S&P Global Ratings

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Summary:

Grand Rapids, Minnesota; General Obligation; Note

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Summary:

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Credit Profile		
US$10.0 mil taxable GO temp bnds ser 2022A dtd 12/22/2022 due 12/01/2025		
Short Term Rating	SP-1+	New
Grand Rapids GO bnds		
Long Term Rating	AA-/Stable	Affirmed
Grand Rapids GO rfdg bnds		
Long Term Rating	AA-/Stable	Affirmed
Grand Rapids GO street reconstruction bnds ser 2017A dtd 09/07/2017 due 02/01/2033		
Long Term Rating	AA-/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'SP-1+' short-term rating to Grand Rapids, Minn.'s $10 million series 2022A general obligation (GO) temporary bonds.
- At the same time, S&P Global Ratings affirmed its 'AA-' long-term rating on the city's GO debt outstanding.
- The outlook is stable.

Security

The series 2022A temporary bonds are secured by the city's unlimited-tax GO pledge, though the city intends to pay debt service from issuing long-term GO bonds, along with sales tax revenues, a tax levy, and grants and donations. The series 2022A bonds are scheduled to be sold on Dec. 22, 2022, with final maturity occurring on Dec. 1, 2025, which is less than a three-year maturity. The temporary bonds are expected to be taken out with a long-term GO bond. Therefore, we are applying a short-term rating on the series 2022A temporary bonds. The short-term note rating reflects our criteria for evaluating and rating bond anticipation notes (BANs). In our view, Grand Rapids maintains a very strong capacity to pay principal and interest when the notes come due. In our view, and in accordance with our criteria, "Bond Anticipation Note Rating Methodology" (published Aug. 31, 2011, on RatingsDirect), the city maintains a low market risk profile because it has strong legal authority to issue long-term debt to take out the notes and is a frequent issuer that regularly provides ongoing disclosure to market participants.

Proceeds of the bonds will be used for improvements to the Grand Rapids IRA Civic Center.

Credit overview

Grand Rapids, the seat of northern Minnesota's Itasca County, a service center and economic hub for the surrounding region, continues to see stability in its tax base, along with employment and residential expansion as well as appreciation in home values. The city's market value continues on a positive growth trajectory, with net tax capacity increasing by $2 million for 2023. Officials are expecting market value to continue growing about $500,000 yearly over the next few years. Despite residential and commercial expansion, the city's economic indicators remain a credit weakness, and are not commensurate with higher-rated peers.

After adjusting for recurring transfers, spent bond proceeds, and one-time capital projects, the city's financial performance continues to be positive, with another general fund surplus for fiscal 2021, mostly due to unbudgeted building permit revenue and a one-time grant. The city is also holding onto $1.2 million in American Rescue Plan Act (ARPA) funds that is earmarked for infrastructure and capital improvements. For fiscal 2022, officials are expecting to either finish the fiscal year in line with the budget or to have another small surplus. Officials indicate they are working on the 2023 budget and are budgeting for a $362,000 drawdown in reserves, so the city will not have to increase the tax levy and can avoid a tax burden on residents. City officials are also estimating an increase in sales-tax revenue, which will amount to an estimated $1 million in revenues.

With the adjustment to include the city's committed general fund balance ($1,050,000 as of fiscal 2021) as part of its available reserves because it is designated for budget stabilization, the city's reserves remain at about 57% of expenditures for fiscal 2021, which has been consistently above its fund balance policy of 50% over the last three fiscal years. Even after the planned drawdown in 2023, we expect the city to continue to meet its fund balance policy.

The city's debt burden remains high compared with peers and debt service carrying charges are still elevated, although amortization is rapid. Officials do not have any additional new-money debt plans after this issuance; as they plan to refinance the 2022A temporary bonds within the next one to three years with a long-term bond that has a possible lower par amount than the temporary bonds, and therefore will not add to the city's debt burden.

The rating reflects our opinion of the city's:

- Stable economy, coupled with home price appreciation and some commercial and residential expansion;
- Steady operating performance, coupled with reserves consistently above the fund balance policy threshold of 50%;
- Good financial policies and practices under our Financial Management Assessment methodology, but lacking an updated long-term financial plan, and a strong institutional framework score; and
- Adequate debt profile, with no new additional debt plans and rapid amortization.

Environmental, social, and governance

We have reviewed the district's environmental, social, and governance (ESG) risks and view them as neutral in our credit rating analysis. We also note the district has cyber policies and practices in place to mitigate cyber security risks. For our latest ESG report card for the Midwest region, see "ESG U.S. Public Finance Report Card: Midwest And Central Region Governments And Not-For-Profit Enterprises," published July 13, 2022.

Outlook

The stable outlook reflects our expectation that the city will maintain balanced operations and very strong reserves over the outlook horizon. Additionally, we view the city's other credit factors as stable and unlikely to materially change within the outlook period.

Downside scenario

We could take negative rating action if the city's structural budgetary performance were to weaken, if per capita income measures were to materially weaken, or if new-money debt issuance were to significantly outpace growth in the city's economy.

Upside scenario

We could take positive rating action if the city experiences material improvements in market value and tax base diversification, or if it reduces debt service within the budget.

Grand Rapids--Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Very weak economy				
Projected per capita EBI % of U.S.	66.6			
Market value per capita ($)		79,954		
Population		11,256	11,234	11,251
County unemployment rate (%)		4.7		
Market value ($000)		899,958	849,501	879,043
Top 10 taxpayers % of taxable value		17.4		
Adequate budgetary performance				
Operating fund result % of expenditures		1.6	5.1	4.2
Total governmental fund result % of expenditures		-5.5	-5.5	1.5
Very strong budgetary flexibility				
Available reserves % of operating expenditures		56.9	56.9	59.9
Total available reserves ($000)		5,862	5,835	5,362
Very strong liquidity				
Total government cash % of governmental fund expenditures		37.8	54.2	39.4
Total government cash % of governmental fund debt service		265.6	342.9	265.8
Strong management				
Financial Management Assessment	Good			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		14.2	15.8	14.8
Net direct debt % of governmental fund revenue	156.9			
Overall net debt % of market value	5.1			
Direct debt 10-year amortization (%)	89.2			
Required pension contribution % of governmental fund expenditures		2.6		
OPEB actual contribution % of governmental fund expenditures		--		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- 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 November 22, 2022)		
Grand Rapids taxable GO rfdg bnds ser 2021C due 02/01/2029		
Long Term Rating	AA-/Stable	Affirmed
Grand Rapids taxable GO temp bnds ser 2022A dtd 12/22/2022 due 12/01/2025		
Short Term Rating	SP-1+	Affirmed
Grand Rapids GO util rev rfdg bnds ser 2021D dtd 12/09/2021 due 02/01/2033		
Long Term Rating	AA-/Stable	Affirmed