

RatingsDirect®

Summary:

Ramsey, Minnesota; General Obligation

Primary Credit Analyst:

Emma Drilias, Chicago (1) 312-233-7132; emma.drilias@spglobal.com

Secondary Contact:

David H Smith, Chicago + 1 (312) 233 7029; david.smith@spglobal.com

Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

Summary:

Ramsey, Minnesota; General Obligation

Credit Profile

US\$10.7 mil GO cap imp plan rfdg bnds ser 2021A dtd 10/19/2021 due 12/15/2031

<i>Long Term Rating</i>	AA+/Stable	New
Ramsey GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ramsey GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ramsey GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
Ramsey GO		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AA+' long-term rating to the City of Ramsey, Minn.'s \$10.7 million series 2021A general obligation (GO) capital improvement plan refunding 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 2021A bonds. Bond proceeds will current-refund the city's series 2012A GO capital improvement plan bonds for interest-cost savings.

Credit overview

The city has consistently reported positive operating results in recent years supported by a growing tax base and what we view as good financial management practices and policies. In our view, Ramsey's underlying economy lacks the depth of higher-rated peers, but the city benefits from its participation in the broad and diverse Minneapolis-St. Paul-Bloomington metropolitan statistical area (MSA). Ramsey reported a sizable operating surplus of \$1.2 million (8.3% of general fund expenditures) in fiscal 2020, bolstering the city's very strong reserves to 69% of expenditures, and projects a breakeven result for fiscal 2021. Offsetting these strengths is the city's weak debt profile, which we do not expect will improve based on Ramsey's plans to issue new debt over upcoming years.

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

- Developing and predominantly residential suburb located in the broad and diverse Minneapolis-St. Paul-Bloomington MSA;
- Good financial policies and practices and historically stable revenues support sizable operating surplus and higher reserves in fiscal 2020; and
- Weak debt and contingent liability profile, with an elevated debt service carrying charge and plans for future debt issuance.

Environmental, social, and governance (ESG) factors

We analyzed Ramsey's ESG risks relative to the city's economy, management, financial measures, and debt and liability profile and determined all are in line with our view of the sector standard.

Stable Outlook

Downside scenario

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

Upside scenario

A higher rating is possible with strengthening of multiple credit factors including moderation to the city's debt profile, higher incomes, and enhanced financial policies.

Credit Opinion

Growing residential tax base, with access to the Twin Cities MSA supports a strong economy

Ramsey is approximately 20 miles north of Minneapolis in Anoka County. City residents benefit from participation in the Minneapolis-St. Paul-Bloomington MSA, as reflected in Ramsey's good 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); Connexus Energy, a utility (250); and Hoya Optical Labs, an optical goods manufacturer (230).

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 significant business closures or layoffs resulting from the pandemic among large area employers. In 2020, the area unemployment rate averaged 6.3% throughout the year, just above the statewide rate of 6.2% and below the national rate of 8.1%. Over upcoming years, we expect the city's economy will remain stable given Ramsey's location in the growing Twin Cities region.

(For our latest U.S. economic forecast, see "Economic Outlook U.S. Q3 2021: Sun, Sun, Sun, Here It Comes," published June 24, 2021, on RatingsDirect.)

Strong management, with detailed long-term planning for operations and capital improvements

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, albeit limited debt management policy; and
- A formal general fund reserve policy to maintain a minimum of 50% of expenditures, which the city has historically followed.

We also note the city has implemented policies and practices to help mitigate its exposure to cybersecurity risks, including contracting with a regional service provider for cybersecurity.

Sizable operating surplus, with federal stimulus funds, supports maintenance of very strong budgetary flexibility and liquidity

For fiscal 2021, Ramsey budgeted for a breakeven result in the general fund, which management indicates the city is on track to achieve by fiscal year-end. The city will receive up to \$3 million under the American Rescue Plan Act, which will likely be used toward capital improvements and equipment purchases over upcoming years.

In fiscal 2020, the city reported a sizable \$1.2 million (8.3%) general fund surplus, representing positive variance compared with its breakeven budget. Ramsey received a total of \$2.0 million of funding distributed under the federal CARES Act for extraordinary pandemic-related expenses, which contributed to the positive result. The city's primary fiscal 2020 general fund revenues were stable throughout pandemic-induced recessionary pressures and consisted of property taxes (70%), intergovernmental sources (17.7%), and licenses and permits (5.6%). Based on Ramsey's historically positive budgetary performance and expectations for at least a breakeven result in fiscal 2021, we expect the city will likely maintain strong budgetary performance.

At fiscal 2020 year-end, the city reported total available cash and investments available for liquidity of \$79.3 million (320% of total governmental expenditures) and a general fund reserve of \$10 million (69% of general fund expenditures). Management expects to maintain compliance with the city's formal general fund reserve policy of 50% and we anticipate that reserves will likely remain stable given the city's lack of plans to drawdown. Ramsey does not have any potential contingent liabilities and has no exposure to direct-purchase debt that could weaken its cash position. Given Ramsey's recent positive budgetary performance and balanced budget projections, we believe budgetary flexibility and liquidity will remain very strong.

Weak debt and contingent liability profile with plans for new debt issuance

Management indicates the city could issue up to \$3.5 million in debt to finance capital equipment purchases over upcoming years. Based on these plans, we expect Ramsey's debt service carrying charge will remain elevated and that the city's overall debt and contingent liability profile will remain weak.

Moderate pension and OPEB exposure, with medium term costs that are unlikely to accelerate

We do not believe that pensions represent a significant credit pressure for Ramsey, as the cost-sharing, multiple-employer, defined-benefit plans in which the city participates are currently well-funded and costs are modest as a share of total spending. 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 not a significant budgetary pressure.

The city participates in the following plans:

- Minnesota General Employees Retirement Fund (GERF): 79.1% funded (as of June 30, 2020), with an estimated city proportionate share of the plan's net pension liability of \$3.4 million.
- Minnesota Public Employees Police and Fire Fund (PEPFF): 87.2% funded (as of June 30, 2020), with an estimated city proportionate share of the plan's net pension liability of \$3.2 million.
- An implicit rate subsidy arising from retirees staying on the city's plan while paying active premium rates: 0% funded, with a liability of \$462,000 (as of Dec. 31, 2019).

Combined costs for pension and OPEBs came to 3.2% of adjusted governmental fund expenditures in fiscal 2020. Plan-level contributions to GERF and PEPFF were, respectively, 85% and 96% of our minimum funding progress metric in 2020 and both were above static funding. Annual contributions are based on a statutory formula that has typically produced contributions less than the actuarially determined contribution, which we think increases risk of underfunding over time if future funding shortfalls are not met with offsetting adjustments by the state legislature. Other key risks include a 7.5% investment rate of return assumption that indicates exposure to funding volatility due to market risk, and an amortization method that significantly defers contributions into the future through a lengthy, closed amortization period based on a level 3.25% payroll growth assumption. Although we see some risk of funding volatility and cost deferrals resulting in increasing cost pressures in the future, we also recognize that Ramsey's annual contributions represent only a modest share of the city's budget, and we think it could absorb costs increases should they materialize with some balance of modest spending offsets or levy increases.

Strong institutional framework

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

Ramsey, Minn. -- Key Credit Metrics				
	Most recent	Historical information		
		2020	2019	2018
Strong economy				
Projected per capita EBI % of U.S.	103.0			
Market value per capita (\$)	120,962			
Population (no.)	27,154	27,050	26,470	
County unemployment rate (%)	6.3			
Market value (\$000)	3,284,612	3,022,065	2,811,159	
Top 10 taxpayers % of taxable value	11.8			
Strong budgetary performance				
Operating fund result % of expenditures	8.3	3.0	4.7	
Total governmental fund result % of expenditures	-1.0	13.0	13.8	
Very strong budgetary flexibility				
Available reserves % of operating expenditures	69.0	69.1	69.3	
Total available reserves (\$000)	10,073	8,857	8,469	
Very strong liquidity				
Total government cash % of governmental fund expenditures	320.1	422.6	353.0	

Ramsey, Minn. -- Key Credit Metrics (cont.)

	Most recent	Historical information		
		2020	2019	2018
Total government cash % of governmental fund debt service		1611.6	2449.9	2136.8
Strong management				
Financial Management Assessment	Good			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		19.9	17.3	16.5
Net direct debt % of governmental fund revenue	119.1			
Overall net debt % of market value	2.1			
Direct debt 10-year amortization (%)	60.7			
Required pension contribution % of governmental fund expenditures		3.2		
OPEB actual contribution % of governmental fund expenditures		0.0		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- 2020 Update Of Institutional Framework For U.S. Local Governments

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.

Copyright © 2021 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.