



Tagging Info

Fitch Rates Saint Paul, MN's GOs 'AAA'; Outlook Stable Ratings Endorsement Policy

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Fitch Ratings-New York-11 March 2014: Fitch Ratings assigns an 'AAA' rating to the following Saint Paul, MN (the city) general obligation (GO) bonds:

- \$16.015 million GO capital improvement bonds, series 2014A;
- \$29.8 million GO street improvement special assessment bonds, series 2014B;
- \$16.43 million Saint Paul Public Library Agency GO library bonds, series 2014C.

Proceeds will be used to pay for various capital, street improvement and library projects and refund outstanding bonds. The bonds are scheduled for competitive sale on April 9.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by the city's unlimited full faith and credit pledge.

KEY RATING DRIVERS

ECONOMIC DIVERSITY: The broad and diverse economy continues to show resilience, and assessed value levels are projected to grow after several years of declines. The city benefits from its presence in the healthy twin cities economy, as well as its role as home of the state's government.

STRONG FINANCIAL FUNDAMENTALS: The city consistently exhibits stable financial performance and maintains healthy reserve levels that will allow it to absorb expected cost increases. Carrying costs for debt service, pensions and retiree healthcare are expected to remain stable relative to budget with rapidly amortizing debt and healthcare savings making room for growing pension contributions to the state's underfunded plans.

PROACTIVE, CONSERVATIVE MANAGEMENT: Management has actively dealt with budgetary challenges, demonstrating a willingness to raise recurring revenues and adhere to its prudent reserve policy.

MODERATE DEBT BURDEN: Debt levels are average but expected to decline as the city plans to issue less debt than it amortizes.

RATING SENSITIVITIES

The rating is sensitive to shifts in fundamental credit characteristics including the city's strong financial management practices. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

CREDIT PROFILE

Saint Paul is the capital of Minnesota and is a major component of the vibrant twin cities economy.

DIVERSE EMPLOYMENT BASE STABILIZES ECONOMY

Saint Paul's two leading employers are the University of Minnesota and the state of Minnesota, which provide stability to its economy. The city's employment base is strong. Employment levels are up slightly over the past decade, similar to the state. The unemployment rate was consistently below the national rate for the same period but hovers just above the state's low rate. The November 2013 unemployment rate was 4.4%, above the state's low rate of 4.1% but well below the national rate of 6.6%.

Saint Paul's taxable value declined for each of the four years leading up to 2012. Recently, the city has had a substantial amount of construction and home price appreciation, resulting in a small increase in taxable value projected for 2014. Approximately 30% of the property in the city is tax-exempt.

The commercial tax base is supported by a diverse group of businesses and is home to a number of large corporations including 3M and The Travelers Companies. A large Ford plant in the city closed in late 2011 and is currently being demolished in preparation for site redevelopment.

BUDGET PRUDENTLY MANAGED TO MAINTAIN CUSHION

Strong budget management has enabled the city to maintain strong reserve levels despite significant variability in Local Government Aid (LGA) receipts from the state beginning in 2008. The city maintains a financial cushion consistently in line with its prudent policy of fund balance at 15% of revenues. The general fund, supported largely by state aid and property taxes, has produced generally consistent operating surpluses. The city also benefits from a right of way fee that generated almost \$27 million in 2012 and, unlike property taxes, is charged to tax-exempt properties.

The city finished 2012 with its fourth straight year of fund balance growth. The city ended the year with a \$6.8 million surplus, bringing its unrestricted fund balance to \$49.7 million or a strong 23.7% of expenditures. The surplus was a result of a 5.7% increase in the property tax levy, improved tax collections, and higher fees, sales and services revenues offsetting increased public safety costs from increased staffing and reduced transfers in.

The 2013 adopted budget was balanced with a 1.9% increase in the property tax levy from 2012. State aid remained flat. As a result of conservative budgeting of expenditures, the city is projecting a \$3.8 million surplus (1.7% of expenses).

2014 BUDGET BALANCED WITH INCREASED LGA

The city kept the property tax levy flat in the 2014 budget, supported by a 20% increase in LGA, following four years of decreasing or flat payments. LGA revenues rose to 26% of revenues in 2014, offsetting \$9.1 million of increased costs driven by salary increases, higher pension costs, and the planned expiration of public safety grants.

ADEQUATE PENSION FUNDING; DECREASING DEBT

City employees are members of the state-run Public Employee Retirement Plan (PERA), which consists of several sub-plans. Using Fitch's standard 7% rate of return assumption, all of the plans have average to below average funding levels ranging from 66% to 71%. Annual funding is done on a statutory basis with contributions equal to a percentage of payroll adjusted to achieve full funding in 25 years or less (fiscals 2031 - 2038, depending on the plan).

Fitch expects contributions to ramp up as the 25 year mark gets closer. Fitch believes the city has adequate flexibility to absorb these increases. A high 68% of the city's debt amortizes within 10 years and healthcare savings from benefit reductions and discounts for new employees should decrease future retiree healthcare costs. Fitch expects carrying costs for debt service, pensions and OPEB to remain a relatively stable portion of the budget. Carrying costs will consume roughly 21% of governmental spending in fiscal 2014.

The city's overall debt burden is moderate at \$2,989 per capita and 4.9% of market property value. Debt plans are minimal, with the city planning to issue less debt than it amortizes.

Contact:

Primary Analyst
Eric Friedman
Director
+1-212-908-9181
Fitch Ratings, Inc.
One State Street Plaza
New York, NY 10004

Secondary Analyst
Bernhard Fischer
Director
+1-212-908-9167

Committee Chairperson
Jessalynn Moro
Managing Director
+1-212-908-0608

Media Relations: Elizabeth Fogerty, New York, Tel: +1 (212) 908 0526, Email: elizabeth.fogerty@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index, IHS Global Insight, Zillow.com, National Association of Realtors.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

Additional Disclosure

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