

# RatingsDirect®

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## Summary:

# St. Paul, Minnesota; Water/Sewer

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## Summary:

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### Credit Profile

US\$8.7 mil swr rev bnds ser 2015B (Green Bnds) due 12/01/2034

*Long Term Rating* AAA/Stable New

St Paul swr

*Long Term Rating* AAA/Stable Affirmed

## Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to St. Paul, Minn.'s series 2015B sewer revenue bonds. At the same time, Standard & Poor's affirmed its 'AAA' rating on the city's outstanding sewer revenue bonds. The outlook is stable.

The rating reflects our assessment of the following characteristics:

- The city's economic importance as the state capital;
- Affordable rates;
- A strong financial position; and
- Limited additional debt needs.

The 2015B bonds will be special obligations of the city secured by a first charge and lien on the revenues of the sewer system. St. Paul will use the proceeds to finance improvements to its sewer system. Other bond provisions include the following:

- A covenant to set rates that generate revenues that cover at least operational expenses and debt service;
- A requirement that prior to issuing additional bonds that net revenues cover maximum pro forma annual debt service by at least 1.25x; and
- A debt service reserve funded at the lesser of 10% of par, maximum annual debt service (MADS), or the amount allowed by law with respect to yield restrictions.

St. Paul's sewer system has a predominantly (99%) locally derived revenue base. Local service charges, derived through an autonomous rate-setting process, represent virtually all of the entity's revenues. This, coupled with operating expense flexibility, limits exposure to federal revenues.

The city's service area is coterminous with the city of St. Paul, and serves 72,506 customers. Flows are fairly evenly split between residential (46%) and commercial/industrial/governmental (53%) customers. The sewer system consists of sanitary and industrial wastewater and storm water conveyance facilities, while sewage treatment is provided by the Metropolitan Council Environmental Services (MCES), a division of the Metropolitan Council.

Anchoring the city's diverse economic base are the state government and the health care, financial services, and educational services sectors. Manufacturing also retains a presence in the city's economy. City unemployment rates

are generally slightly below the national averages, indicating a measure of economic stability. Income levels are adequate, in our view, with median household and per capita effective buying income for 2013 at 84% and 88%, respectively, of national levels.

Rates are affordable, in our view. The city didn't raise rates in fiscal years 2011 and 2013, but did increase them by 3% in 2014 and then again by 3.5% in 2015. Current rates for 1,000 cubic feet and a monthly-equivalent customer charge are \$40.10. We would expect the city to continue raising rates as needed to generate financial metrics consistent with historical trends.

The sewer system's financial position is, in our opinion, strong. For the last audited fiscal year ended Dec. 31, 2013, net revenues covered total debt service costs (which include subordinate state loans) by about 2.0x, and unaudited figures for 2014 indicate about 1.75x coverage. Liquidity for the sewer system has decreased in recent years as the city has used its available cash to pay for capital needs, but has stabilized at about 300 days' cash (including rate stabilization) at the end of 2014. The city maintains a policy to keep at least 90 days' cash on hand, but informally targets no less than 300 days.

From 2015-2023, the city proposes to spend about \$86 million in sewer-related capital projects, which would be supported by about \$8 million of debt issued each year. St. Paul has not engaged in any direct purchase or bank loans for the sewer system.

## Outlook

The stable outlook reflects Standard & Poor's expectation that the sewer system's financial performance should remain strong, supported by the generally stable and diverse customer base. While we do not expect to lower the rating during the two-year outlook horizon, significant deterioration of the sewer system's financial profile over several fiscal years could lead to a downgrade.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Key Water And Sewer Utility Credit Ratio Ranges, Sept. 15, 2008
- USPF Criteria: Standard & Poor's Revises Criteria For Rating Water, Sewer, And Drainage Utility Revenue Bonds, Sept. 15, 2008
- USPF Criteria: Methodology: Definitions And Related Analytic Practices For Covenant And Payment Provisions In U.S. Public Finance Revenue Obligations, Nov. 29, 2011
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

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