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What is a Credit Rating?

What is a credit rating?

Communicates the *creditworthiness* of an entity or security

- Ratings ('AAA' through 'D'), with + or modifiers below 'AAA'
 - Opinions of relative ranking of vulnerability to default
 - Explicitly forward-looking, "through-the-cycle"
 - Entity rating ("issuer default rating"—IDR) and security rating
 - Assignment based on explicit criteria
- Outlooks and Watches express future direction of ratings
 - Outlooks Stable/Positive/Negative/Evolving
 - Watches Positive/Negative/Evolving

The Ratings Process

Fitch Credit Rating Process

Professional service

Step 1

Initiate rating process

- Primary and back-up analyst assigned
- Determination of whether additional industry analyst expertise is required
- Analysts have a range of backgrounds, with the majority recruited from banks, insurance companies. investment houses & financial departments of major companies

Step 2

Collect publicly

- Company financial & operational statistics
- Reports filed with regulatory agencies
- Industry & economic reports Other data & insights

available information

Perform pre-analysis & request non-public information, if appropriate

Step 3

- Information provided directly by the issuer, arranger, sponsor or other involved party
- Can include background data, forecasts & other communications

Thorough pre-analysis

Step 4

Prepare detailed questionnaire

- Prepare main topics for discussion & key auestions
- Establish detailed agenda to ensure productive dialogue

Independent perspective

Step 5

Hold meeting with entity management & other stakeholder

 Face-to-face meetings, site visit and/or teleconference, when appropriate

Step 6

Perform in-depth analysis

Step 7

- review package
- Consensus decision on appropriate rating, including, where appropriate, a Rating
- committee is five analysts
- Committees frequently include analysts from outside the immediate asset class, sub-sector or geography since peer analysis is a central element of the process
- Committee considers relevant quantitative & qualitative issues

methodology

Hold ratings committee

- Committee members
- Outlook or Rating Watch designation
- Minimum size for

Step 8

Assign ratings write & publish

commentary

Transparent

- Information considered
 - presence of nonpublic information
 - Initial ratings actions Report published

Once prepared,

report is shown to

issuer to check for

factual accuracy and

Commentary distributed

Step 9

Ongoing

surveillance

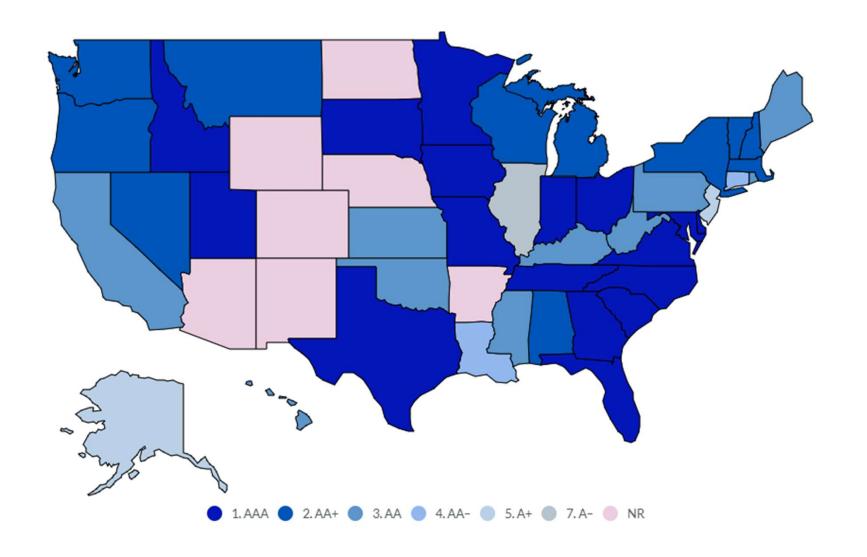
Conduct ongoing surveillance

- Continual review of market events
- Formalized periodic review
- Continuing evaluation of industry issues & macro economic considerations



State Ratings Distribution

State Ratings Distribution



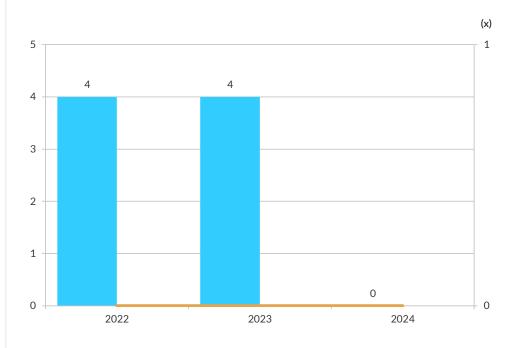


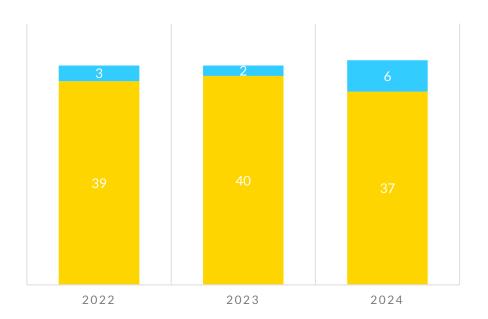
State Ratings Distribution

Upgrades (LHS) — Downgrades (LHS) — Downgrades/Upgrades (RHS)









Source: Fitch Ratings

Source: Fitch Ratings



State Rating Criteria

State Rating Criteria

FitchRatings

U.S. Public Finance State Governments and Territories Rating Criteria

Master Criteria

Scope

This report outlines the criteria that apply to the rating of new and existing debt issued by or on behalf of U.S. state governments and territories. Section 1 of the report details the criteria used to determine the general credit quality of the entity responsible for repaying the debt. Section 2 addresses how Fitch Ratings determines ratings for specific security structures. The criteria can also support the assessment of dedicated tax bonds for certain tax-supported special districts, local governments or other enterprises with tax support, in conjunction with relevant sector criteria, in cases where the state approach to dedicated tax bonds is applicable. The FAST Econometric API — Fitch Analytical Stress Test Model (FAST), discussed on page 17 and in Appendix A, and the rating approach for appropriation-backed bonds discussed in the Appropriation-Backed Bonds section can also be used in assigning ratings in other U.S. public finance sectors where applicable.

Key Rating Drivers

The ultimate rating outcome is the result of consideration of issuer-specific qualitative and quantitative factors. There is no standard weighting of factors. The significance of risk elements can shift quite rapidly over time and/or differ markedly across issuers. However, given the significance of the operating performance considerations to overall credit quality, the assessment of operating performance is particularly important to determining the final rating.

Public Finance State Obligations U.S.A.

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This report updates and replaces "U.S. Public Finance State Governments and Territories Rating Criteria," dated April 2, 2024 as it relates to U.S. state government and territory IDRs.



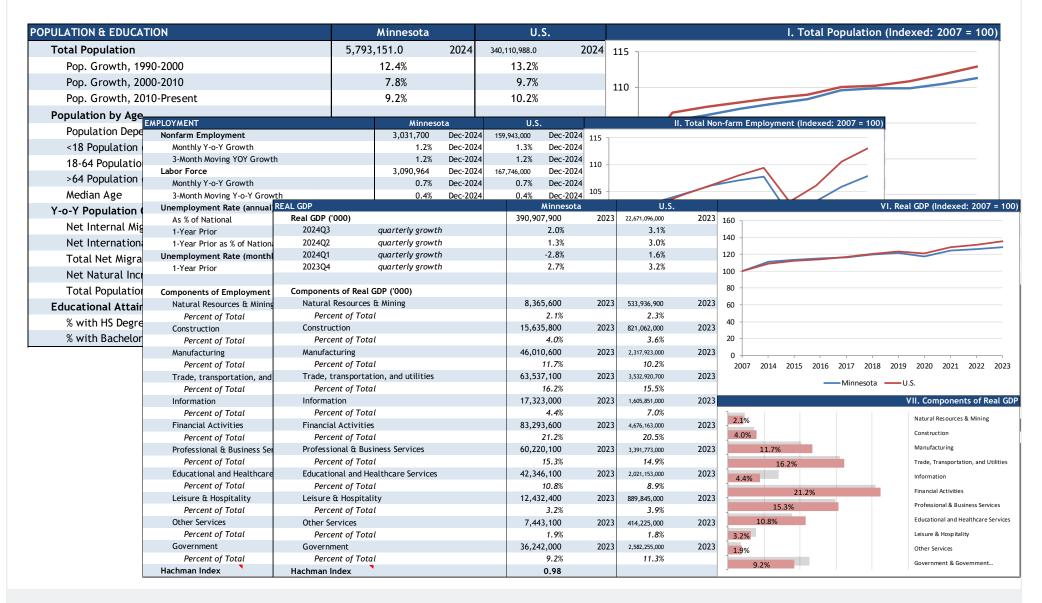
State Rating Criteria

- Strong 'sector risk profile'
- Economic resource base is the foundation
 - Growth trend and level
- Four key rating drivers
 - Revenue framework
 - Expenditure framework
 - Long-term liability burden
 - Operating performance
- Assessed on a 'aaa' 'b' scale with guidance metrics

Revenue Framework	ers					
Growth Prospects for Revenues without Revenue- Raising Measures	saa Strong Growthinlinewith or above U.S. economic performance (GDP)	aa Solid Growth belowU.S. economic performance but above inflation level	a Slow Growthapproximately in line with inflation level	bbb Stagnant Growth belowinflation level or flat performance	bb Negative Decliningrevenue trajectory	b VeryNegative Sharplydedining revenue trajectory withoutdear indication of management's ability to halt or reverse the decline
ndependent Legal Ability to taise Operating Revenues without External Approval (in Relation to Normal Cyclical Revenue Dedine)	High Unlimited legalability, or maximum revenue increase at least 300% of scenario revenue decline	Substantial Maximumrevenue increase at least 200% of scenariorevenue decline	Satisfactory Maximumrevenue increase at least 100% of scenariorevenue decline	Moderate Maximumrevenue increase at least 50% of scenariorevenue decline	Limited Maximumrevenue increase less than 50% of scenariorevenue dedine	Extremely Limited Maximum revenue increase less than 25% of scenario revenue decline.
AsymmetricRating Driver Consideration	Therequirement for period	dicreauthorizationofexist	ingrevenuestreams is a ne	gative consideration.		
Expenditure Framework Natural Pace of Spending Growth Relative to Expected Revenue Growth (Based on Current Spending Profile)	Slowertoequal	Marginally above	Above	Wellabove	Veryhigh	Potential to be unsustainably high
Flexibility of Main Expenditure Items (Ability to Cut Spending through the Economic Cycle)*	Ample	Solid	Adequate; legal or practical limits to budget management may result in manageable cuts to core services at times of economic downturn.	meaningfully,butnot	Constrained; adequate delivery of core services may be compromised during times of economic downtum.	Veryconstrained; adequatedelivery of coreservices likely to be compromised during times of economic downturn.
AsymmetricRating Driver Considerations	Significant potential fundio consideration in the exper	ngpressures, includingouts aditure framework assessm	tandingorpendinglitigation, nent.	internal service fund liabiliti	esandcontingentobligation	ns, can be a negative
ong-Term Liability Burden						
Combined Burden of Debt and Net Pension Liabilities in Relation to Resource Base	Low Liabilities less than 10% of personal income	Moderate Liabilities≥10% and <20% of personal income	Elevated but Still in Moderate Range Liabilities ≥20% and <40% of person income	High Liabilities≥40% and <60% al ofpersonalincome	Very High Liabilities 260% and <80% of personal income	Extremely High Liabilities≥80% of personalincome
AsymmetricRating Driver Considerations	exceptionally large OPEB	ment can be negatively affe liability without the ability o term liability burden assess	orwillingness tomake chang	tives exposure;short-term, jes to benefits. An exception	variable-rate or bullet matu allylarge accountspayableb	ritydebt; or an nacklogcan also
Operating Performance						
Financial Resilience through Downturns (Based on Interpretation of Scenario Analysis)	Superior gap-closing capacity, expected to manage through economic downturns while maintaining a high level of fundamental financial flexibility	Verystronggap-dosing capacity, expected to managethrough economic downturns while maintaining an adequate level of fundamental financial flexibility	capacity,financial operationswouldbe morechallengedina	Adequategap-dosing capacity, financial operationscould become stressed in a downtum, but expected to recover financial flexibility	Limited gap-closing capacity, financial operations could become distressed in a downturn	Very limited gap-closing capacity; financial operations likely to become distressed in a downturn
Budget Management at Timesof Economic Recovery	Rapid rebuilding of financial flexibility when needed, with normaterial deferral of required spending/nonrecurring support of operations	Consistent efforts in support of financial flexibility, with limited to nomaterial deferrator required spending/ nonreauring support of operations	required spending/ nonrecurring support of	Significant deferral of required spending/ nonrecurring support of operations	Deferral of required spending/nonrecurring support of operations that risks becoming untenable given tools available to issuer	Deferral of required spending/nonrecurring support of operations that is unsustainable and requires immediate action by the issuer
AsymmetricRating Driver Considerations	governmentwidedayscas	honhand metric hasor is e	xpected to fall below 60 day	market access concerns (in s); the risk of an outside part issatisfaction, particularly in	v (e.g. another level of gove	mment)havinga
Asymmetric Additional Risk	conclusion. These addition	alriskfactors work asymm	etrically, where only below-	ssigned also considers certai standard features are factor haracteristics that are signifi	ed into the final rating levels	ForU.S. state
Considerations					age 9. OPEB - Other po	

Minnesota's Credit Rating

Minnesota's Credit Rating – Economic Resource Base





Minnesota's Credit Rating – Economic Resource Base

Economic Data O	verview											
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	10-year CAGR
Total nonfarm employ	ment (% change)											
Minnesota	1.8	1.4	1.6	1.4	1.4	0.9	0.7	-6.6	2.5	2.7	1.8	0.7
U.S.	1.6	1.9	2.1	1.8	1.6	1.6	1.3	-5.8	2.9	4.3	2.2	1.3
Labor force (% change	e)											
Minnesota	0.4	0.6	0.9	0.6	1.6	0.1	1.2	0.3	-2.3	0.7	0.9	0.5
U.S.	0.3	0.3	0.8	1.3	0.7	1.1	0.9	-1.7	0.3	1.9	1.7	0.7
Unemployment rate (% labor force)											
Minnesota	5.0	4.3	3.8	3.9	3.5	3.0	3.3	6.3	3.7	2.6	2.8	3.7
U.S.	7.4	6.2	5.3	4.9	4.4	3.9	3.7	8.1	5.3	3.6	3.6	5.1
Personal income (% cl	nange)											
Minnesota	0.8	4.9	4.7	2.1	4.5	5.2	3.7	6.4	10.1	3.6	4.2	4.9
U.S.	1.1	5.1	4.7	2.7	4.9	5.1	4.8	6.8	9.2	3.1	5.9	5.2
Real GDP (% change)												
Minnesota	2.7	2.7	2.0	1.5	1.2	2.8	1.3	-3.3	5.7	1.8	1.6	1.7
U.S.	2.1	2.5	2.9	1.8	2.5	3.0	2.6	-2.2	6.1	2.5	2.9	2.4
Source: Fitch Ratings; DI	VER by Solve, U.S. Bu	reau of Economi	ic Analysis, U.S. E	Bureau of Labor	Statistics							



Revenue Framework - 'aaa'

Growth Prospects for Revenues

Metrics to Support Assessment

State Governments and Territories

Historical performance of tax revenues (adjusted for estimated effect of changes in tax policy) in comparison to growth in national GDP and inflation

Note: Alternatively, or in conjunction with the above, Fitch may compare key economic and demographic trends exhibited by the issuer relative to national levels. Historical performance is used as a factor for consideration of future performance. Fitch may incorporate different historical periods in its analysis, including the use of five-year, 10-year and/or 20-year CAGRs, to provide a broader perspective. Expectations for growth in line with or above the level of U.S. economic performance without the need for tax increases are consistent with a 'aaa' assessment; growth below U.S. economic performance but above the level of inflation, 'aa'; growth approximately in line with the level of inflation, 'a'; growth below the level of inflation or flat performance, 'bbb'; and a declining revenue trajectory, 'bb'.

Source: Fitch Ratings

REVENUE GROWTH	2021	2022	2023		2021	2022	2023
10-Year CAGRs, Revenues and GDP (%)				10-Year CAGRs, Revenues and CPI (%)			
Policy-Adjusted Revenues (Issuer)	5.1	5.4	4.7	Policy-Adjusted Revenues (Issuer)	5.1	5.4	4.7
Nominal GDP (US)	4.3	4.8	5.1	CPI (US)	1.9	2.5	2.7
Difference	0.8	0.6	(0.4)	Difference	3.2	2.9	2.0
Unadjusted Revenues (Issuer)	5.3	5.4	4.7	Unadjusted Revenues (Issuer)	5.3	5.4	4.7
Nominal GDP (US)	4.3	4.8	5.1	CPI (US)	1.9	2.5	2.7
Difference	1.0	0.6	(0.4)	Difference	3.4	2.9	2.0

Source: Fitch Records & Lumesis



Expenditure Framework - 'aaa'

Flexibility of Main Expenditure Items

Metrics to Support Assessment

State Governments and Territories

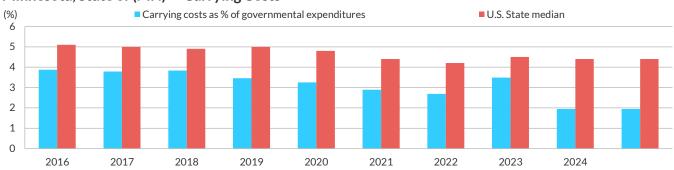
Carrying cost: Governmental debt service + pension ADC + OPEB actual payment/governmental expenditures (most recent year)

Workforce evaluation: When workforce is a notable expense driver, consideration of an issuer's control over workforce spending based on factors such as management's independent control of headcount, compensation and work rules, existence/terms of contractual agreements with labor, and laws covering collective bargaining and the ability to strike

- The carrying cost metric isolates spending that is a more fixed obligation. Fitch considers a carrying cost metric of less than 10% to be consistent with a 'aaa' assessment; ≥ 10% and < 20%, 'aa'; ≥ 20% and < 25%, 'a'; ≥ 25% and < 30%, 'bbb'; and ≥ 30%, 'bb', while noting that the carrying cost metric is only one consideration in the assessment of expenditure flexibility.
- The workforce evaluation highlights a government issuers' relative ability to control labor costs. State governments generally have ample flexibility to cut spending because of both largely sovereign powers under the U.S. governmental system and the fact that states generally provide funding that is used by other entities, often local governments, to provide services rather than the state providing services directly. Labor costs are more inflexible and represent a large part of some territory budgets.

ADC – Actuarily determined employer contribution Source: Fitch Ratings

Minnesota, State of (MN) — Carrying Costs





Long-term Liability Burden – 'aaa'

Long-Term Liability Burden

Metrics to Support Assessment

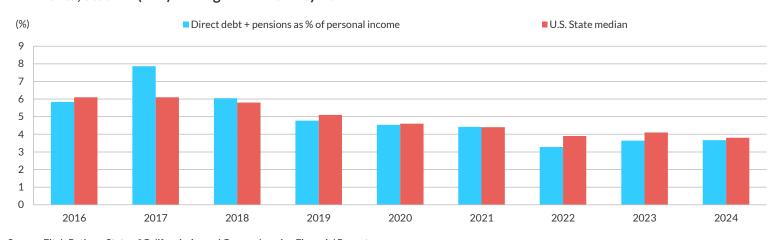
State Governments and Territories

Direct debt + Fitch-adjusted net pension liability as a percentage of personal income and of GDP

- The liabilities as a percentage of resident personal income metric indicates the burden on the economic base and is the primary metric for analysis in most cases. Fitch considers a liabilities-to-income metric of less than 10% to be consistent with a 'aaa' assessment; less than 20%, 'aa'; less than 40%, 'a'; and less than 60%, 'bbb'.
- Using current metrics as a base, analysis focuses on expectations for the future, incorporating expectations of capital plans/needs and the pace at which debt is paid down, the adequacy of current pension contribution policies and economic expectations.
- Fitch also considers the liability burden as a percentage of a state's or territory's GDP for state governments and territories whereby personal income does not fully reflect the resource base. For these states and territories, Fitch uses a similar scale as with personal income analysis and considers a total liabilities to GDP metric of less than 10% to be consistent with a 'aaa' assessment; ≥ 10% and < 20%, 'aa'; ≥ 20% and < 40%, 'a'; ≥ 40% and < 60%, 'bbb'; and ≥ 60%, 'bb'.

Source: Fitch Ratings

Minnesota, State of (MN) — Long-Term Liability Burden



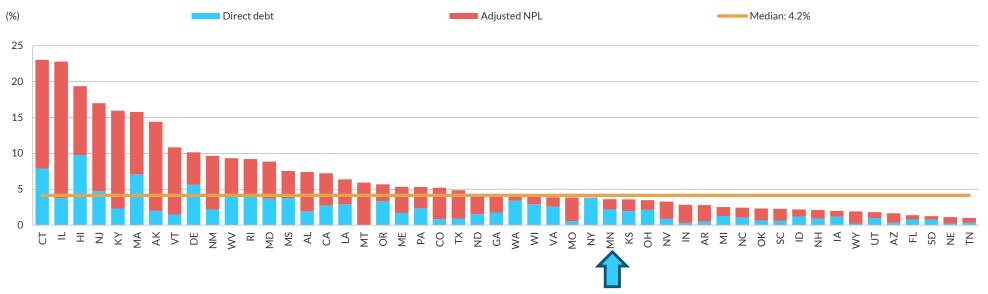
Source: Fitch Ratings, State of California Annual Comprehensive Financial Reports



Long-term Liability Burden – 'aaa'

State Direct Debt and Adjusted Pension Liabilities

(% of personal income, fiscal 2023)



Note: California, Illinois and Nevada figures based on available disclosure, given the absence of annual comprehensive financial statements. NPL – Net pension liability.

Source: Fitch Ratings, Fitch Solutions, state and pension annual comprehensive financial reports, state bond documents, U.S. Bureau of Economic Analysis



Operating Performance - 'aaa'

Financial Resilience through Downturns

Metrics to Support Assessment

Interpretation of Scenario Analysis is an important driver of the financial resilience assessment for state governments and territories.

Source: Fitch Ratings

Budget Management in Times of Economic Recovery

Metrics to Support Assessment

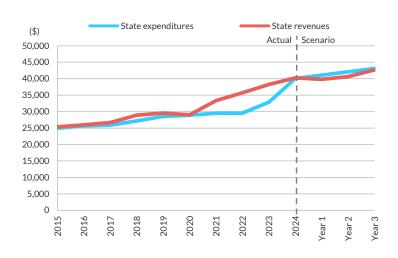
State Governments and Territories

Consideration of historical and expected budgeting practices

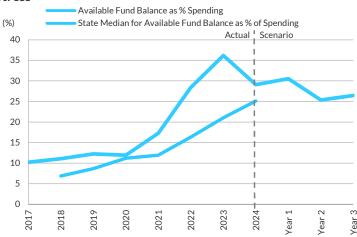
Dollar difference between pension ADC and actual pension contribution as a percentage of spending.

Source: Fitch Ratings

State Revenues and Expenditures in an Unaddressed Stress



Available Fund Balance as % of Spending in an Unaddressed Stress



Q&A



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