

Research Update:

Minneapolis Series 2025 GO Bonds Assigned 'AAA' Rating; Outlook Is Stable

August 7, 2025

Overview

- S&P Global Ratings assigned its 'AAA' rating to the City of [Minneapolis](#)' \$140.97 million series 2025 general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AAA' rating on the city's GO debt outstanding.
- The outlook is stable.

Rationale

Security

The bonds are secured by the full faith and credit of the city; a portion of the bonds' intended repayment source will be special assessments and net revenue of the water, sanitary sewer, and storm water systems. The bonds will be used for improvements to the city's water, storm, and sanitary sewer systems; various assessable public projects; and capital projects.

Credit highlights

The 'AAA' rating reflects Minneapolis' highly productive economy and robust tax base, the historical willingness and ability to increase property taxes to match expenditures, and a management team that consistently has built reserves to a high level by responding to unexpected budgetary changes and forward planning. Although not a current rating pressure, the city's plan to use reserves to plug near-term budget gaps, if not addressed, could be exacerbated by what we see as challenges including the lagging downtown economy and projected national slowdown, which could weaken performance of economically sensitive revenue that the city relies upon for operations.

The fiscal 2024 breakeven results were materially better than the \$44 million deficit budgeted, largely due to unfilled vacancies and expenditures rolled over to the fiscal 2025 budget. Property tax collections were lower than budgeted, and the collection rate decreased to 96.6% from

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99.3% in 2020, as the amount held in the appeal process increased. The city expects this will be collected in the subsequent year, but with the post-pandemic commercial real estate decline, the property tax burden is slowly shifting toward residential properties. Although the current shift is somewhat nominal, if it were to widen, we believe that the collection rate could worsen, pressuring operations.

The 2025 (yearend Dec. 31) general fund \$25 million deficit budget (5% of revenue) includes an 6.8% levy, driven largely by rising public safety costs. Officials report that year to date budget performance is similar to the previous year, although the yearend results will likely be worse than in the prior year. The downtown assets fund (funded by a special sales tax) has performed well despite the city's lagging downtown economic recovery and has resumed post-pandemic-level transfers, with \$41.9 million scheduled for 2025. While the five-year forecast calls for a 10.8% levy increase in 2026, management indicates that will likely be materially lower, as the city wants to lessen the residential tax burden, resulting in a deficit higher than the \$6.2 million in the forecast. Management indicates that the fiscal 2026 budget will likely include 5% cuts across all departments, removal of positions that would likely remain vacant, and potential sunset of programs. In addition, if the downtown assets fund continues to perform well, the transfer to the general fund could be increased to ease budgetary pressure. With the expected drawdown in general fund reserves, management forecasts that fund balance will remain within its policy and use of fund balance will be spent on nonrecurring expenditures.

Key factors supporting the 'AAA' rating include the following:

- Tax base growth and new development continue, with other key economic measures also recovering. We are monitoring commercial office vacancies, as Minneapolis' are elevated compared with those of many other cities, but management expects the amount of taxes shifted to residential properties will remain nominal in the near term. In addition, the city has strong residential development and is working with developers to convert some spaces into residential property.
- Five-year projection details reveal easing budgetary pressure while preserving reserves in alignment with policy, but we note a variety of variables that could have a material impact, such as slowing job growth, shifting federal trade and immigration policy, and increased property tax appeals as the residential burden grows.
- We consider the management team sophisticated with long-term planning that can identify future challenges while preserving a healthy fiscal position.. Practices include multiyear financial and capital planning, periodic budget monitoring, a 17% fund balance policy, and robust planning around cyber security and environmental risk.
- Debt ratios are favorable compared with those of other large and growing U.S. cities. Pension and other postemployment benefit exposure is moderate although the funding levels improved due to higher funding and investment performance, but with little medium-term likelihood of meaningful cost acceleration.
- For more information on our institutional framework assessment for Minnesota municipalities, see "[Institutional Framework Assessment: Minnesota Local Governments](#)," Sept. 10, 2024.

Environmental, social, and governance

Although the U.S. Justice Department dismissed the federal consent decree, Minneapolis is still in a consent decree with the Minnesota Department of Human Rights regarding the practice of conduct in violation of state law and the mayor has publicly pledged to follow the dismissed decree. The city is budgeting and saving for these costs; however, should these amounts be

insufficient and result in budgetary stress from the public safety staffing challenges or compliance with the consent decree, we could view risk management issues as an underpinning weakness in our credit analysis. We view social and environmental factors as neutral in our credit rating analysis.

Rating above the sovereign

Minneapolis' GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "[Ratings Above The Sovereign---Corporate And Government Ratings: Methodology And Assumptions](#)," Nov. 19, 2013), U.S. local governments have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy and independent treasury management with no history of federal government intervention, and we believe Minneapolis's financial flexibility is sufficiently demonstrated by its very strong budgetary reserves and liquidity.

Outlook

The stable outlook reflects our view of the city’s continued economic strengths and management’s forward-looking planning that we believe will be sufficient to address the emerging budgetary pressures, with reserves remaining above the fund balance policy.

Downside scenario

We could lower the rating if the city draws down its general fund reserves more rapidly than planned, which we believe could signify unanticipated budgetary pressure and would leave less room for fiscal maneuvering in outyear budgets.

Minneapolis, Minnesota--credit summary

| | |
|---------------------------------|------|
| Institutional framework (IF) | 1 |
| Individual credit profile (ICP) | 1.55 |
| Economy | 1.0 |
| Financial performance | 2 |
| Reserves and liquidity | 1 |
| Management | 1.00 |
| Debt and liabilities | 2.75 |

Minneapolis, Minnesota--key credit metrics

| | Most recent | 2024 | 2023 | 2022 |
|-------------------------------------|-------------|------------|------------|------------|
| Economy | | | | |
| Real GCP per capita % of U.S. | 181 | -- | 181 | 183 |
| County PCPI % of U.S. | 137 | -- | 137 | 138 |
| Market value (\$000s) | 69,507,600 | 69,980,226 | 69,629,877 | 65,938,298 |
| Market value per capita (\$) | 161,692 | 162,791 | 161,976 | 154,019 |
| Top 10 taxpayers % of taxable value | 3.4 | 4.5 | 4.8 | 5.6 |
| County unemployment rate (%) | 2.9 | 2.8 | 2.5 | 2.4 |

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Minneapolis, Minnesota--key credit metrics

| | Most recent | 2024 | 2023 | 2022 |
|--|-------------|---------|---------|---------|
| Local median household EBI % of U.S. | 100 | -- | 100 | 99 |
| Local per capita EBI % of U.S. | 116 | -- | 116 | 116 |
| Local population | 429,877 | -- | 429,877 | 428,119 |
| Financial performance | | | | |
| Operating fund revenues (\$000s) | -- | 569,362 | 582,100 | 510,040 |
| Operating fund expenditures (\$000s) | -- | 640,104 | 574,799 | 509,748 |
| Net transfers and other adjustments (\$000s) | -- | 69,547 | 29,352 | 30,597 |
| Operating result (\$000s) | -- | (1,195) | 36,653 | 30,889 |
| Operating result % of revenues | -- | (0.2) | 6.3 | 6.1 |
| Operating result three-year average % | -- | 4.0 | 2.4 | 2.9 |
| Reserves and liquidity | | | | |
| Available reserves % of operating revenues | -- | 34.1 | 32.9 | 34.1 |
| Available reserves (\$000s) | -- | 194,150 | 191,370 | 173,717 |
| Debt and liabilities | | | | |
| Debt service cost % of revenues | -- | 8.2 | 9.0 | 9.9 |
| Net direct debt per capita (\$) | 2,352 | 2,040 | 1,991 | 1,954 |
| Net direct debt (\$000s) | 1,010,921 | 876,978 | 855,897 | 836,487 |
| Direct debt 10-year amortization (%) | 67 | 69 | 39 | -- |
| Pension and OPEB cost % of revenues | -- | 6.0 | 7.0 | 7.0 |
| NPLs per capita (\$) | -- | 894 | 1,172 | 2,038 |
| Combined NPLs (\$000s) | -- | 384,405 | 503,909 | 872,687 |

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

Ratings List

New Issue Ratings

US\$140.965 mil GO bnds ser 2025 due 12/01/2044

Long Term Rating AAA/Stable

Ratings Affirmed

Local Government

Minneapolis MN Unlimited Tax General Obligation and TIF Revenue - Condos on Blaisdell HIA AAA/Stable

Minneapolis, MN Unlimited Tax General Obligation AAA/Stable

Minneapolis, MN Unlimited Tax General Obligation and Downtown East Project Parking Revenues AAA/Stable

Minneapolis, MN Unlimited Tax General Obligation and Special Assessments AAA/Stable

Minneapolis, MN Unlimited Tax General Obligation and Summit House Revenues AAA/Stable

Minneapolis, MN Unlimited Tax General Obligation and Wellington Condos Tax Increment Revenues AAA/Stable

Minneapolis, MN Unlimited Tax General Obligation with Special Assessments and Water Sewer and Storm Water System Revenues AAA/Stable

Minneapolis, MN Unlimited Tax General Obligation, Water, Sewer, and Parking System, and Special Assessments AAA/Stable

Minneapolis, MN Unlimited Tax General Obligation, and Sales, Hotel, and Downtown Liquor Taxes AAA/Stable

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The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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 <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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