STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

RatingsDirect®

Summary:

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

Primary Credit Analyst:
Caroline E West, Chicago (1) 312-233-7047; caroline.west@standardandpoors.com

Secondary Contact:
Scott D Garrigan, Chicago (1) 312-233-7014; scott.garrigan@standardandpoors.com

Table Of Contents

Summary:

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

Credit Profile		
US$12.54 mil GO cap imp bnds ser 2015A due 03/01/2025		
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 2015A 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;
- 'AA+' long-term rating on the city's leased-backed debt, issued by various issuers, 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, 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 2015A bonds will finance annual capital improvements as well as refund the city's series 2007C GO capital improvement bonds. The 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 ratings reflect our assessment of the city's:

- Very strong management, with strong financial policies;
- Very strong liquidity, providing very strong cash levels to cover both debt service and expenditures;
- Very strong budgetary flexibility, with available general fund reserves exceeding the city's 15% policy;
- Strong budgetary performance, with a recent trend of at least balanced general fund operating results, and projections for future balanced results, including in total governmental funds;
- Strong debt and liability position; and
- Adequate economy, which benefits from its participation in the Minneapolis/St. Paul metropolitan area.

Very strong management conditions

We view the city's management conditions as very strong, with strong financial practices. The city council monitors general fund budget-to-actual results on a monthly basis. The city recently adopted new financial systems that allow for real-time budget evaluation, which officials believe will enhance their ability to monitor budget-to-actual results. The council also reviews very detailed quarterly investment reports.

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. In addition to its formal reserve policy of 15% of expenditures, which the city has historically exceeded, the city also has a comprehensive debt policy.

Very strong liquidity

Supporting the city's finances is liquidity we consider very strong, with total government available cash as a percentage of total governmental fund expenditures exceeding 15% and as a percentage of debt service above 120%. We believe the city has exceptional access to external liquidity. The city has issued bonds, including GO bonds and utility revenue bonds, frequently during the past 15 years.

Very strong budgetary flexibility

In our opinion, the city's budgetary flexibility remains very strong, with available reserves exceeding 18% of general fund expenditures in 2013. The city estimates a slight general fund surplus for 2014, and based on the city's budget for fiscal 2015, we expect reserves to remain at least level.

For audited fiscal 2013, available general fund reserves totaled $39.8 million, or 18.3% of expenditures, excluding a $6.7 million receivable from the city's golf fund due to that fund's consistent deficit balance. We understand that the audited fiscal 2013 results include an incorrectly booked liability of $1.4 million in the general fund, which will be corrected in the fiscal 2014 audit. In addition, as a result of several special revenue funds being combined in the general fund effective 2014, reserves should increase by about $700,000. We also expect a positive adjustment in the fair market value of investments to occur in the fiscal 2014 audit. For these reasons, we believe that the city's budgetary flexibility will improve in fiscal 2014 beyond the amount of the minor operating surplus.

Strong budgetary performance

The city's budgetary performance has been strong overall, in our view, with a slight operating surplus of 0.3% for the general fund in fiscal 2013 after adjusting for the change in fair market value of investments. Total governmental funds in fiscal 2013 generated a slight deficit of 0.4%, after adjusting for one-time items.

Officials estimate that fiscal 2014 produced a slight general fund surplus of $1.5 million due to positive variances in the city's primary revenue sources, and we expect balanced results across total governmental funds. For fiscal 2015, 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 2013, the largest general fund revenue sources included property taxes (32.1%), intergovernmental revenue (28.7%, nearly entirely from the state), and fees, sales, and services (17.2%). Given the city's predominantly locally derived revenue base, we view the city's credit quality as independent from the federal government.

Strong debt and contingent liability profile

In our opinion, the city's debt and contingent liability profile is strong, with total governmental fund debt service as a percentage of total governmental fund expenditures at 11.6%, and with net direct debt as a percentage of total governmental fund revenue at 57%. The city plans to issue approximately $36 million in GO debt in the remainder of 2015 and in 2016, as well as some refunding bonds and revenue-backed debt. The city is planning a direct placement variable-rate bond, which we will evaluate after completion. Given the city's amortization schedule, which we consider rapid with 65.2% of outstanding debt (including enterprise and Housing and Redevelopment Authority, or HRA, debt) due to retire within 10 years, we do not believe the additional debt will weaken the city's debt profile.

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, multiple-employer retirement plans. Per the city's audit, in fiscal 2013, city contributions to GERF and PEPFF were $6.8 million and $11.7 million, respectively, equal to the required contributions as set by state statutes; these payments combined comprised only 3.9% of total government fund expenditures (adjusted for capital financed with bond proceeds).

The city contributes to certain retirees' health care and life insurance premiums and allows others to remain on its plans. The city's other postemployment benefits unfunded liability as of the Sept. 30, 2012, actuarial valuation date was $156.4 million. The city finances these benefits on a pay-as-you-go basis and, as such, had a 0% funded ratio, and contributed $7.6 million in 2013.

Adequate economy

We consider St. Paul's economy adequate, supported by its participation in the broad and diverse Minneapolis/St. Paul metropolitan area. Ramsey County's unemployment rate was 4.9% in 2013, and preliminary 2014 figures indicate an improvement to only 3.9%. The city has projected per capita effective buying income at 85.1% of the nation, but this percentage has been trending down.

The city's economic market value, sourced from the Minnesota Department of Revenue, increased by 3.0% to $19.45 billion in 2013. This level equates to $65,972 per capita. In our view, the metropolitan region's valuations have recovered from multiple years of declines during the recession. Standard & Poor's anticipates housing values across the West North Central region of the U.S. to continue to grow in 2015 and 2016, and we believe the region will continue to lead the county in its low unemployment rates.

Strong institutional framework

We consider the institutional framework score for Minnesota cities with population of more than 2,500 as strong. See institutional framework score for Minnesota.

Outlook

The stable outlook reflects our view of the city's consistent financial flexibility and liquidity, which we believe is supported by very strong management. Although we view the Minneapolis/St. Paul MSA as a broad and diverse economy, if the city's projected income levels decline during the next two years, thereby weakening our view of the city's economic quality, we could lower the ratings. Weakening in the city's budgetary performance or debt profile could also lead to a lower rating; however, we anticipate these credit factors will remain stable over the outlook horizon.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007
- USPF Criteria: Moral Obligation Bonds, June 27, 2006
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Related Research

- U.S. State And Local Government Credit Conditions Forecast, April 2, 2015
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Minnesota Local Governments

Ratings Detail (As Of April 7, 2015)		
St Paul recre facs gross rev bnds (Highland Natl Proj) ser 2005		
Long Term Rating	AA/Stable	Affirmed
St. Paul lse		
Long Term Rating	AA+/Stable	Affirmed
St. Paul GO cap imp bnds		
Long Term Rating	AAA/Stable	Affirmed
St. Paul GO street imp spl assess bnds ser 2013C dtd 04/08/2013 due 05/01/2014-2033		
Long Term Rating	AAA/Stable	Affirmed
St. Paul GO tax incre rfdg bnds (U.S. Bank Oper Center Proj) ser 2011G dtd 08/15/2011 due 08/01/2016-2028		
Long Term Rating	AAA/Stable	Affirmed
St Paul Port Auth, Minnesota		
St. Paul, Minnesota		
St Paul GO		
Long Term Rating	AAA/Stable	Affirmed
St Paul Port Auth (St. Paul) taxable GO bnds (St. Paul) ser 2013-1 dtd 02/13/2013 due 02/01/2014-2025 2033 2036 2038		
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		

Ratings Detail (As Of April 7, 2015) (cont.)		
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.		

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.