

CREDIT OPINION

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Washington County, MN

Update to credit analysis

Summary

[Washington County, MN](#) (Aaa) benefits from a large and diverse economic base in the Twin Cities metro area and robust financial reserves. Leverage is moderate and slightly below peer medians.

Credit strengths

- » Substantial economic base in the Twin Cities metro area
- » Strong financial position

Credit challenges

- » Moderate leverage

Rating outlook

Moody's does not assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

- » N/A

Factors that could lead to a downgrade

- » Cash position approaching 50% of revenue
- » Leverage notably above peer medians or fixed costs approaching 15%

Key indicators

Exhibit 1

Washington (County of) MN

| | 2019 | 2020 | 2021 | 2022 | Aaa Medians |
|---|--------------|--------------|--------------|--------------|--------------|
| Economy | | | | | |
| Resident income ratio (%) | 149.6% | 146.5% | 143.1% | 143.3% | 121.7% |
| Full Value (\$000) | \$35,065,873 | \$37,521,947 | \$39,853,308 | \$44,748,337 | \$57,894,231 |
| Population | 255,938 | 259,072 | 264,818 | 268,651 | 413,574 |
| Full value per capita (\$) | \$137,009 | \$144,832 | \$150,493 | \$166,567 | N/A |
| Annual Growth in Real GDP | 1.5% | -3.1% | 4.8% | 1.4% | 5.5% |
| Financial Performance | | | | | |
| Revenue (\$000) | \$302,128 | \$317,758 | \$307,558 | \$288,378 | \$521,116 |
| Available fund balance (\$000) | \$98,456 | \$115,330 | \$119,253 | \$144,133 | \$214,469 |
| Net unrestricted cash (\$000) | \$266,536 | \$285,852 | \$318,606 | \$334,307 | \$373,309 |
| Available fund balance ratio (%) | 32.6% | 36.3% | 38.8% | 50.0% | 43.4% |
| Liquidity ratio (%) | 88.2% | 90.0% | 103.6% | 115.9% | 74.3% |
| Leverage | | | | | |
| Debt (\$000) | \$137,619 | \$133,134 | \$121,125 | \$115,453 | \$381,517 |
| Adjusted net pension liabilities (\$000) | \$311,048 | \$404,009 | \$357,962 | \$267,553 | \$594,658 |
| Adjusted net OPEB liabilities (\$000) | \$121,233 | \$140,631 | \$158,105 | \$112,221 | \$80,385 |
| Other long-term liabilities (\$000) | \$9,537 | \$11,641 | \$11,532 | \$10,779 | \$27,745 |
| Long-term liabilities ratio (%) | 191.8% | 217.0% | 210.9% | 175.5% | 201.7% |
| Fixed costs | | | | | |
| Implied debt service (\$000) | \$8,636 | \$10,034 | \$9,534 | \$8,496 | \$28,447 |
| Pension tread water contribution (\$000) | \$6,957 | \$7,268 | \$8,132 | \$7,490 | \$15,447 |
| OPEB contributions (\$000) | \$4,872 | \$5,271 | \$5,277 | \$4,941 | \$3,063 |
| Implied cost of other long-term liabilities (\$000) | \$732 | \$695 | \$834 | \$809 | \$1,999 |
| Fixed-costs ratio (%) | 7.0% | 7.3% | 7.7% | 7.5% | 8.9% |

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area Metropolitan Statistical Area.

Sources: US Census Bureau, Washington (County of) MN's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

Washington County is located in the eastern portion of the Twin Cities metropolitan area encompassing more than 420 square miles. The county covers all or a portion of 27 cities and six towns and provides health, culture, recreation, public safety, highway and streets, and other general government services to more than 250,000 residents.

Detailed credit considerations

Washington County will continue to benefit from its growing economic base in the Twin Cities metropolitan area, with resident incomes notably above the national median. The region grew at a faster rate than the nation in 2021 and 2022 and unemployment in the county is consistently lower than the state and nation. Reserves have grown in recent years, driven by federal stimulus funds and investment returns. The county closed fiscal 2022 with a very strong 116% of revenue in cash reserves. Available fund balance was notably lower at 50%, reflecting funds categorized as restricted, but available for general government purposes, including a sizeable, revocable OPEB trust that the county can utilize for general operations. The county increased its local sales tax to 0.5% from 0.25% in 2021, and the proceeds go toward transit projects and other capital needs.

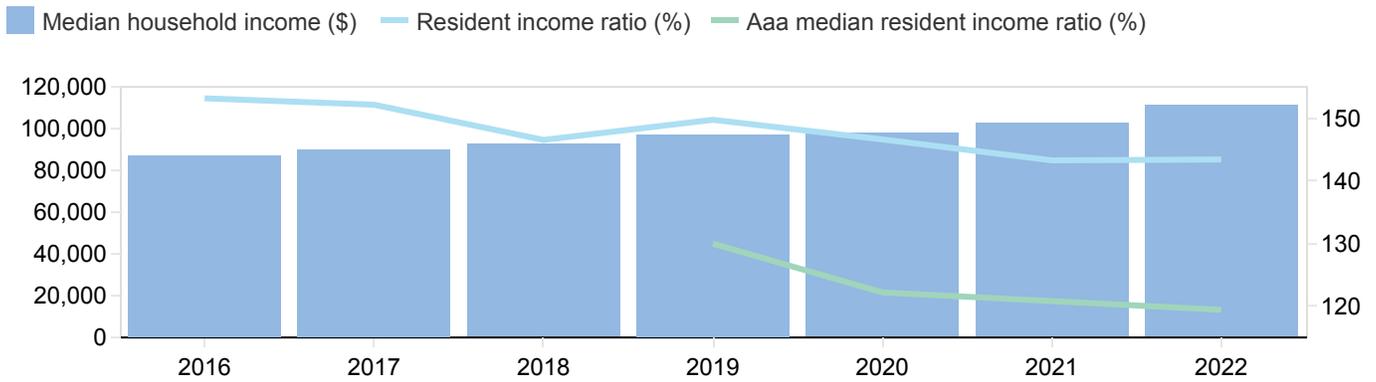
Given ongoing development, a diverse revenue base, and conservative budgeting, the county's financial position will remain very strong. Unaudited results for fiscal 2023 show a \$28 million general fund increase and no material changes to other fund balances. Fiscal 2024 is balanced, but will likely result in another surplus, given favorable year to date results. Fiscal 2025 includes a roughly \$8 million increase to employee compensation, expected to be offset by a significant decrease in health care costs, intergovernmental revenue, and an increase in the property tax levy. The county will likely begin to spend down some of the growth in reserves over

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the medium term as it cash finances some capital projects. Despite planned uses of reserves in the coming years, we expect reserves to stay at or above historical levels. The county has some pending litigation, and while up to \$2 million in settlements is covered by insurance, any sum above \$2 million would need to come out of reserves. We expect any impact to the financial position to be manageable. The county is currently issuing about \$26 million for its capital improvement plan. Post-sale, we expect leverage to be closer to 180% of 2022 revenue, still slightly below peer medians. The county has about \$58 million in remaining obligation for its Gold Line development, a joint transit project with Ramsey County, and may issue up to \$10 million in debt for the project in calendar 2024. Otherwise, management does not expect additional debt until fiscal 2027, aligning with the county's 3-4 year cycle of bonding for the capital improvement plan.

Economy

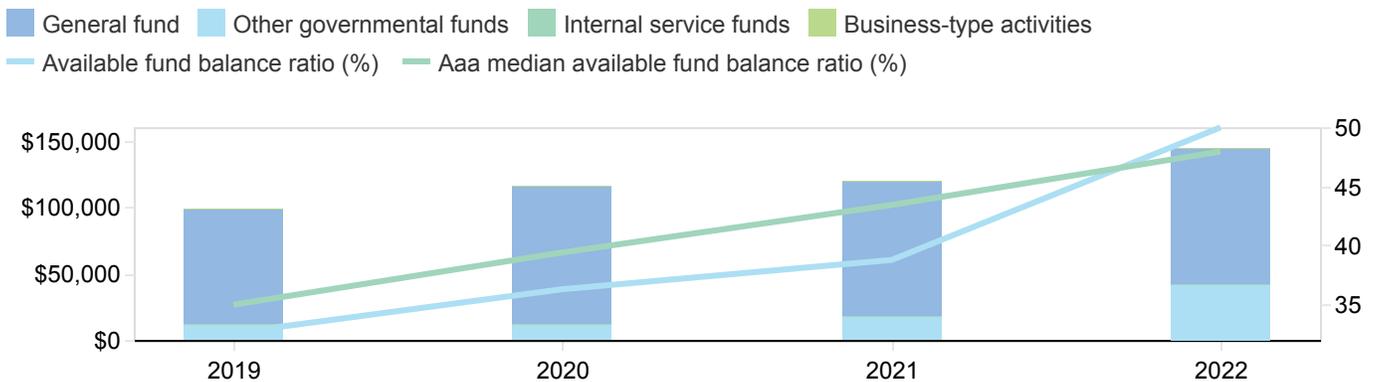
Exhibit 2
Resident Income



Source: Moody's Ratings

Financial operations

Exhibit 3
Fund Balance



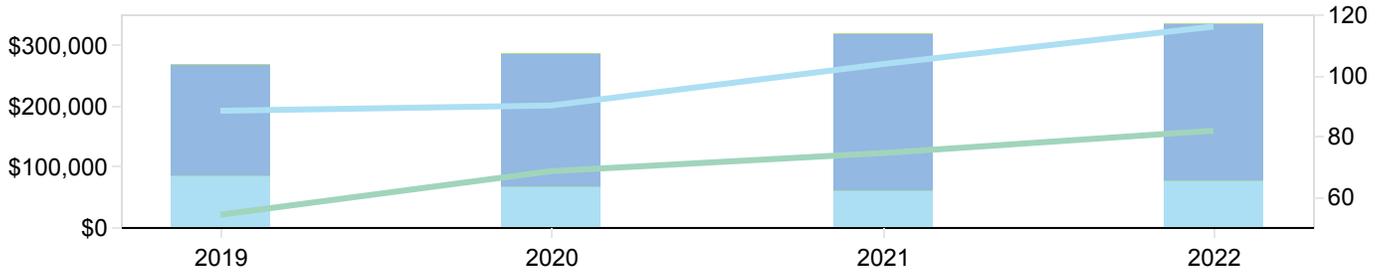
Source: Moody's Ratings

Liquidity

Exhibit 4

Cash

■ General fund
 ■ Other governmental funds
 ■ Internal service funds
 ■ Business-type activities
 — Liquidity ratio (%)
 — Aaa median liquidity ratio (%)



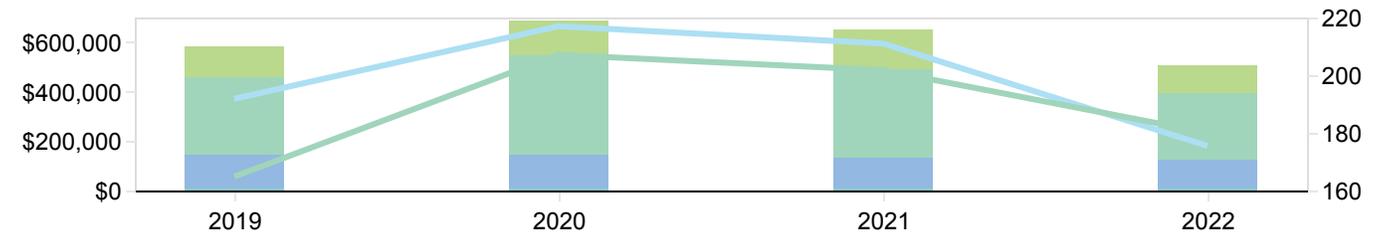
Source: Moody's Ratings

Leverage

Exhibit 5

Total Primary Government - Long Term Liabilities

■ Governmental Debt
 ■ Business-Type Activity Debt
 ■ Adjusted net pension liabilities
 ■ Adjusted net other post-employment liabilities
 ■ Other long-term liabilities
 — Long-term liabilities ratio (%)
 — Aaa median long-term liabilities ratio (%)



Source: Moody's Ratings

ESG considerations

Washington (County of) MN's ESG credit impact score is CIS-2

Exhibit 6

ESG credit impact score



Source: Moody's Ratings

Washington County's overall ESG Credit Impact Score is neutral to low (**CIS-2**), reflecting neutral to low exposure to environmental, social, and governance risks.

Exhibit 7

ESG issuer profile scores



Source: Moody's Ratings

Environmental

Washington County's E issuer profile score is neutral to low (**E-2**), reflecting relatively low exposure to environmental risks across all categories, including physical climate risk, carbon transition, natural resources management, waste and pollution.

Social

Washington County's S issuer profile score is neutral to low (**S-2**), reflecting relatively neutral to low exposure to social risks. The county has strong population growth, low poverty and solid labor force participation.

Governance

Washington County's G issuer profile score is neutral to low (**G-2**), reflecting strengths in the institutional structure. The score also considers the county's solid policy credibility, transparency, and management and budgeting practices.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 8

Washington (County of) MN

| | Measure | Weight | Score |
|--------------------------------|---------|--------|------------|
| Economy | | | |
| Resident income ratio | 143.3% | 10.0% | Aaa |
| Full value per capita | 191,703 | 10.0% | Aaa |
| Economic growth metric | -0.7% | 10.0% | Aa |
| Financial Performance | | | |
| Available fund balance ratio | 50.0% | 20.0% | Aaa |
| Liquidity ratio | 115.9% | 10.0% | Aaa |
| Institutional Framework | | | |
| Institutional Framework | Aa | 10.0% | Aa |
| Leverage | | | |
| Long-term liabilities ratio | 175.5% | 20.0% | Aa |
| Fixed-costs ratio | 7.5% | 10.0% | Aaa |
| Notching factors | | | |
| No notchings applied | | | |
| Scorecard-Indicated Outcome | | | Aa1 |
| Assigned Rating | | | Aaa |

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Minneapolis-St. Paul-Bloomington, MN-WI Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Washington (County of) MN's financial statements and Moody's Ratings

Appendix

Exhibit 9

Key Indicators Glossary

| | Definition | Typical Source* |
|---|---|---|
| Economy | | |
| Resident income ratio | Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI | MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis |
| Full value | Estimated market value of taxable property in the city or county | State repositories; audited financial statements; continuing disclosures |
| Population | Population of the city or county | US Census Bureau - American Community Survey 5-Year Estimates |
| Full value per capita | Full value / population | |
| Economic growth metric | Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US | Real GDP: US Bureau of Economic Analysis |
| Financial performance | | |
| Revenue | Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions | Audited financial statements |
| Available fund balance | Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds | Audited financial statements |
| Net unrestricted cash | Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt | Audited financial statements |
| Available fund balance ratio | Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue | |
| Liquidity ratio | Net unrestricted cash / Revenue | |
| Leverage | | |
| Debt | Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements | Audited financial statements; official statements |
| Adjusted net pension liabilities (ANPL) | Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits | Audited financial statements; Moody's Investors Service |
| Adjusted net OPEB liabilities (ANOL) | Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits | Audited financial statements; Moody's Investors Service |
| Other long-term liabilities (OLTL) | Miscellaneous long-term liabilities reported under the governmental and business-type activities entries | Audited financial statements |
| Long-term liabilities ratio | Debt + ANPL + ANOL + OLTL / Revenue | |
| Fixed costs | | |
| Implied debt service | Annual cost to amortize city or county's long-term debt over 20 years with level payments | Audited financial statements; official statements; Moody's Investors Service |
| Pension tread water contribution | Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met | Audited financial statements; Moody's Investors Service |
| OPEB contribution | City or county's actual contribution in a given period | Audited financial statements |
| Implied cost of OLTL | Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments | Audited financial statements; Moody's Investors Service |
| Fixed-costs ratio | Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue | |

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US Cities and Counties Methodology](#).

Source: Moody's Ratings

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