

2018 FPS deep dive: Bond ratings

- **Ratings are a third-party evaluation of a city’s ability and willingness to make debt payments**
 - AAA ratings are the highest possible rating, followed by AA, A, BBB, and then “less than investment grade.”
- **There are three major bond rating firms: Fitch, Standard & Poor’s, and Moody’s**
 - In 2017, the City dropped Moody’s as a bond rating firm due to cost.
- **Ratings incorporate factors that are outside the City’s control and within Council’s purview**
- **In 2017, the City of Minneapolis’ bond rating from Fitch decreased from AAA to AA+**
 - Bond ratings have meaningful impacts on the City’s financial profile. When the City increases its fixed costs, bond ratings decrease, which in turn increases interest rates.
- **What will it take to change the bond ratings for the City of Minneapolis from both rating firms? Are these efforts worth the cost? What level of importance should be assigned to bond ratings?**
 - Factors that could increase the City’s bond rating include:
 - Be more conservative in revenue forecasts (not “right sizing” the budget)
 - Limit new spending to CSL
 - Reduce CSL increases for wages, benefits and overhead costs
 - Drop debt service payments by reducing number and amount of bond issues
 - Continue to increase cash reserves

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Standard & Poor's Rating: AAA Rating *Breakdown of this Rating*

Criteria	Score for Minneapolis	Portion of Rating
Economy	1	30%
Management	1	20%
Budgetary Performance	2	10%
Budgetary Flexibility	1	10%
Liquidity	1	10%
Fixed - debt/pension	2	10%
Institutional Framework	2	10%

Fitch Rating: AA+ Rating *Breakdown of this Rating*

Criteria	Score for Minneapolis	Portion of Rating
Revenue / Institutional Framework	1	25%
Operating Performance	1	25%
Expenditure Framework	2	25%
Long-term Liabilities	2	25%

- **The City uses a combination of insurance methods for different assets and resources. Are we comfortable with our mix of insurance methods? Should the City re-evaluate its insurance mix? What extra expenses and risk does the City have to take on due to our mix of insurance methods?**
 - Why does the City use each of the insurance methods that they use?
 - Why don't we insure City vehicles, equipment, and many City buildings? How much risk is involved in not insuring City vehicles, equipment, and many City buildings? Is the City comfortable with this level of risk?
- **How can Finance and Property Services better communicate the nuances of the City's insurance methods? For example, what does self-insurance mean, especially in the context of tort claims and workers compensation claims?**
 - The City is self-insured for liability claims and workers compensation claims. From 2013 to 2017, the City paid out approximately \$1.4 million in liability (tort) claims and \$25.4 million in workers compensation claims.

City of Minneapolis Assets by Insurance Categories

Insured

1. Convention Center
2. CPED Rental Houses
3. Talmadge Building
4. Crime Policy
5. Public Service Center
Construction Project
6. Target Center

Self-Insured

1. Worker's Compensation
2. Tort Liability*
3. Dental
4. Health

Uninsured

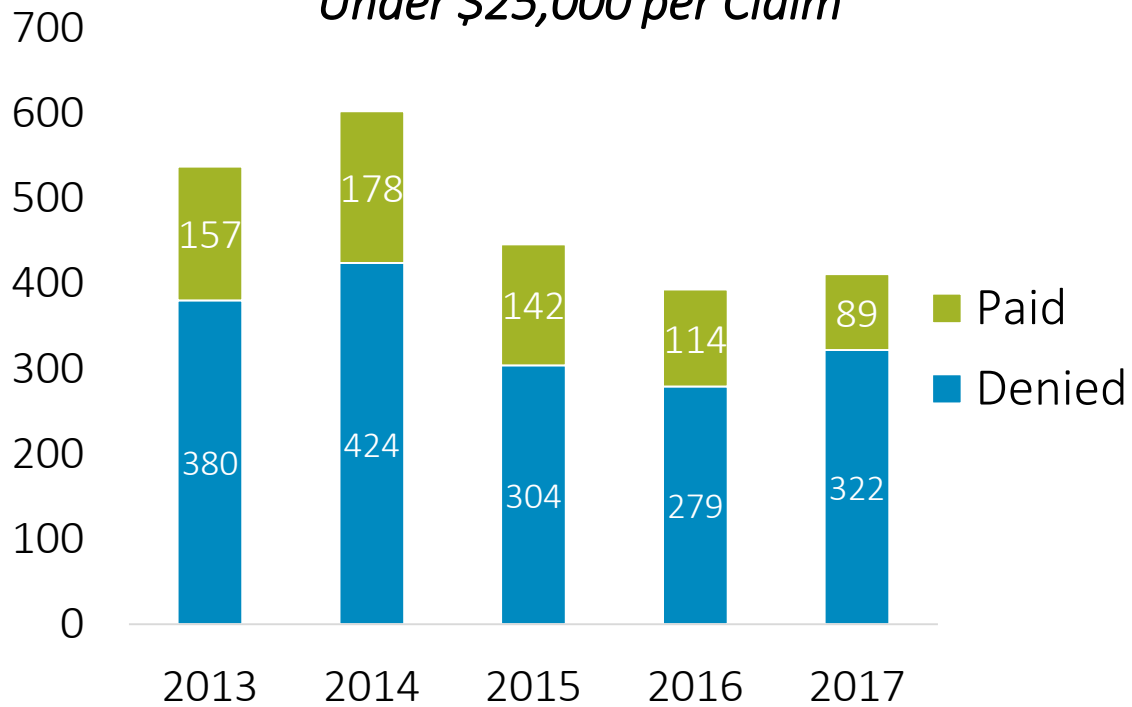
1. All City property except
Convention Center, CPED
Rental Houses, Talmadge
Building
2. All Vehicles**
3. Equipment

* Departments are charged based on results of a periodic actuarial study. Funds are held in self-insurance fund but not designated exclusively for liability costs.

** Beginning in 2019, MPD will pay a charge through the Fleet model which will be placed in the Self-Insurance fund for the sole purpose of funding totaled vehicles. The 2019 amount is \$75,000.

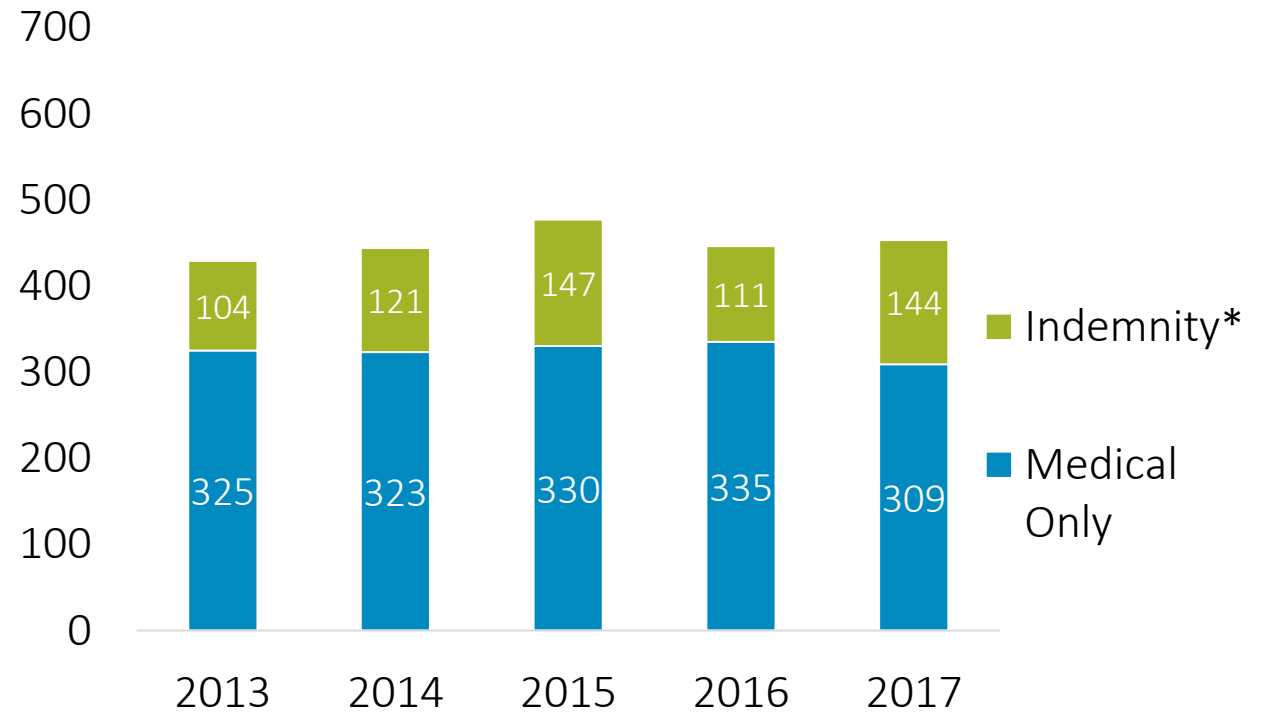
2018 FPS deep dive: Insurance and risk

Total Liability (Tort) Claims *Under \$25,000 per Claim*



Cost	\$41.8K	\$41.7K	\$25.8K	\$18.3K	\$13.4K
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Workers Compensation Claims



Cost	\$6.3M	\$3.9M	\$7.1M	\$4.8M	\$3.4M
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* Indemnity includes lost time