FITCH RATES SAINT PAUL, MN'S $20MM GOS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-15 November 2016: Fitch Ratings has assigned an 'AAA' rating to the following Saint Paul, MN (the city) general obligation (GO) bonds:

--$9 million Saint Paul GO various purpose bonds, series 2016E;
--$11 million Saint Paul GO street improvement special assessment refunding bonds, series 2016F.

In addition, Fitch has affirmed the following 'AAA' ratings:

--$28.9 million GO capital improvement bonds, series 2014A, 2015A and 2016A;
--$23.9 million GO street improvement special assessment bonds, series 2014B;
--$12.35 million Saint Paul Public Library Agency GO library bonds, series 2014C;
--the city's Issuer Default Rating (IDR).

The Rating Outlook is Stable.

The bonds are scheduled for competitive sale on Nov. 16. Proceeds will be used to defease the housing and redevelopment authority of the city of St. Paul series 2008 lease revenue bonds, for a crossover advance refunding of the series 2008B and 2009B GO street improvement bonds, and to pay for public safety and public works capital equipment.

SECURITY
The bonds are payable from the city's unlimited full faith and credit pledge.

KEY RATING DRIVERS

The 'AAA' rating reflects the city's solid growth prospects, low long-term liability position, and strong revenue and expenditure controls. The rating also reflects Fitch's assessment that the city is very well positioned to address cyclical downturns while maintaining a high level of fundamental financial flexibility.

Economic Resource Base
Saint Paul is the capital of Minnesota and is a major component of the vibrant twin cities economy. The 2015 population is reported at 300,851, with above average education levels and low unemployment rates.

Revenue Framework: 'aaa' factor assessment
Fitch expects the city's revenue growth to be solid, above the rate of inflation but below national GDP growth. The city has a high degree of independent legal revenue-raising flexibility.

Expenditure Framework: 'aa' factor assessment
The city's natural pace of expenditure growth should be in line with the strong pace of revenue growth. Flexibility is solid, supported by moderate costs for servicing debt and other long-term liabilities.

Long-Term Liability Burden: 'aaa' factor assessment

The city has a low long-term liability burden including pension liabilities and overall debt relative to personal income.

Operating Performance: 'aaa' factor assessment
Saint Paul has exceptionally strong gap-closing capacity, with available reserves well positioned to remain above the 'aaa' reserve safety margin level throughout a downturn following strong budget management during the current recovery.

RATING SENSITIVITIES

Maintenance of Strong Financial Flexibility: The 'AAA' ratings are sensitive to shifts in fundamental credit characteristics including the city's strong financial flexibility and maintenance of available reserves in line with the current rating level throughout the economic cycle.

Enactment of Revenue-Raising Constraints: The rating is sensitive to constraints that higher levels of government (i.e. the state of Minnesota) could place on the city's future revenue-raising ability by enacting tax rate and/or levy caps. Such measures would be analyzed for their impact on the city's budget flexibility and could place negative pressure on the rating.

CREDIT PROFILE

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. Recently, the city has had a substantial amount of construction and home price appreciation, resulting in increases in taxable value for the last three years (1.1%, 7.1%, and 5.4% from 2014 through 2016) after recessionary declines. A diverse group of businesses support the commercial tax base, including 3M. Approximately 30% of the property in the city is tax-exempt.

Revenue Framework

The city has a diverse revenue mix. Approximately 32% of FY 2015 general fund revenue came from property taxes and another 32% came from intergovernmental revenue from the state of Minnesota. The remainder is largely comprised of charges for services, other taxes, and fines and forfeitures.

While natural revenue growth is likely lower than the high 10-year CAGR of 4.7% through 2015, which was partially driven by policy increases, Fitch still expects revenue growth to be strong. Revenue is expected to grow at a rate above CPI and in line with GDP growth given the strength of the city's tax base and the city's expectations of AV growth of 4-6% over the next three years. The city does have exposure to variability in state local government aid receipts, which fell from 2007 through 2013, although aid is expected to be stable in the near term.

The city maintains unlimited legal flexibility to raise the property tax levy as necessary. In the past, Minnesota has enacted statewide limits to the property tax levies of its local governments. These limitations have been temporary in nature, generally expiring after one year. These levy limitations have never applied to taxes levied to pay debt service. There is no guarantee that the state will not enact similar limits in the future, or limits of a more permanent nature. Minnesota has, on occasion, enacted multi-year property tax levy caps; most recently for fiscal years 2009 to 2011. The longest such period of multi-year caps was from 1972 to 1992, when the caps were repealed.

Expenditure Framework

The city's largest expenditure item is public safety at 69% of FY 2015 general fund expenditures. The city also spent 18% on general government administration and 12% on culture and recreation.

Fitch expects that the city's natural pace of expenditure growth will be in line with the expected revenue growth rate. The main drivers of the city's expenditure growth come from mandated cost of living adjustments in union contracts (generally close to CPI), which are settled through 2017.

The city has solid flexibility over its main expenditure items. Carrying costs including debt service and pension costs are moderate at 20% of governmental expenditures. While there is some risk of annual pension costs increasing due to statutory contributions falling short of actuarial levels, debt service levels should fall with the fast amortization of debt (over 70% in the next 10 years). The city has also demonstrated an ability to implement spending reductions in the past, as several past mid-year state aid declines have forced management to cut vacant positions and other expenditure items to remain above its 15% reserve policy.

Long-Term Liability Burden
The city's long-term liability burden is low, with debt and pension liabilities at less than 9% of personal income. Direct debt net of self-supporting debt totals about $387 million, and overlapping debt about $370 million. Fitch expects the city's direct debt to decline due to the fast amortization rate and minimal debt plans. Approximately 29% of the total $1.1 billion liability burden is in the form of unfunded pension liabilities, a more variable liability.

The city participates in the Public Employee Retirement Plan (PERA), which is a state-run cost-sharing, multiple-employer defined benefit pension system. PERA consists of several sub-plans, with the bulk of the city's employees in the General Employees Retirement Fund (GERF) or the Public Employees Police and Fire Fund (PEPFF). Fitch calculates the city's combined ratio of assets to liabilities of the two plans to be 76% assuming a 7% discount rate. Statutory annual contributions equal a percentage of payroll adjusted annually to achieve full funding in 25 years or less (fiscal years 2031-2038, depending on the plan). However, the statutorily determined contribution (SDC) generally falls short of the actuarially determined contribution (ADC), raising the risk of higher contributions in the future. Fitch believes the city has adequate flexibility to absorb increased pension costs.

Operating Performance
Fitch believes that the city has maintained a high level of available fund balance throughout the recession and subsequent recovery, relative to potential revenue declines depicted by the Fitch Analytical Sensitivity Tool (FAST) in a moderate economic downturn. Fitch expects that the city available reserve levels as a percentage of general fund expenditures, which have remained at above 17% since fiscal 2009, will remain well above the 'aaa' reserve safety margin level throughout the economic cycle. During a downturn, Fitch expects that the city will utilize its superior revenue and expenditure controls to preserve available fund balance above its 15% policy, as it demonstrated the ability to do throughout the great recession despite the relatively high revenue volatility that exists largely due to recessionary state aid decreases.

The city has made consistent efforts to maintain a high level of available reserves in the recent economic recovery, partially in recognition of the risk of state aid declines, which have occurred in the past. Current available reserve levels are above the city's formal policy of maintaining at least 15% of expenditures in the general fund. The city implemented the 15% policy in FY 2005 and has maintained reserves in excess of that level throughout the recession and subsequent recovery. Fiscal 2015 ended with general fund reserves at 21% of spending and management projects a surplus in FY 2016 due to positive revenue variances and managed spending. The city uses the 15% policy as a floor and manages to maintain available reserves in the 20% to 30% range.

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In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016)
https://www.fitchratings.com/site/re/879478