Research Update:

Hennepin County, MN Series 2026A And B General Obligation Bonds Rated 'AAA'

August 4, 2026

Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to Hennepin County, Minn.'s anticipated $341 million series 2026A general obligation (GO) bonds, and its anticipated $111 million series 2026B GO refunding bonds.
- The outlook is stable.

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Rationale

Security

The bonds are general obligations of the county, payable from revenue from an ad valorem tax without limitation as to rate or amount. The series 2026A bond proceeds will refund the county's 2016B and 2017C bonds and finance capital improvement projects included in the county's adopted 2026-2030 capital improvement plan. The series 2026B bond proceeds will fully refund the county's series 2016A and 2017B bonds.

Credit highlights

Hennepin County's strong, diverse, and growing economic and tax base; demonstrated willingness to raise tax revenue to fund services; strong reserve and liquidity position; and manageable debt burden support the 'AAA' rating.

As it adjusts to a post-pandemic revenue environment, we expect the county will continue to use reserves in its general and human services funds to smooth its trajectory to new normal service levels. The county's adopted 2026 budget reflects a 7.8% property tax increase, and calls for a net reduction in nearly 250 vacant positions, primarily in the Human Services department. Labor and health care costs have outpaced revenue the past two years--particularly in the law, safety, and justice category--and as a result, the county faces budget gaps in 2026 and beyond that will require careful expenditure management and likely continued growth in the property tax levy, its primary revenue source, to restore balance.

Weakening financial performance at the Hennepin Healthcare System Inc. (HHS), the county's largest enterprise and an important regional trauma center, led the county to dissolve the HHS board in August 2025 and assume more direct control of the enterprise with the aim of

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strengthening finances. The county has always been the sole corporate member of HHS with ownership and governing rights and obligations, including the review and approval of the annual capital and operating budgets. We believe the move reflects strategic management given the increasingly stressed operating environment for public hospitals in general as well as a largely unfavorable payer mix that exposes HHS to financial risks stemming from high and increasing uncompensated care and recent changes in Medicaid policy. We anticipate an increasing need for financial support for the hospital, which could become a pressure under the county's operating and funding agreement; however, we see the near-term risk as somewhat offset by recent legislative action by the state to provide immediate and ongoing financial support to Hennepin County Medical Center, including through a $105 million one-time support package and a $100 million appropriation from the Minnesota Dept. of Human Services that will offset reduced directed payments under Medicaid.

The rating further reflects our view of the county's:

- Deep and diverse economic and revenue base covering the Minneapolis metropolitan area;
- Historically strong general fund reserves and demonstrated willingness to increase the tax levy and adjust expenditures;
- Track record of outperforming budget, coupled with standard budgeting and financial management practices;
- Manageable debt and liability burden, particularly compared with the tax base; and
- Institutional framework for Minnesota municipalities and counties that provides strong predictability of operating revenue and promotes revenue and expenditure balance and financial transparency and accountability.

Rating above the sovereign

The county's GO bonds are eligible to be rated above the sovereign because we believe the county could 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 are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant fiscal autonomy and independent treasury management with no history of government intervention in those functions. Hennepin County's very strong budgetary flexibility and liquidity demonstrate its financial flexibility.

Outlook

The stable outlook reflects our expectation that the county will continue to raise revenue as it deems necessary over the next two years to support increasing costs in the medical center and manage expenditures in line with revenue in other funds, maintaining a strong reserve position in its general fund.

Downside scenario

We could lower the rating if the county takes longer than expected to balance operations across governmental funds, or if its financial flexibility were to weaken--for example if general fund reserves fall to a level materially below 2025 levels, or if we observe a reduced willingness and

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ability to raise taxes or cut expenditures. With a lower reserve cushion, the county could be more vulnerable to economic uncertainty or to increases in uncompensated care that pressure HHS.

Credit Opinion

Economic and population hub of the state, with strong long-term growth trends and ongoing development

Hennepin County's economy is a clear credit strength that compares favorably with that of national peers, with gross county product per capita and income metrics that are well above state and national averages, particularly among counties of its size. Home to more than one-fifth of the state's population, and to several Fortune 500 company headquarters, the county has a diverse economic base with employers of all sizes representing a diverse mix of sectors, and limited exposure to the federal workforce. The county has recently begun to recover population lost during the pandemic, and we expect both population and gross county product will continue to grow at a rate slightly below that of the state and the nation over the next four years.

Reserves will normalize as the county adjusts to lower federal revenue and rising costs of labor and uncompensated care

In 2024 and 2025, the county used operating reserves built up through federal pandemic relief to support human services programs established during the pandemic.

Year-end general fund performance for 2025 indicates the county outperformed its budget, primarily through underspending in personnel and contractual services, to end the year with a small general fund deficit of around 1% of revenue. In 2026, the county is budgeting for a $64 million general fund deficit, which we view as somewhat conservative given the county’s track record of performance versus budget. Still, we believe that the county will have a narrower margin for unfavorable revenue or expenditure variations next year, given instructions to departments to slow hiring and reduce vacant positions and contracts. Officials report that overtime in the sheriff’s department has been a center of budget growth, leading the county to focus on hiring, retention, and staffing management to help contain overtime costs in future years, as well as on limiting new positions and expenditure growth outside the sheriff’s department in 2027.

The county has implemented several revenue enhancements to support operations and defray a rise in personnel, benefit, and health care costs, including property tax increases in the past two fiscal years and a 7.8% increase for fiscal 2026. It has also received state aid increases and two new sales taxes implemented by the Metropolitan Council, dedicated to housing and transportation.

If the county takes longer than we anticipate to achieve self-sufficiency in the human services fund, or if hospital operating or liquidity needs mount, further use of general fund reserves or cash in 2026 and 2027 could result absent additional revenue enhancements or reductions in service levels. With a lower reserve cushion, the county could also be more vulnerable to economic uncertainty or to increases in uncompensated care that pressure HHS.

HHS, by far the county's largest enterprise with an annual budget around $1.5 billion, has seen operating results fluctuate the past three fiscal years. Under an operating and funding agreement with HHS most recently renewed in December 2016, the county agrees to reimburse HHS for uncompensated care provided by HHS pursuant to a formula established annually. The amount budgeted under the formula has increased 46% to $38 million in 2025 from $26 million in

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2022. A similar amount is budgeted in 2026. The county has also agreed to provide liquidity to HHS operations, if necessary and requested, and has done so in January-March 2026. Subsequently, the state legislature passed a financial support package that provided $205 million in one-time aid for the hospital and an additional $500 million statewide hospital stabilization fund that can be accessed for liquidity. As a result, we believe the immediate liquidity pressure on HHS has diminished somewhat, providing more time for the county and the state to address the financial strain on the hospital.

Operating results fluctuated from 2021 to 2023, with unrealized investment losses that were subsequently reversed in 2023 representing mark-to-market accounting of investments rather than the sale of assets at a loss. For fiscal 2023, the large surplus also resulted from increasing property taxes and recognition of about $100 million in American Rescue Plan Act funds.

Total liquidity is very strong. Net of investments maturing in greater than one year, the county had $1.2 billion in liquidity at June 30, 2026 including all investments.

Pragmatic budget practices support financial sustainability and sufficient reserves despite lack of fund balance policy

The county budgets using standard planning techniques, incorporating historical trends and external sources to develop assumptions for the annual budget. The lack of a multiyear financial forecast or reserve policy distinguishes it from 'AAA' rated peers, but we note that the county analyzes key revenue and expenditure trends and conducts scenario analysis to inform budget planning. Management produces a formal report detailing budget-to-actual performance for key funds twice a year.

Hennepin County has a five-year capital improvement plan that includes funding sources and is updated annually. It has its own investment policy and provides the board a report on investment holdings annually. The county has a detailed debt management policy that sets other qualitative and quantitative guidelines. The county actively manages cybersecurity through various policies and practices, including cybersecurity insurance.

A very large economic and tax base supports a manageable debt burden

Inclusive of its series 2026A new money GO bonds and net of tax-supported debt that is fully supported by the solid waste enterprise, the county will have about $2 billion in direct debt outstanding. Our calculation of the county's net debt burden includes approximately $147 million in GO debt supported by HHS. Overall net debt is low relative to the county's total market value, and we consider this a positive credit factor.

The county plans to issue about $825 million in new debt in 2026 through 2029 to fund various capital projects, including the current issue. Our assessment of the county's debt burden reflects our expectation that net direct debt per capita will rise to around $1,600.

Hennepin County manages liquidity risk from the potential failed remarketing of its CP through self-liquidity. We consider the total liquidity, discounted in our analysis at $1.3 billion as of July 31, 2025, as more than sufficient to cover the $400 million in authorized CP ($150 million outstanding).

Moderate pension and other postemployment benefit (OPEB) exposure with medium-term costs that are unlikely to accelerate

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We do not believe that pensions represent a significant credit pressure for Hennepin County, as the cost-sharing, multiple-employer defined benefit plans in which the county participates are well funded and costs are modest as a share of total spending. In terms of OPEBs, the county has not offered retiree health care benefits to new hires since 2007 for unorganized employees and since 2008 for organized employees, and its liability is comparatively small.

The county participates in the following plans, funded as of the most recent available valuation date:

- The Minnesota General Employees Retirement Fund: 90% funded as of June 30, 2025, with a county proportionate share of the plan's net pension liability of $502 million;
- The Public Employees Police and Fire Fund (PEPFF): 90% funded with a county proportionate share of $57 million;
- The Public Employees Correctional Fund (PECF): 96% funded with a county proportionate share of $4.9 million; and
- A closed, single-employer OPEB plan that the county funds on a pay-as-you-go basis and that has a $142 million liability.

Current cost for debt and liabilities, including pension and OPEB, came to 11.9% of governmental fund expenditures in fiscal 2025. In the last two years, the county's combined pension contribution slightly exceeded our minimum funding progress metric, and we expect liabilities and costs to decrease over time should this pattern continue. In our view, the county's 7% investment rate-of-return assumption exposures it to funding volatility as a result of market risk, while its closed amortization period based on a level 3.25% payroll growth assumption significantly defers contributions. Nevertheless, we recognize that Hennepin County's annual contributions represent only a modest share of the budget.

Hennepin County, Minnesota--credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	1.86
Economy	1.0
Financial performance	3
Reserves and liquidity	1
Management	2.30
Debt and liabilities	2.00

Hennepin County, Minnesota--key credit metrics

	Most recent	2025	2024	2023
Economy				
Real GCP per capita % of U.S.	178	--	178	180
County PCPI % of U.S.	137	--	137	138
Market value ($000s)	268,538,076	268,538,076	258,300,615	248,183,516
Market value per capita ($)	210,353	210,353	202,334	193,649
Top 10 taxpayers % of taxable value	1.4	1.4	1.7	2.0
County unemployment rate (%)	3.6	3.6	2.9	2.5
Local median household EBI % of U.S.	115	--	115	118

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Hennepin County, Minnesota--key credit metrics

	Most recent	2025	2024	2023
Local per capita EBI % of U.S.	125	--	125	130
Local population	1,276,606	--	1,276,606	1,281,613
Financial performance				
Operating fund revenues ($000s)	--	969,332	1,000,960	1,004,528
Operating fund expenditures ($000s)	--	998,516	964,165	874,691
Net transfers and other adjustments ($000s)	--	18,361	(48,858)	(61,043)
Operating result ($000s)	--	(10,823)	(12,063)	68,794
Operating result % of revenues	--	(1.1)	(1.2)	6.8
Operating result three-year average %	--	1.5	1.6	1.9
Reserves and liquidity				
Available reserves % of operating revenues	--	25.6	25.2	25.6
Available reserves ($000s)	--	248,268	252,731	256,838
Debt and liabilities				
Debt service cost % of revenues	--	6.9	7.2	8.8
Net direct debt per capita ($)	1,548	1,397	1,286	1,204
Net direct debt ($000s)	1,976,772	1,782,886	1,641,522	1,543,392
Direct debt 10-year amortization (%)	58	65	59	58
Pension and OPEB cost % of revenues	--	5.0	5.0	5.0
NPLs per capita ($)	--	450	442	642
Combined NPLs ($000s)	--	574,580	563,821	822,915

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.

Climate and other evolving factors

We believe the county's credit profile has limited exposure to physical climate hazards, although extreme heat and drought exposure in the county are projected to increase faster than the U.S. average. Hennepin County adopted a climate action plan in 2021 that lays out various goals and strategies related to improving resilience to the threats posed by climate change. The plan prioritizes reducing greenhouse gas emissions and disparate effects for vulnerable communities exposed to the effects of climate change, and is integrated into the capital plan. While economic metrics overall are extremely strong, social capital factors such as significant income and racial disparities may increase the need for county services, particularly at the medical center, and can indirectly weigh on financial performance.

Ratings List	
New Issue Ratings	
US$111.490 mil GO rfdg bnds ser 2026B due 12/01/2041	
Long Term Rating	AAA/Stable
US$340.980 mil GO bnds ser 2026A due 12/1/2046	
Long Term Rating	AAA/Stable

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