S&P Global
Ratings

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Summary:

Anoka County Housing & Redevelopment Authority, Minnesota; General Obligation

Primary Credit Analyst:
Scott Nees, Chicago (1) 312-233-7064; scott.nees@spglobal.com

Secondary Contact:
Jessica Akey, Chicago + 1 (312) 233 7068; jessica.akey@spglobal.com

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Summary:

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Credit Profile		
US$8.87 mil hsg development rev rfdg bnds ser 2019A due 12/04/2036		
Long Term Rating	AA+/Stable	New
Anoka Cnty Regl Railroad Auth misc tax		
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 (Anoka Cnty) GO		
Long Term Rating	AA+/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA+' rating to the Anoka County Housing & Redevelopment Authority (HRA), Minn.'s series 2019A housing development revenue refunding bonds, reflecting the county's general obligation (GO) pledge. At the same time, we affirmed our 'AA+' ratings on the county's existing GO debt and on debt issued by the Anoka County Regional Railroad Authority (RRA) and also supported by the county's GO pledge. The outlook is stable.

The series 2019A bonds are secured by net revenues from three housing facilities owned by the HRA. If housing revenues are insufficient, the bonds are further secured by the HRA's levy dollars and by the county's unlimited tax GO pledge, to which we rate the bonds. Officials will use proceeds to refund the HRA's outstanding 2009A and 2011A bonds for interest cost savings.

As part of the current rating action, we are affirming our rating on county RRA's series 2015A limited-tax GO bonds, which are secured by the RRA's GO pledge and an ad valorem tax limited to 0.04835% of estimated market value. Under our criteria "Issue Credit Ratings Linked To U.S. Public Finance Obligors' Creditworthiness" (published Jan. 22, 2018), we link the rating on the 2015A bonds to the county's general creditworthiness as reflected in its 'AA+' GO rating, in particular given the close operational relationship between the RRA and the county itself and common management of tax levies, debt issuance, and other financial matters.

Credit summary

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 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 in comparison to those of peers, characterized by low direct debt and manageable pension and other postemployment benefit (OPEB) exposure. Overall, we think that the county's credit fundamentals are likely to continue improving, 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. In the interim, we see little downside rating pressure at this time and will continue to closely monitor the county's economic performance in the coming few years.

The 'AA+' rating reflects our view of Anoka 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 2018;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2018 of 51% of operating expenditures;
- Very strong liquidity, with total government available cash at 76.6% of total governmental fund expenditures and 8.2x governmental debt service, and access to external liquidity that we consider strong;
- Very strong debt and contingent liability profile, with debt service carrying charges at 9.4% of expenditures and net direct debt that is 33.6% of total governmental fund revenue, as well as low overall net debt at less than 3.0% of market value and rapid amortization, with 83.6% 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 349,494, is in 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 106.5% of the national level and per capita market value of $106,460. Overall, market value grew by 8.5% over the past year to $37.2 billion in 2019. The county unemployment rate was 2.8% in 2018.

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.

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 and industrial development are running strong as well. We expect that economic market value--which has grown at a rate of 7.4% 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. Management is anticipating that next year's valuations will reflect increases that are similar to those seen in the previous few years (likely in the high single digits).

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 has indicated as well that 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--currently trail what we would typically associate with 'AAA' rated credits, and in particular 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 MSA. Ongoing growth in these key economic 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.

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 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; 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 seminannual property tax receipts.

Strong budgetary performance

Anoka County's budgetary performance is strong, in our opinion. The county had operating surpluses of 4.3% of expenditures in the general fund and 7.6% across all governmental funds in fiscal 2018. General fund operating results of the county have been stable over the last three years, with results of 2.4% in 2017 and 4.0% in 2016.

We have adjusted fiscal 2018 (ended Dec. 31) results to remove losses related to the net change in the fair value of investments 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 (52% of general fund revenues), service charges (22%), and intergovernmental aid (19%), 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 2019 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 an operating surplus in excess of 2018's surplus. Going into the 2020 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 experienced recently and will likely continue to see, 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 or in any key expenditure categories.

Very strong budgetary flexibility

Anoka County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2018 of 51% of operating expenditures, or $58.1 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years. The available fund balance includes $41.9 million (36.6% of expenditures) in the general fund and $16.2 million (14.2%) that is legally available to support operations and is in the county's asset preservation fund.

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 76.6% of total governmental fund expenditures and 8.2x governmental debt service in 2018. In our view, the county has strong access to external liquidity if necessary.

Anoka County had over $240 million in cash, cash equivalents, and pooled investments available for liquidity purposes as of fiscal year-end 2018. It 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

In our view, Anoka County's debt and contingent liability profile is very strong. Total governmental fund debt service is 9.4% of total governmental fund expenditures, and net direct debt is 33.6% of total governmental fund revenue. Overall net debt is low at 2.7% of market value, and approximately 83.6% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

In terms of nonroutine capital needs, we understand that the county is likely to finance upgrades to a park wave pool in the next year through a combination of asset preservation fund reserves and grant dollars. In addition, it is still 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 4.4% of total governmental fund expenditures in 2018. Of that amount, 3.2% represented required contributions to pension obligations, and 1.2% represented OPEB payments. The county made 100% of its annual required pension contribution in 2018.

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 pension plans with statutory contribution rates 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 2018 valuations, GERF was 79.5% funded with the county's proportionate share of the net pension liability at $78.3 million, PEPFF 88.8% funded with a county proportionate share of $11.5 million, and PECF 97.6% funded with a county proportionate share of just under $1 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, 2018, the plan was 71% funded and the net OPEB liability was $24.9 million.

In the most recent year, the largest pension plans by annual contribution (GERF and PEPFF) met our static funding metric--meaning that employer and employee contributions were enough to match the present value of current-year benefits and the interest on the net pension liability--but 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 4.4% of governmental fund expenditures in 2018--and that the county has ample capacity to absorb higher costs should they materialize without weakening operations.

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 southern part of the county in particular is experiencing strong growth as the MSA continues to develop outward, and we expect will continue to have strong growth prospects in the medium-to-long term, we note that its economic metrics are still well below those that we would typically associated with 'AAA' rated credits and will likely take several years to develop sufficiently to become comparable. As such, 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 those of '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
- Credit FAQ: Financial Management Assessment In U.S. Public Finance, June 27, 2006
- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of October 31, 2019)		
Anoka Cnty GO		
Long Term Rating	AA+/Stable	Affirmed
Anoka Cnty GO		
Long Term Rating	AA+/Stable	Affirmed
Anoka Cnty GO		
Long Term Rating	AA+/Stable	Affirmed
Anoka Cnty Hsg & Redev Auth, Minnesota		
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