structure. The county expects to issue about $95 million in new-money bonds in fall 2022 for the 911 center and the parking structure. Additional bonds are expected to be issued in 2024 for the jail in an amount yet to be determined. Approximately 30% of the ARPA funds are expected to be used to pay for a portion of the jail. We expect the debt and contingent liability profile will remain at least strong during the outlook period. We have factored the anticipated $95 million new-money debt into this analysis and believe the county has the capacity to absorb this additional debt at the current rating level given its current relatively low debt burden.

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 employers defined benefit pension plans 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 resulted in stronger funding levels. As of the 2020 valuations, GERF was 79.1% funded with the county's proportionate share of the net pension liability at $84.2 million; PEPFF 87.2% funded with a county proportionate share of $15.1 million; and PECF 96.7% funded with a county proportionate share of just under $1.6 million.

The county also supports retirees' health insurance premiums, and created an irrevocable trust in 2009 and deposited proceeds from OPEB bonds into that trust. As of Dec. 31, 2020, the plan was 57.9% funded and the net OPEB liability was $61.5 million.

In the most recent year, the largest pension plans by annual contribution (GERF and PEPFF) met our static funding metric, which means that employer and employee contributions were enough to match the present value of current year benefits and the interest on the net pension liability. However, both plans fell short of our minimum funding progress metric. The plans' level percentage of payroll amortization method also implies increasingly larger payments over time, which in combination with a statutory funding practice that has regularly produced contributions at the plan level that have fallen short of actuarial recommendations suggests a high likelihood of payment acceleration over time. In addition, the plans' investment rate of return assumptions (both 7.5% following the 2018 pension reform) are high and indicate an asset allocation that is more susceptible to market risk. In sum, we believe that plan funding practices along with actuarial assumptions and methods introduce risk of cost acceleration and funding volatility. We also recognize, however, that the county's contributions are relatively minor as a share of total spending, with combined pension and OPEB costs at 5.1% of governmental fund expenditures in 2020, and that the county has ample capacity to absorb higher costs should they materialize without adversely impacting operations.

Strong management with good financial policies and practices

Highlights of the county's institutionalized policies and practices 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 provide to the county board three times annually;
- A formal debt management policy that sets quantitative and qualitative restrictions around debt issuance and to which the county has historically adhered;
- 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; and
- The county has cyber security insurance coverage, and has not experienced any cyber attacks in the last few years.

Strong institutional framework

The institutional framework score for Minnesota counties is strong.

Anoka County, Minnesota--Key Credit Metrics				
	Most recent	**Historical information**		
		2020	**2019**	**2018**
Strong economy				
Projected per capita EBI % of U.S.	101			
Market value per capita ($)	118,867			
Population		358,904	356,540	349,494
County unemployment rate(%)		6.3	3.1	2.8
Market value ($000)	42,661,812	39,794,924	37,207,021	34,296,230
Ten largest taxpayers % of taxable value	3.7			
Strong budgetary performance				
Operating fund result % of expenditures		1.9	6.6	4.3
Total governmental fund result % of expenditures		5.7	5.0	7.6
Very strong budgetary flexibility				
Available reserves % of operating expenditures		74.2	61.2	50.8
Total available reserves ($000)		93,995	72,655	58,119
Very strong liquidity				
Total government cash % of governmental fund expenditures		93	74	77
Total government cash % of governmental fund debt service		1193	1259	815
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		7.8	5.9	9.4
Net direct debt % of governmental fund revenue	18			
Overall net debt % of market value	2.4			
Direct debt 10-year amortization (%)	92			
Required pension contribution % of governmental fund expenditures		3.2		
OPEB actual contribution % of governmental fund expenditures		1.9		
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 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2021 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of November 22, 2021)		
Anoka Cnty GO		
Long Term Rating	AA+/Stable	Affirmed

Ratings Detail (As Of November 22, 2021) (cont.)		
Anoka Cnty GO cap imp plan rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Anoka Cnty Hsg & Redev Auth hsg development rev rfdg bnds ser 2019A due 12/04/2036		
Long Term Rating	AA+/Stable	Affirmed
Anoka Cnty Regl Railroad Auth misc tax		
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