

Minnesota GO Debt Upgraded To 'AAA' From 'AA+' On Improved Financial Performance; Series 2018A-C GO Bonds Rated 'AAA'

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NEW YORK (S&P Global Ratings) July 25, 2018--S&P Global Ratings raised its rating on the State of Minnesota's general obligation (GO) debt to 'AAA' from 'AA+'. The outlook is stable.

"The upgrade reflects the state's improved financial performance, return to strong budget management and structural budget balance, and the 2018 Omnibus Retirement Act, which is expected to decrease pension liabilities through benefit reform and increased contributions," said S&P Global Ratings credit analyst Eden Perry.

At the same time, S&P Global Ratings assigned its 'AAA' rating to Minnesota's approximately \$619 million GO bonds, series 2018 A, B, and C. S&P Global Ratings also raised its rating on the state's appropriation-backed debt to 'AA+' from 'AA' and raised its rating on the state's moral obligation debt to 'AA' from 'A+', based on the application of its "Issue Credit Ratings Linked to U.S. Public Finance Obligors' Creditworthiness" criteria, published Jan 22, 2018, on Ratings Direct. The state's moral obligation bonds were raised two notches due to moderate obligor involvement because the bonds were issued for higher education purposes. The outlook on all ratings is stable.

Credit factors supporting the ratings include our view of the state's:

- Deep and diverse economy, with the Minneapolis-St. Paul metropolitan statistical area (MSA), the center of the upper Midwest economy,

anchoring regional economic hubs;

- Improved financial results, including the restoration of reserves and improved structural balance and unanimous support for the 2018 Omnibus Retirement Act, which will improve the pension-funded levels significantly; and
- Moderate debt levels, with well-defined debt management guidelines.

The series 2018A-C GO bonds and the GO bonds outstanding are general obligations of Minnesota, for which its full faith, credit, and taxing powers are pledged. The bond proceeds will finance highway and other capital projects. The GO state trunk highway bonds are additionally secured by the state trunk highway fund.

The stable outlook on Minnesota reflects our view of the state's improved financial position and recently passed pension reform. The state has shown a commitment to actively managing its long-term liabilities to better align its statutory funding of the pension with actuarially determined contributions and through benefit reductions. However, should Minnesota's use of a statutory funding formula, rather than an actuarially based funding formula, translate into weaker funded levels, or if budgetary pressures, including rising health care costs and weaker economic growth, challenge the state's commitment to structural balance and reserve replenishment, there could be downward pressure on the rating.

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 www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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