STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

St. Paul, Minnesota; Appropriations; General Obligation; Moral Obligation

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Summary:

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Credit Profile		
US$11.0 mil GO cap imp bonds ser 2016A due 09/01/2026		
Long Term Rating	AAA/Stable	New
St Paul GO		
Long Term Rating	AAA/Stable	Affirmed
St Paul Port Auth, Minnesota		
St. Paul, Minnesota		
St Paul Port Auth (St Paul) GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term to St. Paul, Minn.'s series 2016A general obligation (GO) capital improvement bonds.

At the same time, Standard & Poor's affirmed its:

- 'AAA' long-term rating and underlying rating (SPUR) on the city's existing GO bonds, issued by the city;
- 'AA+' long-term rating on the city's leased-backed debt, issued by various entities, reflecting our view of the city's pledge to covenant and appropriate annual debt service payments; and
- 'AA' long-term rating on the city's series 2005 recreational facilities gross revenue bonds, reflecting our view of its moral obligation pledge to replenish the debt service reserve fund (DSRF), our view of the city's general credit characteristics, and the risk of nonappropriation by the city council.

The outlook on all ratings is stable.

The 2016A bonds will finance annual capital improvements. The 2016A bonds are secured by a pledge of the city's full faith credit and resources and an agreement to levy ad valorem property taxes without limitation as to rate or amount.

The city has outstanding GO debt additionally secured by special assessments as well as outstanding GO debt additionally secured by tax-increment revenues. All GO bonds are rated based on the city's GO pledge.

The ratings reflect our assessment of the city's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA) and a local stabilizing institutional influence;
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA) methodology;
- Strong budgetary performance, with a slight operating surplus in the general fund and break-even operating results

at the total governmental fund level in fiscal 2014;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 at 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 61.8% of total governmental fund expenditures and 5.5x governmental debt service, as well as access to external liquidity we consider exceptional;
- Adequate debt and contingent liability position, with debt service carrying charges at 11.2% of expenditures, net direct debt at 64.0% of total governmental fund revenue, and rapid amortization, with 69.2% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider St. Paul's economy strong. The city, with an estimated population of 299,641, is in Ramsey County in the Minneapolis-St. Paul-Bloomington MSA, which we consider to be broad and diverse. It also benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 84.8% of the national level and per capita market value of $68,320. Overall, market value grew by 5.2% over the past year to $20.5 billion in 2015. The county unemployment rate was 3.9% in 2014.

In our view, the MSA's valuations have recovered from multiple years of declines during the recession. The county assessor's preliminary property value figures for 2016 and projections for 2017 indicate strong ongoing growth. Foreclosures have been steadily decreasing.

The prominence of state government in the city, as well as the presence of multiple higher education institutions including the University of Minnesota Saint Paul campus, supports our view that the city benefits from such stabilizing institutions.

The city's economy is growing following completion of a new metro transit train line called the Metro Green Line which links the downtowns of St Paul and Minneapolis. The Minnesota United, a professional Major League Soccer team, has agreed to invest $150 million of private funds in a new soccer stadium near the line. The city plans to invest roughly $16 million in public infrastructure surrounding the stadium area, which we understand will be financed with existing cash in tax-increment finance funds. The city administration does not plan to issue any debt to support the stadium or related infrastructure.

Very strong management

We view the city's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The city administration uses historical trend analysis in setting the annual budget. Management monitors general fund budget-to-actual results at least monthly, although the city council does not receive budget-to-actual reports on a pre-determined schedule. The city adopted budget systems that allow for real-time budget evaluation, which officials believe have enhanced their ability to monitor budget-to-actual results. In our view the city exhibits a strong ability and willingness to address budget variance.

The city maintains its own formal investment policy in conjunction with the state's investment statute, and reports to the city council staff on investment performance on a quarterly basis.

Management updates its five-year financial model at least annually, and the council uses the model as a planning tool.

The city also annually updates its five-year capital improvement plan, which includes funding sources.

The city has a formal general fund unassigned reserve policy to maintain at least 15% of expenditures in its combined general and libraries funds, which the city has historically exceeded. In addition, the city also has policies relating to derivatives, post- debt issuance compliance, and a DSRF minimum. The city also participates in a bi-annual joint debt advisory committee report with Ramsey County, the St Paul Public Schools, the Port Authority, and the Ramsey County Regional Railroad Authority that sets specific guidelines for debt ratios, including debt as a percent of market value and debt per capita.

Strong budgetary performance

St. Paul's budgetary performance is strong, in our opinion. The city had slight surplus operating results in the general fund at 0.6% of expenditures, and balanced results across all governmental funds of 0.1% in fiscal 2014.

Officials estimate that fiscal 2015 produced a slight general fund surplus of $1 million due to positive budget variances, and we expect near balanced results across total governmental funds. For fiscal 2016, we expect at least balanced results again for both the general fund and total governmental funds, based on the city's structurally balanced budget.

In 2014, the largest general fund revenue sources included property taxes (33%); intergovernmental revenue (32%, nearly entirely from the state); and fees, sales, and services (17%).

Given the city's predominantly locally derived revenue base, we view the city's credit quality as independent from the federal government.

Very strong budgetary flexibility

St. Paul's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 at 18% of operating expenditures, or $41.2 million.

In our view, the city is likely to post a slight general fund operating surplus in 2015, and we expect it to produce at least break-even general fund operations in 2016 as well. Accordingly, we expect budgetary flexibility will remain very strong, in line with the city's policy to maintain at least 15% of expenditures in unassigned reserves in its combined general and library funds.

The available fund balance excludes a $7.8 million general fund receivable from the city's golf fund because of that fund's consistent deficit balance. The city plans to pay off the golf fund's outstanding debt (series 2005 recreational facility revenue bonds) with proceeds from the sale of property in 2016; this action should improve operations in the golf fund, although there is no timeline for eliminating the receivable.

Very strong liquidity

In our opinion, St. Paul's liquidity is very strong, with total government available cash at 61.8% of total governmental fund expenditures and 5.5x governmental debt service in 2014. In our view, the city has exceptional access to external liquidity if necessary.

The city has issued bonds, including GO and utility revenue bonds, frequently during the past 15 years. We expect liquidity to remain very strong.

In August 2015, the city issued its $22.825 million 2015C variable-rate GO bonds, additionally secured by special assessments, via a direct placement with BMO Harris Bank. We view the terms of the agreement as permissive, as the agreement allows for acceleration as a remedy for an event of default, and such events include covenant violations. However, if the debt were accelerated due to an event of default or cross-default of parity GO debt, in our view the city has ample liquidity to cover debt service, and so we do not the view debt as weakening the city's liquidity or overall credit profile.

Adequate debt and contingent liability profile

In our view, St. Paul's debt and contingent liability profile is adequate. Total governmental fund debt service is 11.2% of total governmental fund expenditures, and net direct debt is 64.0% of total governmental fund revenue. Approximately 69.2% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The city plans to issue approximately $58 million in GO debt in the remainder of 2016 and in 2017, as well as revenue-backed debt, and may consider issuing refunding debt for interest cost savings. Some of this debt may be issued through a variable-rate debt direct purchase similar to the debt the city issued in 2015 through a direct placement.

Given the city's rapid amortization schedule, we do not believe the additional debt will weaken its debt profile.

St. Paul's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 6.2% of total governmental fund expenditures in 2015. Of that amount, 4.3% represented required contributions to pension obligations, and 1.8% represented OPEB payments. The city made its full annual required pension contribution in 2015.

The defined-benefit plans administered by the Minnesota Public Employees' Retirement Association (PERA) cover all full-time and certain part-time city employees who are not participants in the HRA Pension Plan (a defined-contribution plan). PERA administers the General Employees' Retirement Fund (GERF) and the Public Employees' Police & Fire Fund (PEPFF); these funds are cost-sharing, multiemployer retirement plans. PEPFF is the larger plan for the city.

Given PEPFF's pension funded ratio of 80%, and the city's modest pension costs as a percent of its expenditures, we do not expect the city's pension costs to rise substantially in the future and do not view its pension obligations as large.

The city contributes to certain retirees' health care and life insurance premiums and allows others to remain on its plans. Its OPEB unfunded liability as of the Sept. 30, 2014, actuarial valuation date was $188.7 million. The city finances these benefits on a pay-as-you-go basis and, as such, had a 0% funded ratio, and contributed $8.9 million in 2013.

Strong institutional framework

The institutional framework score for Minnesota cities with a population greater than 2,500 is strong.

Outlook

The stable outlook reflects our view of St. Paul's consistently very strong financial flexibility and liquidity, which we believe is supported by very strong management. The MSA's broad and diverse characteristics, as well as the stabilizing support provided by the state capital and various higher education institutions, also support our view that the ratings are unlikely to change within the next two years.

Downside scenario

If management policies weaken or the city's financial profile deteriorates, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Moral Obligation Bonds, June 27, 2006

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- Institutional Framework Overview: Minnesota Local Governments

Ratings Detail (As Of March 18, 2016)		
St. Paul lse		
Long Term Rating	AA+/Stable	Affirmed
St. Paul GO cap imp bnds		
Long Term Rating	AAA/Stable	Affirmed
St. Paul GO		
Long Term Rating	AAA/Stable	Affirmed
St. Paul GO		
Long Term Rating	AAA/Stable	Affirmed
St. Paul GO		
Long Term Rating	AAA/Stable	Affirmed
St. Paul MORALOBLIG		
Long Term Rating	AA/Stable	Affirmed
St Paul Port Auth, Minnesota		
St. Paul, Minnesota		
St Paul GO		

Ratings Detail (As Of March 18, 2016) (cont.)		
Long Term Rating	AAA/Stable	Affirmed
St Paul Port Auth (St Paul) GO		
Unenhanced Rating	AAA(SPUR)/Stable	Affirmed
St. Paul Pub Lib Agy, Minnesota		
St. Paul, Minnesota		
St. Paul Pub Lib Agy (St. Paul) GO		
Long Term Rating	AAA/Stable	Affirmed
St. Paul Hsg & Redev Auth, Minnesota		
St. Paul, Minnesota		
St. Paul Hsg & Redev Auth, Minnesota		
St. Paul Housing & Redev Auth (St. Paul) approp		
Long Term Rating	AA+/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.