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

Fitch Ratings-New York-18 March 2016: Fitch Ratings has assigned an 'AAA' rating to the following Saint Paul, MN (the city) general obligation (GO) bonds:

--$11 million Saint Paul GO capital improvement bonds, series 2016A.

Proceeds will be used to pay for various capital improvement projects. The bonds are scheduled for competitive sale on March 23.

In addition, Fitch affirms the 'AAA' rating on the following ratings:

--$19.5 million GO capital improvement bonds, series 2014A and 2015A;
--$26.4 million GO street improvement special assessment bonds, series 2014B;
--$12.35 million Saint Paul Public Library Agency GO library bonds, series 2014C.

The Rating Outlook is Stable.

SECURITY
The bonds are payable from 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 were up this year 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 financial flexibility that will allow it to absorb expected cost increases. Carrying costs for debt service, pensions and retiree healthcare are moderate and expected to remain stable relative to budget.

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

DECLINING DEBT BURDEN: Debt levels are moderate 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 flexibility and maintenance of adequate reserves.

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 December 2015 unemployment rate was a very low 3.2%, below the state's low rate of 3.7%.Per capita income is 80% of the state and 91% of the U.S. averages.

Recently, the city has had a substantial amount of construction and home price appreciation, resulting in increases in taxable value for 2014 and 2015, after four years of declines. Approximately 30% of the property in the city is tax-exempt. A diverse group of businesses support the commercial tax base, including 3M and The Travelers Companies.

PRUDENT BUDGET MANAGEMENT MAINTAINS CUSHION

Strong budget management has enabled the city to maintain ample reserve levels despite significant variability in state Local Government Aid (LGA) receipts, particularly between 2007 and 2013. The city maintains a financial cushion consistently in line with its policy of general fund balance at 15% of the following year's general and library budgeted expenditures.

The general fund, supported largely by state aid and property taxes, has produced generally consistent operating surpluses. A right of way assessment that generated close to $30 million in 2014 benefits the city, and unlike property taxes, is charged to tax-exempt properties. The city recorded net general fund operating surpluses after transfers in five of the last six fiscal years. A $2.8 million net operating surplus in 2014 equal to 1.2% of spending brought unrestricted fund balance to a solid $49.3 million or 21.6% of general fund spending. Preliminary 2015 results indicate another net general fund operating surplus of approximately $1.1 million. The 2016 budget incorporates a modest 1.9% levy increase and generally stable LGA. The city projects structural balance and reserves in excess of policy levels through at least 2021.

ADEQUATE PENSION FUNDING; DECREASING DEBT

The city's overall debt burden is moderate at 4.1% of market property value or $2,745 per capita. The burden is likely to decline, as debt plans are minimal, and a high 70.5% of the city's debt amortizes within 10 years.

City employees are members of the state-run cost-sharing multi-employer Public Employee Retirement Plan (PERA). 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). Based on its GASB 67 valuation as of June 30, 2015, the entire GERF plan is reporting a ratio of assets to liabilities of 78% based upon an 8% assumed rate of return, or an estimated 70.4% when adjusted by Fitch to reflect a 7% rate of return. The entire PEPFF's 2015 ratio of assets to liabilities was 87% based upon an 8% return assumption, or an estimated 78% adjusted for the 7% discount rate.

Statutory annual contributions equal a percentage of payroll adjusted annually to achieve full funding in 25 years or less (fiscals 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. The 2015 SDC was 82.2% of the ADC for GERF and 77.7% of the ADC for PEPPF. Fitch believes the city has adequate flexibility to absorb increased pension costs.

The city funds post-employment benefits (OPEB) on a pay-as-you-go basis. The unfunded actuarial accrued liability for OPEB was a manageable 0.8% of 2015 market value. 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 other post-employment benefits (OPEB) to remain a relatively stable portion of the budget. Carrying costs consumed a moderate 23% of governmental spending in 2014.

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Fitch recently published exposure drafts of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015 and Exposure Draft: Incorporating Enhanced Recovery Prospects into U.S. Local Tax-Supported Ratings, dated Feb. 2, 2016). The drafts include a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to less than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published in the beginning of the second quarter of 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

Applicable Criteria
Exposure Draft: Incorporating Enhanced Recovery Prospects into US Local Tax-Supported Ratings (pub. 02 Feb 2016)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=875108
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314