S&P Global
Ratings

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Summary:

St. Louis Park, Minnesota; General Obligation

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Summary:

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Credit Profile		
US$16.27 mil GO bnds ser 2019B due 02/01/2032		
Long Term Rating	AAA/Stable	New
US$2.23 mil GO hsg imp area rfdg bnds ser 2019C due 02/01/2028		
Long Term Rating	AAA/Stable	New
St. Louis Park GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating and stable outlook to St. Louis Park, Minn.'s series 2019B general obligation (GO) bonds and 2019C GO housing improvement area refunding bonds and affirmed its 'AAA' rating, with a stable outlook, on the city's existing GO debt.

Security and use of proceeds

The city's unlimited-tax GO pledge secures the series 2019B and 2019C bonds.

Officials intend to use series 2019B bond proceeds to construct various utility system improvements and current refund series 2010D bonds. The city expects to pay debt service on the utility portion entirely from net water-and-sewer-system revenue generated by the city-owned-and-operated system.

Officials plan to use series 2019C bond proceeds to current refund series 2010A bonds. The city expects to pay debt service from housing-improvement fees imposed on all Sunset Ridge Condominium Assn. units.

Credit overview

St. Louis Park embodies many of the typical characteristics of an 'AAA' credit, including a robust, growing, independently strong economy that is also part of a broad-and-diverse metropolitan statistical area (MSA); very strong and growing reserves; consistently stable financial operating results with no discernible budgetary pressure; and sophisticated and knowledgeable management. In addition, the city has a stronger debt profile compared with its peers and many Minnesota communities.

The bonds are eligible for a rating above the sovereign because we think 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, we consider state and local governments moderately sensitive to country risk. The city's local property tax revenue is the primary bond security, significantly limiting the possibility of negative sovereign intervention in debt or operations payments. The national institutional framework is predictable for local governments, allowing them significant autonomy and independent treasury management; there has been no history of negative federal government intervention in local finances.

The rating also reflects our opinion of the city's:

- Very strong economy, with access to a broad and diverse MSA;
- 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 an operating surplus at the total governmental-fund level in fiscal 2018;
- Very strong budgetary flexibility, with available fund balance in fiscal 2018 at 50% of operating expenditures;
- Very strong liquidity, with total government available cash at 112.3% of total governmental-fund expenditures and 18.9x governmental debt service, and access to external liquidity we consider strong;
- Strong debt-and-contingent-liability position, with debt service carrying charges at 6% of expenditures and net direct debt that is 110.6% of total governmental-fund revenue, as well as rapid amortization, with 74.8% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

Very strong economy

We consider St. Louis Park's economy very strong. The city, with an estimated population of 49,251, is in Hennepin County in the Minneapolis-St. Paul-Bloomington MSA, which we consider broad and diverse. The city has a projected per capita effective buying income at 145% of the national level and per capita market value of $156,925. Overall, market value grew by 8.5% during the past year to $7.7 billion in fiscal 2019. County unemployment was 2.5% in 2018.

St. Louis Park is a mature, affluent inner-ring suburb of Minneapolis, roughly three miles west of downtown Minneapolis. Although the 10.7-square-mile city is mostly built out, we understand it has seen substantial redevelopment recently, including, most prominently, a number of large multifamily residential and hotel projects. The city has a number of similar multifamily and mixed-use projects in development, which should contribute to solid market value and tax-capacity growth during the next few fiscal years. We understand that within the next five years, once Southwest Light Rail Transit's Green Line-extension project--which will provide light-rail service connecting downtown Minneapolis to Eden Prairie, passing through St. Louis Park and several other communities--is complete, the city will have three stations along the line. Management reports significant development in the surrounding areas of these stations, which we expect will likely continue in advance of project completion in the early 2020s.

Per capita effective buying income has been increasing during the past 10 years, reflecting low unemployment and the MSA's strong employment. Leading city employers include:

- Park Nicollet Methodist Hospital (4,650 employees),
- Wells Fargo Mortgage (1,400), and
- St. Louis Park School District (756).

Very strong management

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

Highlights include management's:

- Use of zero-based budgeting, referencing as much as 10 years of historical and outside data when developing the budget, with actual performance consistently demonstrating conservative or on-target budgeting;
- Detailed monthly reports on budget-to-actual results to the city council, coupled with the ability to amend the budget, as needed;
- Detailed 10-year financial forecast it updates annually;
- 10-year capital improvement plan it updates annually, including funding sources;
- Investment policy with quarterly reports on investment holdings and earnings to the council;
- Debt-management policy that specifies debt-structure limits, albeit not comprehensive; and
- Formal fund-balance policy that requires maintaining a minimum unassigned fund balance equal to 40%-50% of subsequent-year budgeted expenditures to meet cash flow.

Strong budgetary performance

St. Louis Park's budgetary performance is strong, in our opinion. The city had slight surplus operating results in the general fund at 1.2% of expenditures and surplus results across all governmental funds at 10.8% in fiscal 2018. General fund operating results have been stable during the past three fiscal years with 2.6% of expenditures in both fiscal years 2017 and 2016.

We have adjusted general fund and total governmental-fund revenue to account for:

- Routine transfers from enterprise funds,
- General fund expenditures to account for routine transfers out, and
- Governmental-fund expenditures to exclude bond-proceed spending.

Following consecutive audited general fund surpluses from fiscal years 2011-2017, management posted a $465,000 audited surplus, or 1,2% of adjusted expenditures, in fiscal 2018; this reflected conservative expenditure budgeting and stronger-than-budgeted revenue performance, particularly from building permits.

The fiscal 2019 budget structure includes breakeven results and reflects minimal changes from fiscal 2018, and management reports year-to-date performance is currently better than tax collections and permit revenue. Management currently expects a $1.7 million operating surplus. Management expects to adopt a status-quo budget for fiscal 2020. Due to the city's recent history of consistently balancing the budget and strong and growing economy, we expect overall budgetary performance will likely remain strong.

Property taxes generate 73% of general fund revenue while licenses and permits account for 11% and charges for services for 11%. In evaluating budgetary performance, we adjusted for recurring transfers treated as revenue.

Very strong budgetary flexibility

St. Louis Park's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2018 at 50% of operating expenditures, or $18.7 million. We expect available fund balance will likely remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. During the past three fiscal years, total available fund balance has remained consistent overall at 52% of expenditures in fiscal 2017 and 52% in fiscal 2016.

The city's formal fund-balance policy requires it to maintain unassigned general fund balance at 40%-50% of subsequent-year budgeted expenditures, which it has complied with historically. Management does not currently plan to draw down reserves, and we expect budgetary flexibility will likely remain very strong.

Very strong liquidity

In our opinion, St. Louis Park's liquidity is very strong, with total government available cash at 112.3% of total governmental-fund expenditures and 18.9x governmental debt service in fiscal 2018. In our view, the city has strong access to external liquidity if necessary.

We expect the city will likely maintain its strong access to external liquidity based on its history of GO and revenue bond issuance during the past two decades. Management held $67 million of cash and investments at audited fiscal year-end 2018, primarily in state-pooled cash investments, U.S. Treasury and agency securities, and other investments we do not consider aggressive. It does not have any direct-purchase or variable-rate exposure.

Strong debt-and-contingent-liability profile

In our view, St. Louis Park's debt-and-contingent-liability profile is strong. Total governmental-fund debt service is 6% of total governmental-fund expenditures, and net direct debt is 110.6% of total governmental-fund revenue. About 74.8% of direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

The city reports it might issue as much as $12 million in new-money GO debt during the next two years, largely to finance various improvements and infrastructure reinvestment. However, in our opinion, the debt profile will likely not deteriorate since the city plans to retire more than the planned issuance during the same period.

St. Louis Park's combined required pension and actual other-postemployment-benefit (OPEB) contribution totaled 4.5% of total governmental-fund expenditures in fiscal 2018. The city made its full annual required pension contribution in fiscal 2018.

The city participates in two cost-sharing, multiple-employer pension plans: Minnesota General Employees' Retirement Fund (GERF) and Minnesota Public Employees' Police & Fire Fund (PEPFF), both of which Minnesota Public Employees' Retirement Assn. administers. State statute determines the required pension contributions to these plans. Statutory contributions have generally not kept pace with actuarially determined contributions (ADCs), indicating a potential for payment acceleration.

The state recently passed pension legislation that will:

- Marginally increase PEPFF contributions;
- Reduce the investment rate of return to 7.5% from 8; and

- Reduce some employee benefits, primarily cost-of-living adjustments.

While we view these as positive changes for future funding, the lack of an actuarial funding policy remains the plans' weakness. (For more information about the reforms included in the 2018 omnibus retirement bill and the potential for future cost increases, please see our bulletin, titled "Minnesota's New Pension Bill Is A Positive Step Toward Sustainable Funding," published June 7, 2018, on RatingsDirect.)

GERF and PEPFF were 80% and 89% funded, respectively, as of the most recent plan-level Governmental Accounting Standards Board valuations, dated June 30, 2018. The city's proportionate share of GERF's net pension liability was $13 million and PEPFF's was $8 million in fiscal 2018, the most recent year for which data is available. We consider historical plan funding somewhat weak, and we think the history of pension contributions below ADC increases the risk of payment acceleration.

In addition, in our view, the plans' investment portfolios have significant market-risk exposure with only 22% of investments allocated to fixed income and cash, increasing volatility risk for plan funding. Despite these weaknesses, we posit the city has sufficient taxing and operational flexibility to manage pension contribution increases. However, if pension contributions were to absorb a larger share of the budget, our view of the city's debt-and-contingent-liability profile could weaken.

The city administers a single-employer, defined-benefit, health-care OPEB plan that provides extended health-care insurance for eligible retirees and their spouses at the employee's expense. City and union representatives negotiated contribution requirements. The city funds OPEB on a pay-as-you-go basis. At Jan. 1, 2018, the most recent actuarial valuation, the unfunded actuarial accrued liability was $3.5 million

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 St. Louis Park will likely maintain strong budgetary performance and very strong budgetary flexibility, supported by very strong management. We think the city's very strong economy, including its participation in the Twin Cities metropolitan area, provides additional rating stability. Therefore, we do not expect to change the rating within the two-year outlook period.

Downside scenario

We could lower the rating if budgetary flexibility or debt were to experience sustained deterioration.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

- 2019 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of October 30, 2019)		
St. Louis Pk taxable GO hsg imp area bnds ser 2012A dtd 10/17/2012 due 02/01/2015 2017 2019 2021 2023 2025 2027 2029 2031 2033		
Long Term Rating	AAA/Stable	Affirmed
St. Louis Pk GO bnds		
Long Term Rating	AAA/Stable	Affirmed
St. Louis Pk GO rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed

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.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.