

Credit Ratings for Minnesota School Districts

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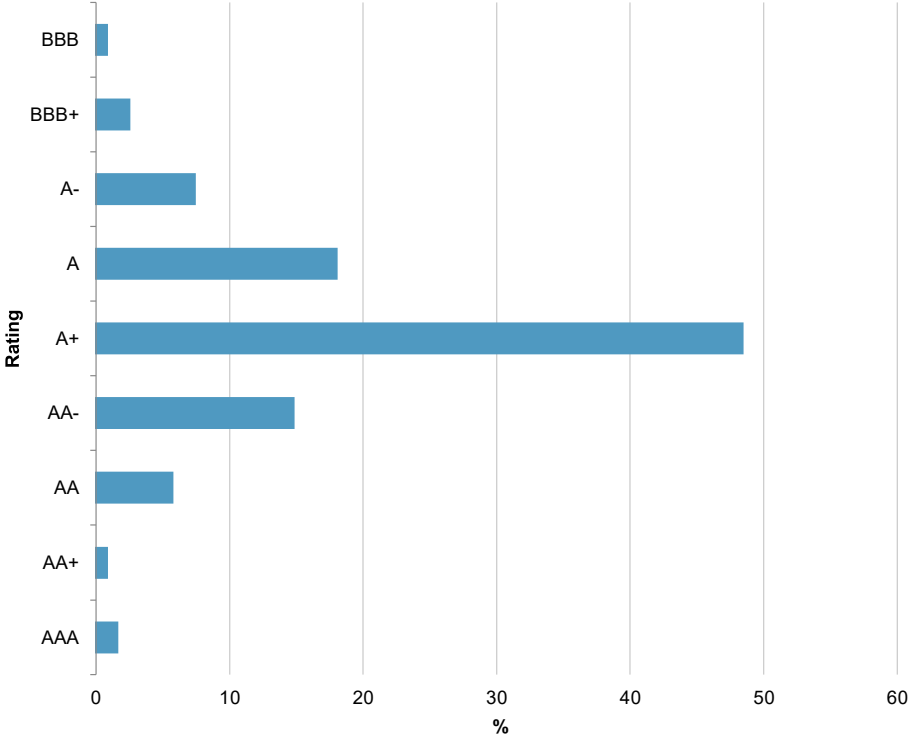
S&P Global
Ratings

Agenda

- Minnesota Rating Distribution for School Districts
- Rating Process
 - What to Expect
 - Criteria Overview
 - Focus: ESG
- MN School District Credit Enhancement Program
 - Eligibility Requirements & Required Documents
- Key Takeaways
- Q&A

Minnesota Rating Distribution for School Districts

Minnesota Schools: Ratings Distribution



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- We maintain ratings on 122 school districts in Minnesota as of Sept. 30, 2021
- Nearly half of all rated MN districts are A+
- About 93% of districts are on a stable outlook

https://www.capitaliq.com/CIQDotNet/CreditResearch/SPResearch.aspx?DocumentId=49630125&From=SNP_CRS#d12455e93a1900

Minnesota Rating Distribution for School Districts

- Household EBIs in the state tend to be above the national average
- Market value per capita metrics are often inflated by agriculture values
- Ratings BBB+ or lower are usually driven by finances

Key credit metric comparisons

Minnesota Schools: Medians								
	--Rating--							
	AAA	AA+	AA	AA-	A+	A	A-	BBB+ or Lower
Household EBI (%)	162	125	119	122	98	93	109	98
Market value per capita (\$)	235,047	113,980	139,468	138,579	192,128	154,909	117,645	185,243
Available general fund (%)	12.4	29.6	13.9	20.5	23.1	18.9	6.1	(3.2)
Debt per capita (\$)	5,880	2,914	2,819	3,513	2,574	2,564	3,512	1,747
Debt as % market value	2.5	2.5	2.7	2.9	1.9	1.9	3.2	2.3
Pension ARC + OPEB as % expense	3.5	2.7	4.7	3.5	3.4	3.4	3.6	3.8

EBI--Effective buying income. ARC--Annual required contribution. OPEB--Other postemployment benefits.

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Rating **Process**

The Purpose of a Management Meeting

- To get a better understanding of the credit as a whole
- Deep dive into the factors we focus on: The economic base, financial indicators, debt factors and long-term liabilities, management factors, as well as ESG and cybersecurity
- To get clarification on issuer-specific topics
- Explain the ratings process, set expectations, answer any questions
- For continuing disclosure, as you should expect us to reach out to surveil the rating throughout the life of the bonds

Criteria Overview

Economic base

- Industry mix and employment by sector
- Unemployment patterns and labor force growth
- Regional patterns of employment and growth

Financial indicators

- Accounting and reporting methods
- Revenue and expenditure structure and patterns
- Annual operating and budgetary performance

Criteria Overview

Debt factors and long-term liabilities

- The nature of the pledged security
- Debt repayment structure
- Current debt-service burden
- Future capital needs of an issuer

Management factors

- Past performance against original plans
- Depth of managerial experience
- Risk profiles of key leaders

Preparation for the Meeting

- Typically, you will be sent questions two or more days before the call to provide time to prepare and gather required documentation.

Who is on the call?

- The primary and secondary S&P analyst
- The district's municipal advisor
- Financial and any other representatives from the district

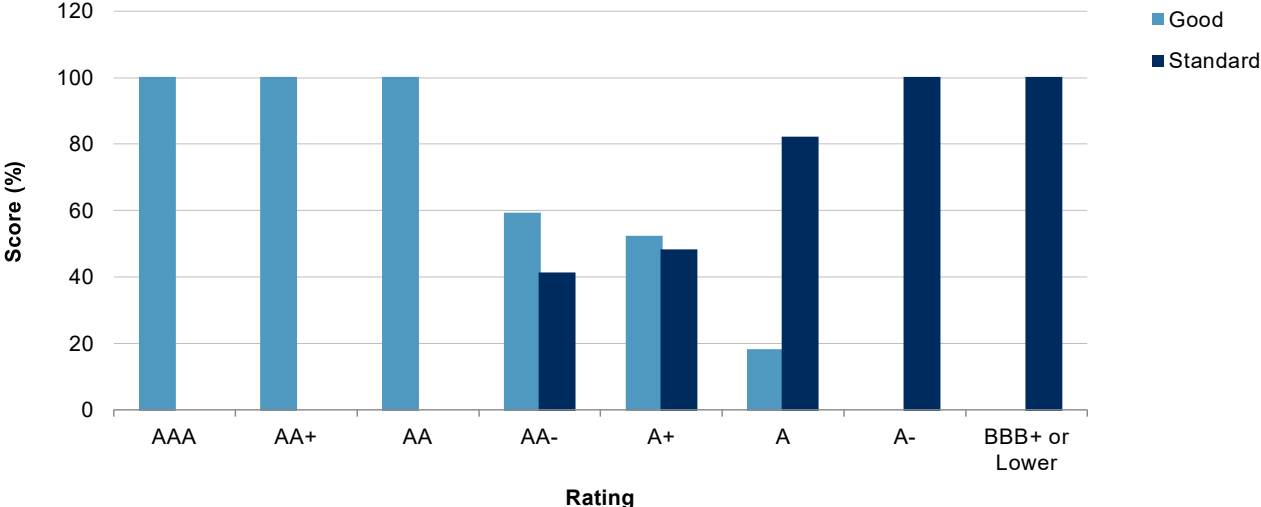
What to have in front of you?

- POS
- List of questions from S&P Global

High-Level Overview: FMA criteria

Financial Management Assessment Distribution by Rating

Minnesota Schools: Financial Management Assessment



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- The FMA assesses a district’s ability to implement timely and sound financial and operational decisions in response to economic and fiscal demands
- Higher-rated districts tend to have good FMAs
- Changes in FMA scores do not guarantee changes in the rating

Key Components to our FMA Criteria

- Revenue and Expenditure Assumptions
- Budget Amendments and Updates
- Long-Term Financial Planning
- Long-Term Capital Planning
- Investment Management Policy
- Debt Management Policy
- Reserve and Liquidity Policy

Requested Management Policies and Documents

We will request the following documents after our conversation, where applicable:

- Most recent budget-to-actual comparison, as shared with the board
- Long term financial plan
- State-mandated long-term facilities maintenance plan
- Any additional capital planning tools
- Most recent investment report, as shared with the board
- Investment, debt, and/or reserve policies

End of Management Meeting: **Next Steps**

- After completion of full analysis, if we have any follow-up questions, we will reach out.
- We will present to a rating committee, and once a committee decision is made on the rating outcome, we will contact the district's municipal advisor.
- After we speak to the advisor, we will send you the draft rationale for your review for any factual errors or confidential information that should not have been included.
- The district will have a minimum of two hours to review the report.

Focus: ESG

- The state experienced acute environmental physical risks stemming from climate change, including the recent statewide drought and wildfire in its remote northeastern corner.
- In the longer term, we view social risks for the state and for some local entities as elevated because of population loss and higher age-dependency ratios, which could hinder economic growth and increase service costs.
- Governance risks for most issuers are in line with the sector standard.


ESG Overview

Environment 

Risk

Social 

Risk

Governance 

Neutral

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Minnesota School District Credit Enhancement Program

Minnesota School District **Credit Enhancement Program**

The AAA long-term rating reflects the additional security provided by the district's eligibility for, and participation in, the MN School District Credit Enhancement Program.

Details on the program

- The state will pay debt service on the district's behalf if it fails to meet debt service obligations.
- Payments from the state represent a standing appropriation from the state's general fund.
- The program supports projects that are central to Minnesota's operations and purpose.
- The program rating and outlook reflect and move in tandem with the state GO rating and outlook.

Minnesota School District **Credit Enhancement Program**

Required Documents

- POS
- Last 3 years of audited financial statements
- Debt service schedule
- Bond counsel opinion
- Executed application for program participation
- Resolution(s) or board minutes adopting resolution

Key Takeaways

Key Takeaways

- About half of the rated districts in the state are A+, which is consistent with districts across the country.
- Management meetings are a critical component of the rating process.
- By focusing on a government's policies and practices, the FMA is not an evaluation of the competency or aptitude of any individual finance professionals.
- Environmental, social, and governance risks have always been factored into our rating.

Q&A

Related Research

- ['U.S. Local Governments Credit Brief: Minnesota Cities, Counties, And Schools'](#), Oct 21, 2021
- ['GO Debt'](#), Oct 12, 2006
- ['Financial Management Assessment'](#), July 27, 2006

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