

RatingsDirect®

Summary:

Washington County, Minnesota; General Obligation

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Credit Profile

US\$26.09 mil GO cap imp plan bnds ser 2024A due 02/01/2044

Long Term Rating AAA/Stable New

Washington Cnty GO

Long Term Rating AAA/Stable Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' rating to Washington County, Minn.'s roughly \$26.09 million series 2024A general obligation (GO) capital-improvement-plan bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the county's existing GO debt.
- S&P Global Ratings also affirmed its 'AAA' rating on Washington County Housing & Redevelopment Authority, Minn.'s series 2012 GO debt, issued for the county.
- The outlook is stable.

Security

The county's full-faith-and-credit GO pledge and power to levy direct general ad valorem taxes on all taxable property within its borders secure the series 2004A GO bonds and existing GO debt.

For the series 2012 bonds, the authority has also pledged project revenue, mainly housing revenue, and the county's unlimited-tax GO pledge. The rating reflects the county's unlimited-tax GO pledge, which we view as the stronger pledge. We understand officials are using series 2012 bond proceeds to finance various capital-improvement projects in the county's capital plan and fund the acquisition and improvement of land as part of the county's land-and-water legacy program.

Officials intend to use series 2024A bond proceeds to finance capital-improvement projects identified in the long-term capital plan.

Credit overview

Washington County's credit strengths are notable across all factors, particularly its expanding economy with robust market value growth and very strong fund balance, which is nominally large at more than \$102 million as of fiscal 2022. Very low debt is significant, in our opinion, due to capital demands to accommodate a growing economy. We expect the county will likely preserve its history of stable operations due to strategic planning. We understand the county is using about \$51 million of its \$65.47 million American Rescue Plan Act of 2021 (ARPA) total allocation as lost revenue, captured as unearned revenue in the balance sheet; therefore, it does not inflate operating results. We think ARPA funds should provide additional budgetary flexibility.

The rating reflects our view of the county's:

- Expanding economy with robust market value growth recently, which we expect will likely continue due to the availability of developable land and overall economic stability, supported by multiple health-care, government, and education institutions;
- Strong finances with operational balance we expect it will likely sustain during the two-year outlook due to strong state revenue and predictable local property tax revenue;
- Very strong management with strong financial-management policies, practices under our Financial Management Assessment (FMA) methodology, with a history of well-managed budgets and robust long-term planning, and strong Institutional Framework score; and
- Low fixed costs and debt that we expect will likely remain low even with near-term additional debt plans.

Environmental, social, and governance

We view the county's 10.9% population growth during the past 10 years as a social capital opportunity because it provides underlying economic strength to generate residential and commercial development, as well as employment opportunities compared with other areas of the nation experiencing population stagnation or loss. In addition, an improved economy can help support revenue growth to offset increasing service-and-infrastructure demands.

While the county is along the St. Croix and Mississippi rivers, it does not currently have any recent history of significant flooding or other extreme weather that could greatly affect finances or the economy.

We view the county's environmental and governance factors as neutral in our credit analysis. We note the county's cybersecurity programs and practices align with what we typically observe among its peers.

Outlook

The stable outlook reflects S&P Global Ratings' view of the county's proactive management, which we think will likely continue to support stable finances with very strong reserves. We think the very strong and growing economy provides additional stability.

Downside scenario

While not expected during our two-year outlook, we could lower the rating if the county were to experience significantly lower revenue performance, materially lower reserves, and economic slowdown leading to decreasing economic metrics.

Credit Opinion

A very strong economy with strong market value growth; additional commercial, residential development underway

The approximately 424-square-mile county is in the eastern Minneapolis-St. Paul metropolitan statistical area on the Minnesota-Wisconsin border, encompassing all or a portion of 27 cities and six towns. The primarily residential county's residents benefit from employment opportunities in the county and the broader Twin Cities metro area.

Cottage Grove and Woodbury, in particular, have experienced significant residential and commercial development recently.

With the addition of residential and commercial development during the past few years, market value grew by 15.1% in fiscal 2023. We understand about 50% of county land is undeveloped, providing additional opportunities for future property tax base growth. We expect residential and commercial development will likely continue, but we think tax base growth could slow as interest rates remain higher for longer. (For more information on our U.S. economic outlook for the second-quarter of 2024, see "Economic Outlook U.S. Q2 2024: Heading For An Encore," published March 26, 2024, on RatingsDirect.)

Strong financial policies and practices, guided by robust long-term planning

Highlights include management's:

- budgeting that uses a line-by-line approach and relies on, at least, three years' historical information, coupled with its use of internal projections, state and federal estimates, demographic trends, projected economic conditions, and legislative requirements;
- Ability to amend the budget, if needed, and quarterly budget-to-actual reports to the county board;
- Maintenance of a five-year, long-term financial plan it updates annually and presents to the board;
- Rolling five-year, long-term capital plan with identified sources and uses that it updates annually and shares with the board;
- Investment policy that details holdings and investment performance that it provides to the investment committee quarterly and the board annually;
- Detailed debt-management policy that includes maintaining certain thresholds when issuing debt; and
- Official reserve policy that calls for maintaining a target range between 20% and 50% of subsequent-year budgeted annual total general fund expenditures, as well as various reserve goals for other funds and replenishment provisions.

The Institutional Framework score for Minnesota counties is strong.

Stable operating performance with high reserves from tax base growth

The county's proactive management handles the budget. We note that a mark-to-market auditing adjustment to county investments, reflecting about \$20 million of unrealized investment loss, was the major factor of the fiscal year-end Dec. 31, 2022, operating deficit and that the county had planned to use some fund balance. Management's fiscal 2023 estimates show surplus operating results of about \$28 million, or 12.5% of expenditures, due primarily to unrealized investment gains and onetime state aid revenue of \$3.3 million for public safety.

Officials operationally balanced the fiscal 2024 budget, including a modest levy increase of 3.95% compared with fiscal 2023, coupled with additional state aid. We note the county settled its collective-bargaining agreements through December 2025.

The county could experience pressure from overall increasing costs due to inflation. We think the county's sophisticated and experienced management team will likely handle this pressure and maintain reserves within the

fund-balance policy.

As of fiscal 2022, the county held \$251.5 million in cash. While it privately placed series 2022A GO bonds, we do not consider these a contingent-liability or liquidity risk because there are no unusual terms or acceleration clauses.

Strong debt profile, even with additional debt plans

We think long-term planning has allowed the county to maintain a very strong debt profile. The county may issue up to \$10 million of additional GO and sales tax debt for the bus rapid-transit Metro Gold Line project later in 2024 and \$27 million of additional GO debt in 2027 to fund capital projects. Even with these issuances, we expect the debt profile will likely remain very strong because the county is set to amortize more debt than it plans to issue.

Participation in three defined-benefit pension plans with costs we expect will likely remain modest

We do not think pension and OPEB are a pressure for the county because low contributions are relative to the budget. However, pension contributions were below our minimum-funding-progress metric in 2023. We do not expect current fixed-rate contributions to reduce unfunded liabilities materially during the next few years. The county has a net OPEB liability of about \$126 million as of 2021 and an established OPEB trust that held \$83.9 million as of fiscal 2022. (For more information, see "Pension Spotlight: Minnesota," published Aug. 10, 2023.)

As of June 30, 2023, the county participates in these cost-sharing, multiple-employer, defined-benefit plans:

- Minnesota General Employees' Retirement Fund, which is 83.1% funded, using a 7.5% assumed rate of return, with a proportionate share of the plan's net pension liability at \$58 million;
- Minnesota Police & Fire Fund, which is 86.5% funded, using a 7.5% assumed rate of return, with a proportionate share of the plan's net pension liability at \$17 million; and
- Minnesota Public Employees' Corrections Plan, which is 95.9% funded, using a 7.5% assumed rate of return, with a proportionate share of the plan's net pension liability at \$1.2 million.

Rating above the sovereign

The county's bonds are eligible to be rated above the sovereign because we think the county can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, we consider state and local governments to have moderate sensitivity to country risk. The county's local property tax revenue is the bonds' primary security, which significantly limits the possibility of negative sovereign intervention in debt payment or operations. The institutional framework in the nation is predictable for local governments, allowing them significant autonomy and independent treasury management; there has been no history of negative federal government intervention in local finances.

Washington County, Minnesota--key credit metrics

	Most recent	--Historical information--		
		2022	2021	2020
Very strong economy				
Projected per capita effective buying income (EBI) (% of U.S.	137.7			
Market value per capita (\$)	190,068			

Washington County, Minnesota--key credit metrics (cont.)

	Most recent	--Historical information--		
		2022	2021	2020
Population		270,962	266,771	263,318
County unemployment rate(%)		2.3		
Market value (\$000)	51,501,160	44,748,337	39,853,308	
10 leading taxpayers as a % of taxable value	3.5			
Adequate budgetary performance				
Operating fund result as a % of expenditures		(12.1)	6.4	17.6
Total governmental fund result as a % of expenditures		(5.4)	2.9	6.1
Very strong budgetary flexibility				
Available reserves as a % of operating expenditures		45.1	46.4	48.9
Total available reserves (\$000)		102,221	101,736	103,413
Very strong liquidity				
Total government cash % of governmental fund expenditures		82.5	73.0	68.3
Total government cash % of governmental fund debt service		1,480.9	1,603.6	1,096.0
Very strong management				
Financial Management Assessment	Strong			
Very strong debt and long-term liabilities				
Debt service as a % of governmental fund expenditures		5.6	4.6	6.2
Net direct debt as a % of governmental fund revenue	33.7			
Overall net debt as a % of market value	2.4			
Direct debt 10-year amortization (%)	65.8			
Required pension contribution as a % of governmental fund expenditures		0.2		
Other postemployment benefits actual contribution as a % of governmental fund expenditures		0		
Strong Institutional Framework				

Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 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
- 2023 Update Of Institutional Framework For U.S. Local Governments, Nov. 28, 2023
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of June 5, 2024)

Washington County Housing & Redevelopment Authority, Minnesota

Washington County, Minnesota

Washington Cnty Hsg & Redev Auth (Washington Cnty) govtl hsg RRB (Washington Cnty GO-Woodland Pk, Brick Pd Apt Proj) ser 2012C dtd 10/23/2012 due 02/0

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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Washington Cnty Hsg & Redev Auth (Washington Cnty) GO

<i>Long Term Rating</i>	AAA/Stable	Affirmed
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