S&P Global
Ratings

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Summary:

St. Paul, Minnesota; Appropriations; General Obligation

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Summary:

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Credit Profile		
US$13.06 mil GO bnds str imp spl assess rfdg bnds ser 2016F due 05/01/2029		
Long Term Rating	AAA/Stable	New
US$9.035 mil GO bnds var pur bnds ser 2016E due 12/01/2031		
Long Term Rating	AAA/Stable	New
US$5.38 mil tax-exempt GO rfdg bnds ser 2016-3 due 02/01/2029		
Long Term Rating	AAA/Stable	New
US$0.57 mil taxable GO bnds (St. Paul) ser 2016-4 due 02/01/2029		
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

S&P Global Ratings assigned its 'AAA' rating and stable outlook to St. Paul, Minn.'s series 2016E general obligation (GO) various-purpose bonds and series 2016F GO street improvement special assessment refunding bonds.

S&P Global Ratings also assigned its 'AAA' rating and stable outlook to St. Paul Port Authority, Minn.'s series 2016-3 GO refunding bonds and series 2016-4 taxable GO bonds, issued on behalf of St. Paul.

At the same time, S&P Global Ratings affirmed its 'AAA' rating, with a stable outlook, on the city's existing GO debt, issued by the city and port authority.

Furthermore, S&P Global Ratings affirmed its 'AA+' rating, with a stable outlook, on the city's leased-backed debt, supported by various entities. This reflects our view of the city's pledge to covenant and appropriate annual debt service payments.

S&P Global Ratings also withdrew its rating on the city's series 2005 recreational facilities bonds, supported by the city's moral obligation pledge, because the city defeased the bonds in October 2016 using proceeds from a land sale.

The city's 2016E bonds will finance public-safety projects and vehicles and refund St. Paul Housing & Redevelopment Authority's (HRA) series 2008 recreational facility lease revenue bonds for interest cost savings. The city's 2016F bonds will crossover advance refund the series 2008B and 2009B GO street improvement special assessment bonds for interest cost savings. The port authority's 2016-3 GO bonds will advance refund the series 2008-6 GO bonds for interest cost savings and the 2016-4 bonds will finance future development projects.

The port authority's property tax levy and the city's full-faith-credit-and-resources-GO pledge secure the authority's bonds; the rating reflects the city's GO pledge. The city's full-faith-and-credit pledge secures the 2016E and 2016F bonds; in addition, the city is pledging special assessments to the 2016F bonds. The city has GO debt outstanding additionally secured by special assessments, as well as outstanding GO debt additionally secured by tax-increment revenue. We rate all GO bonds on the city's GO pledge.

St. Paul's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the nation in a stress scenario. Under our criteria, titled "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," published Nov. 19, 2013, on RatingsDirect, U.S. local governments are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention.

The ratings reflect our opinion 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 operating results that we expect could improve in the near term relative to fiscal 2015, which closed with a slight operating surplus in the general fund but a slight operating deficit at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 18% of operating expenditures;
- Very strong liquidity, with total government available cash at 51.2% of total governmental fund expenditures and 4.7x governmental debt service, and access to external liquidity we consider exceptional;
- Adequate debt and contingent liability position, with debt service carrying charges at 10.8% of expenditures and net direct debt that is 84.49% of total governmental fund revenue, as well as rapid amortization, with 66.4% of debt scheduled to be retired within 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 located in Ramsey County in the Minneapolis-St. Paul-Bloomington MSA, which we consider broad and diverse. The city also benefits, in our view, from a stabilizing institutional influence. The city has a projected per capita effective buying income of 89.6% of the national level and per capita market value of $72,657. Overall, the city's market value grew by 6.3% over the past year to $21.8 billion in 2016. The county unemployment rate was 3.5% in 2015.

In our view, the MSA's valuations have recovered from declines during the recession, evidenced by three consecutive years of market value growth. Due to ongoing development in the city and the strength of the regional economy, we expect values to continue to increase during the next several years.

The prominence of state government in the city and the presence of multiple higher education institutions, including

University of Minnesota's St. Paul campus, support our view that the city benefits from such stabilizing institutions.

The city's economy is growing following completion of a new metropolitan transit train line, called Metro Green Line, that links the downtown areas of St. Paul and Minneapolis. 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, which we understand it will finance with existing cash in tax-increment finance and parking 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, but the city council does not receive budget-to-actual reports on a predetermined schedule. The city has adopted budget systems that allow for real-time budget evaluation, which officials believe have enhanced their ability to monitor budget-to-actual results.

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

Management updates its five-year financial model at least annually, and the council uses the model as a planning tool. The model focuses on expenditures and excludes revenue based on the city's approach that the council will either generate the additional revenue required to match projected expenditures or cut costs to continually produce a structurally balanced budget. 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. The city also has policies related to derivatives, postdebt issuance compliance, and a debt service reserve fund minimum. The city also participates in a biannual joint debt advisory committee report with Ramsey County; St. Paul Public Schools; the port authority; and 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 of 0.6% of expenditures, but a slight deficit result across all governmental funds of 1.3% of expenditures in fiscal 2015. Our assessment accounts for the fact that we expect budgetary results could improve from 2015 results in the near term. General fund operating results of the city have been stable over the past three years, with an operating surplus of 0.6% of expenditures in 2014 and 0.3% of expenditures in 2013.

We adjusted general fund and total governmental funds revenue and expenditures for transfers that function as revenue and expenditures. We also adjusted out spent bond proceeds and debt service for refunding existing debt.

In fiscal 2015, the city generated a small general fund operating surplus. Revenue came in very close to budget and expenditures were slightly underbudget, creating the positive result. Total governmental funds produced only a slight deficit, which we understand is partially due to management's purposeful spending of existing debt service fund balance due to it exceeding the reserve policy.

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. Officials currently estimate a modest operating surplus.

The city council approved a preliminary 7.9% property tax levy increase for fiscal 2017 to offset increases in expenditures, including staffing costs tied to settled labor agreements, and, once again, produce a balanced budget without using reserves.

In fiscal 2015, the leading general fund revenue sources included property taxes (32%); intergovernmental revenue (32%), nearly entirely from the state); and fees, sales, and services (18%).

In our view, budgetary performance remains strong. Due to the city's past generation of, at least, break-even results and the commitment of officials to balance budgets structurally, we expect performance to remain strong.

Very strong budgetary flexibility

St. Paul's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 18% of operating expenditures, or $41 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 18% of expenditures in 2014 and 18% in 2013.

In our view, the city is likely to post a break-even to slight general fund operating surplus in fiscal 2016. We also expect it to produce, at least, break-even general fund operations in fiscal 2017. Accordingly, we believe budgetary flexibility will likely remain very strong; this is in-line with the city's policy to maintain at least 15% of expenditures in unassigned reserves in the combined general and library funds.

Available fund balance excludes $8.4 million of general fund receivables from the city's golf fund due to that fund's consistent deficit balance. The city paid off the golf fund's debt (series 2005 recreational facility revenue bonds) in October 2016 with proceeds from the sale of property; we believe this action will likely improve operations in the golf fund, but there is no timeline for eliminating receivables.

Very strong liquidity

In our opinion, St. Paul's liquidity is very strong, with total government available cash at 51.2% of total governmental fund expenditures and 4.7x governmental debt service in 2015. 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 do not view the city's investments as aggressive. We expect liquidity to remain very strong.

In August 2015 and July 2016, the city issued variable-rate GO bonds, additionally secured by special assessments, through direct placement with BMO Harris Bank; total debt outstanding for the two issues is $31.7 million.

We view the terms of the agreement as permissive since the agreement allows for acceleration after a 30-day notice for certain events of default, including 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 ($250 million in 2015, excluding unspent bond proceeds). Therefore, we do not 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 10.8% of total governmental fund expenditures, and net direct debt is 84.4% of total governmental fund revenue. Approximately 66.4% 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 $64 million in GO debt over the next two years. It could issue some of this debt through a variable-rate debt direct purchase, similarly to the debt the city issued in 2015 and 2016. Due to the city's rapid amortization, we do not believe additional debt will weaken the debt profile.

St. Paul's combined required pension and actual other postemployment benefit (OPEB) contribution totaled 6.1% of total governmental fund expenditures in fiscal 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 fiscal 2015.

The defined-benefit plans administered by the Minnesota Public Employees' Retirement Assn. (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 and fire fund (PEPFF); these funds are cost-sharing, multiemployer retirement plans. PEPFF is the larger plan for the city. The city's annual required pension contribution to both GERF and PEPFF is determined by state statute and based on a percent of payroll.

Using updated reporting standards in accordance with Governmental Accounting Standards Board (GASB) Statement nos. 67 and 68, the city's net pension liability, as of 2015, was $83.4 million. The funded ratios of the plans, calculated as the plans' fiduciary net positions as a percent of the total pension liability, were 76.3% for GERF and 83.6% for PEPFF in fiscal 2015.

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, was $188.7 million. The city finances these benefits on a pay-as-you-go basis; therefore, it had a 0% funded ratio and contributed $7.4 million in direct contributions in fiscal 2015.

Strong institutional framework

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

Outlook

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

Downside scenario

If management policies were to weaken or if the city's financial profile were to deteriorate we could lower the rating.

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

Ratings Detail (As Of November 15, 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 Port Auth, Minnesota		
St. Paul, Minnesota		
St Paul GO		
Long Term Rating	AAA/Stable	Affirmed
St Paul Port Auth (St. Paul) GO		
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.