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INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Washington County, MN's $5M GO Bonds, Ser. 2015A

Global Credit Research - 02 Jul 2015

Aaa applies to $170.8M outstanding GO debt; Outlook stable

WASHINGTON (COUNTY OF) MN
Counties
MN

Moody's Rating

ISSUE		RATING
General Obligation Bonds (Land and Water Legacy), Series 2015A		Aaa
Sale Amount	$5,000,000	
Expected Sale Date	07/16/15	
Rating Description	General Obligation	

Moody's Outlook STA

NEW YORK, July 02, 2015 --Moody's Investors Service has assigned a Aaa rating to the Washington County, MN's $5 million General Obligation Bonds (Land and Water Legacy), Series 2015A. Moody's maintains the Aaa rating on the county's outstanding GO debt. Following the current offering, the county will have approximately $170.8 million in GO debt outstanding, post-sale. The outlook remains stable.

SUMMARY RATING RATIONALE

The Aaa rating reflects the county's substantial tax base favorably located in the Twin Cities metropolitan area, sound financial operations that are supported by growing reserves, and slightly above average debt burden with modest future borrowing plans.

OUTLOOK

The stable outlook reflects our expectation that the county's economic and financial performance will remain strong and the debt burden manageable.

WHAT COULD MAKE THE RATING GO DOWN

-Weakening of tax base valuation or unemployment levels

- Material declines in reserves and liquidity

STRENGTHS

- Favorably located in the Twin Cities metropolitan area

- Strong financial operations with ample reserves and conservative budgeting practices

CHALLENGES

- Slightly above average debt burden and slow principal amortization

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: SUBSTANTIAL TAXBASE FAVORABLY LOCATED IN TWIN CITIES METROPOLITAN AREA

We expect the county's tax base to remain relatively stable due to the county's relatively diverse mix of industries and availability of land for future development, as approximately half of the land in the county is currently undeveloped. Washington County is located just east of the Twin Cities of Minneapolis (Aa1 stable) and St. Paul (Aa1 stable). The county's sizeable $27.8 billion tax base grew at a rapid pace through 2006 due largely to new residential and commercial development in the cities of Cottage Grove (Aa1) and Woodbury (Aaa). The county's tax base experienced declines between 2009 and 2012. Since 2012, growth has resumed, and most recently in 2014, the county's full economic market value grew by 4.2%.

The city of Cottage Grove is home to 3M Company's (Aa3 negative) Chemolite facility and Imation Corporation is located in the city of Oakdale (Aa2). Both companies are among the ten largest taxpayers in the county. The county's largest employer is Andersen with 5,700 employees and Independent School District 833 with 3,100 employees. In addition, residents benefit from access to various employment centers within the greater metro region. As the county experienced rapid tax base growth, population grew rapidly as well and the county's 2010 census population of 238,136 is more than double that of 1980. At 3.7% in March 2015, the county's unemployment rate is lower than the state (4.5%) and the nation (5.6%) for the same time period. Resident income indices for the county exceed national medians with median family income at 144.4% of the nation.

FINANCIAL OPERATIONS AND RESERVES: WELL-MANAGED FINANCIAL OPERATIONS EXPECTED TO CONTINUE SUPPORTED BY GROWING RESERVES

The county's financial profile will likely remain sound due to conservative budgeting practices and a history of operating surpluses that has led to the presence of ample reserves. The county has had over 11 consecutive fiscal years of annual General Fund operating surpluses. The county's General Fund policy calls for maintaining between 20% and 50% of the current year's budgeted operating expenditures in available fund balance, a level the county currently exceeds. In fiscal 2013, the county's General Fund reserve totaled $127.6 million, or a very healthy 81.8% of General Fund revenues. While county officials originally budgeted for a $4 million operating surplus, audited results reflect a more substantial $13.1 million operating surplus. The favorable variance was driven by conservative budgeting and personnel-related expenditures coming in well below budget. The surplus increased General Fund reserves to $140.8 million, or 87.8% of revenues. The county has designated portions of the reserve for specific purposes, including an Other Post-Employment Benefits (OPEB) trust and for compensated absences. The available fund balance totaled $57.2 million, or 35.6% of revenues. Based on year to date projections, the county expects to conclude fiscal 2015 with balanced operations or a modest operating surplus. Unlike some Minnesota counties, Washington County does not own or operate a nursing home.

Property taxes are the General Fund's largest operating revenues source (50%) followed by intergovernmental revenues (29%). Minnesota counties are not subject to levy limits, offering revenue raising flexibility. Like other Minnesota counties, Washington County has experienced reduction in state aid for the fiscal years prior to 2013. Notably, CPA increased by nearly $2 million in fiscal 2014.

Liquidity

The county's liquidity position is very strong with a General Fund cash position of $144.9 million, or a healthy 90.3% of revenues at the close of fiscal 2014.

DEBT AND PENSIONS: MANAGEABLE DEBT BURDEN WITH LIMITED FUTURE BORROWING PLANS

The county's debt burden is expected to remain affordable given moderate future borrowing plans and sizeable and growing tax base. At 0.6%, the county's direct debt burden is slightly above medians for Minnesota counties, but still well within the medians for the rating category. Debt service expenditures comprised approximately 7% of operating expenditures in 2014.

Debt Structure

All of the county's outstanding debt is fixed rate.

Debt-Related Derivatives

The county is not party to any swap agreements.

Pensions and OPEB

The county has a modest employee pension burden, based on unfunded liabilities for its participation in three multiple-employer cost-sharing plans administered by the state. The county participates in the General Employees Retirement Funds (GERF),) Local Government Employees Correctional Fund (LGECF) and Public Employees Police and Fire Fund (PEPFF). The county contributed $5.3 million or 3% of operating revenues (inclusive of the General Fund and Debt Service Fund) in fiscal 2014.

Moody's three year average adjusted net pension liability (ANPL) for the county, under our methodology for adjusting reported pension data is $211.8 million, or a manageable 1.2 times 2014 operating revenues. Moody's ANPL reflects certain adjustments made to improve comparability of reported pension liabilities. The adjustments are not intended to replace the county's reported liability information, but to improve comparability with other rated entities. We determined the county's share of liability for GERF, LGECF and PEPFF in proportion to its contribution to the plan.

MANAGEMENT AND GOVERNANCE: CONSERVATIVE BUDGET MANAGEMENT DRIVES FINANCIAL STABILITY

Minnesota counties have an institutional framework score of "Aa" or moderate. Counties rely on property taxes to fund the majority of operations followed by state aid. Counties benefit from unlimited operating levy authority. Intergovernmental revenues typically comprise the second largest source and ranges approximately from 13% to 37% or on average, 23% of GF revenues. The state increased aid for the 2014-2015 biennium and aid will remain stable for the 2016-2017 biennium. Expenditures are predictable and counties have the ability to reduce expenditures if necessary.

KEY STATISTICS

- Estimated full valuation: $27.8 billion (Economic Market Value)

- Estimated full valuation per capita: $116,615

- Estimated median family income as % of the US: 144.4%

- Fiscal 2014 available operating fund balance / operating revenue: 42.3%

- 5-year change in available operating fund balance / operating revenue: 3.9%

- Fiscal 2014 operating net cash / operating revenue: 83.6%

- 5-year change in operating net cash / operating revenue: 36.4%

- Institutional framework score: Aa

- 5-year average operating revenue / operating expenditures: 1.06x

- Net direct debt burden (inclusive of authorized debt): 0.6% of full valuation; 0.99 times operating revenue

- 3-year average Moody's adjusted net pension liability: 0.76% of full valuation; 1.2 times operating revenue

OBLIGOR PROFILE

The county is located in the eastern portion of the Minneapolis (Aa1 stable) -St. Paul (Aa1 stable) metropolitan area. The county encompasses an area of approximately 424 square miles (271,360 acres) and contains all or a portion of 27 cities and six towns.

LEGAL SECURITY

The current offering and the county's outstanding GO bonds are secured by the county's GO unlimited tax pledge, which benefits from a dedicated levy that is unlimited by rate or amount.

USE OF PROCEEDS

The proceeds will be used to purchase land rights as part of the county's Land and Water Legacy Program.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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