

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the City of Ramsey, Minn.'s series 2020A \$9.065 million general obligation (GO) capital improvement plan bonds. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the city's existing GO bonds. The outlook is stable.

The city's GO unlimited property tax pledge secures the series 2020A bonds. Bond proceeds will be used to finance construction of a new public works facility.

Credit overview

The city has consistently reported positive operating results in recent years supported by a growing tax base and good management practices and policies. In our view, Ramsey's underlying economy lacks the depth of higher rated peers, but the city benefits from its proximity to the broad and diverse Minneapolis-St. Paul-Bloomington metropolitan statistical area (MSA). Management projects a positive operating result for fiscal 2020 and a breakeven budget for fiscal 2021. Ramsey's revenue composition relies predominantly property taxes, and so far has resulted in minimal budgetary pressures from the COVID-19 pandemic and recent recession. Offsetting these strengths is the city's weak debt profile. While our rating outlook horizon has traditionally spanned two years, our view of the credit risks to Ramsey is centered on the more immediate economic and budget effects over the next year because of the pandemic. For S&P Global Economics' latest economic forecast, see the report "The U.S. Economy Reboots, With Obstacles Ahead," published Sept. 24, 2020, on RatingsDirect.

The rating reflects our assessment of the following factors for the city:

- Very strong economy, with access to a broad and diverse MSA;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2019;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2019 of 69% of operating expenditures;
- Very strong liquidity, with total government available cash at 4.2x total governmental fund expenditures and 24.5x governmental debt service, and access to external liquidity we consider strong;
- Weak debt and contingent liability profile, with debt service carrying charges at 17.3% of expenditures and net direct debt that is 141.7% of total governmental fund revenue, but low overall net debt at less than 3.0% of market value; and
- Strong institutional framework score.

Environmental, social, and governance factors

The rating also incorporates our view of the health and safety risks posed by the COVID-19 pandemic, which we consider social risk factors. Although the scope of economic and financial challenges posed by the pandemic remains unknown, we believe a prolonged disruption could weaken the city's local economy. Absent the implications of the pandemic, we consider Ramsey's social risks to be in line with those of the sector. We also view the city's environmental and governance risks as being in line with our view of the sector.

Stable Outlook

Downside scenario

We could lower the rating if, due to budgetary imbalance or planned drawdowns, available reserves materially weaken.

Upside scenario

Although unlikely, in our opinion, a higher rating is possible with continued growth and diversification of the city's economy to levels commensurate with those of higher-rated peers, coupled with moderation to the city's debt profile.

Credit Opinion

Very strong economy

We consider Ramsey's economy very strong. The city, with an estimated population of 27,050, is located in Anoka County in the Minneapolis-St. Paul-Bloomington MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 112% of the national level and per capita market value of \$103,925. Overall, the city's market value grew by 7.4% over the past year to \$2.8 billion in 2019.

Ramsey is approximately 20 miles north of Minneapolis in Anoka County. City residents benefit from proximity to the Minneapolis-St. Paul-Bloomington MSA, as reflected in Ramsey's strong incomes and extremely strong market values. While most residents commute throughout the MSA for employment, several sizable employers are located within the city itself, including Life Fitness (460 employees), Vision-Ease Lens (300), and Connexus Energy Utility (250).

The city's tax base is predominantly residential (66%), followed by commercial/industrial (20%). Residential growth in Ramsey has been strong in recent years and has led to steady increases in market value. We expect this positive valuation trend to continue based on recent building permitting trends for new residential and industrial developments.

Management reports no major layoffs or closures among larger area employers as a result of the pandemic. However, social distancing and the effects of the pandemic and recent recession caused elevated rates of unemployment in 2020. Anoka County's unemployment rate peaked at 9.8% in May before falling to 5.7% in September.

Strong management

We view the city'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 of Ramsey's financial policies and practices include:

- Reference to four years of historical data, outside data sources, and line-item estimates during budget development;
- Monthly budget-to-actual reports to the council, with a budget that can be amended as necessary throughout the year;
- A five-year financial forecast, updated annually;
- A 10-year capital improvement plan, updated annually;
- A formal investment management policy, along with management reporting investment holdings to the council monthly;
- A formal debt management policy that we do not consider comprehensive; and
- A formal general fund reserve policy to maintain a minimum of 50% of expenditures, which the city has historically followed.

Adequate budgetary performance

Ramsey's budgetary performance is adequate in our opinion. The city had operating surpluses of 3.0% of expenditures in the general fund and of 13.0% across all governmental funds in fiscal 2019. General fund operating results of the city have been stable over the past three years, with a result of 4.7% in 2018 and a result of 3.6% in 2017.

Although budgetary performance has generated net positive results in the past three fiscal years, we believe the pressures resulting from the pandemic and recent recession could pose budgetary challenges in the near term. The budgetary performance score of adequate reflects our view of the budgetary uncertainty Ramsey has faced throughout the pandemic.

The fiscal 2020 budget shows a breakeven result, but management expects the city will report a surplus of approximately \$600,000 by fiscal year-end due to reimbursable pandemic-related expenses. Ramsey received a total of \$2.5 million of funding distributed under the Coronavirus Aid Relief and Economic

Security Act for extraordinary pandemic-related expenses in the current fiscal year. For fiscal 2021, management expects to budget for at least a breakeven general fund results, with a 4.3% levy increase.

The general fund's major revenue sources primarily include property taxes (81%), followed by licenses and permits (7%) and charges for services (6%). We expect local property tax bases to remain stable under recessionary pressures, which should help insulate the city from revenue volatility that other local governments that rely on nonproperty tax sources, such as sales and income taxes, might experience. Based on Ramsey's historically positive budgetary performance and expectations for positive results in fiscal 2020, we expect the city will maintain adequate-to-strong budgetary performance over upcoming years.

Very strong budgetary flexibility

Ramsey's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2019 of 69% of operating expenditures, or \$8.9 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. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 69% of expenditures in 2018 and 72% in 2017.

Based on the city's lack of plans to draw down reserves for any purpose, we expect budgetary flexibility to remain very strong.

Very strong liquidity

In our opinion, Ramsey's liquidity is very strong, with total government available cash at 4.2x total governmental fund expenditures and 24.5x governmental debt service in 2019. In our view, the city has strong access to external liquidity if necessary.

The city reported \$76.8 million of cash and investments available for liquidity in fiscal 2019, held primarily in certificates of deposit, municipal bonds, and U.S. agency securities, which we do not consider aggressive investments. The city has strong access to external liquidity, in our opinion, because of its history issuing GO debt over the last two decades. Ramsey has no exposure to direct-purchase debt, and we expect its liquidity to remain very strong.

Weak debt and contingent liability profile

In our view, Ramsey's debt and contingent liability profile is weak. Total governmental fund debt service is 17.3% of total governmental fund expenditures, and net direct debt is 141.7% of total governmental fund revenue. Overall net debt is low at 2.5% of market value, which is in our view a positive credit factor.

Our view of the city's debt profile weakened because its debt amortization fell below 65% maturing within the next 10 years, the level we consider rapid. Ramsey indicates it could issue up to \$3 million in GO debt to finance various capital improvements in upcoming years; however, we do not anticipate these new money debt plans will materially weaken our view of the city's debt profile given that Ramsey will amortize more existing debt than it plans to issue in the medium term.

Pension and other postemployment benefits

Ramsey's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 4.0% of total governmental fund expenditures in 2019. The city made its full annual required pension contribution in 2019.

- We do not believe that pension liabilities represent a medium-term credit pressure, as contributions are only a modest share of the budget, and we believe Ramsey has the capacity to absorb higher costs without pressuring operations.
- The city's two cost-sharing, multiple-employer pension plans have seen improvements in funded status in recent years, though plan statutory contributions have regularly fallen short of actuarial recommendations. Along with certain plan-specific actuarial assumptions and methods, this introduces some long-term risk of funding volatility and cost acceleration.
- Although the city funds its OPEB on a pay-as-you-go basis, exposing it to cost acceleration and volatility, we expect that medium-term costs will remain only a small share of total spending and therefore are not a significant budgetary pressure.

The city participates in the following defined-benefit plans:

- Minnesota General Employees Retirement Fund (GERF): 80.2% funded (as of June 30, 2019), with a city proportionate share of the plan's net pension liability of \$2.9 million.
- Minnesota Police and Fire Fund (PEPFF): 89.3% funded (June 30, 2019), with a proportionate share of \$2.5 million.
- A single-employer OPEB plan, limited to the implicit rate subsidy, which is funded on a pay-as-you-go basis with a net OPEB liability of \$699,000.

Total contributions to GERF and PEPFF were 89% and 94%, respectively, of our minimum funding progress metric and were slightly above static funding in both cases. Annual contributions are based on a statutory formula that has typically produced contributions lower than the actuarially determined contribution for each plan. In our view, this increases the risk of underfunding over time, if the state legislature does not make adjustments to offset future funding shortfalls. Other key risks include a 7.5% investment rate-of-return assumption (exceeding our 6.0% guideline) that indicates some exposure to cost acceleration as a result of market volatility, and an amortization method that significantly defers contributions through a lengthy, closed 30-year amortization period based on a level 3.25% payroll

growth assumption. Regardless, costs remain only a modest share of total spending, and we believe they are unlikely to pressure the city's medium-term operational health.

Strong institutional framework

The institutional framework score for Minnesota cities with a population greater than 2,500 is strong.