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$15.54 mil GO bnds ser 2020A dtd 10/26/2020 due 02/01/2042		
Long Term Rating	AAA/Stable	New
St. Louis Park GO		
Long Term Rating	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' rating and stable outlook to St. Louis Park, Minn.'s roughly $15.54 million series 2020A general obligation (GO) bonds and affirmed its 'AAA' rating, with a stable outlook, on the city's existing GO debt.

The city's unlimited-tax GO pledge secures the series 2020A bonds and existing debt.

Officials intend to use series 2020A bond proceeds to fund various capital improvements. The city expects to pay debt service partially from net water-and-sewer-system revenue generated by its enterprise systems.

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.

Credit overview

St. Louis Park embodies many of the typical characteristics of a 'AAA' credit, including its growing, strong economy that is also part of a broad-and-diverse metropolitan statistical area (MSA); very strong and growing reserves; minimal budgetary pressure; and sophisticated and knowledgeable management. In addition, the city has a stronger debt profile compared with its peers and many Minnesota communities.

While the full scope of economic and financial challenges posed by COVID-19 remains unknown, we think the city is well positioned to navigate COVID-19's economic and financial effects because of its very strong reserves and liquidity, as well as its dependence on relatively stable property taxes for operations. We will continue to monitor the effects of the pandemic and recent related recessionary pressure on finances.

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

- Very strong economy, with access to a broad and diverse MSA;
- Very strong financial management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance for fiscal 2019, which closed with an operating surplus in the general fund but an operating shortfall at the total governmental-fund level;
- Very strong budgetary flexibility, with available fund balance in fiscal 2019 at 53% of operating expenditures;
- Very strong liquidity, with total government available cash at 98.6% of total governmental-fund expenditures and 16.1x governmental debt service, and access to external liquidity we consider strong;
- Strong debt-and-contingent-liability profile, with debt service carrying charges at 6.1% of expenditures and net direct debt that is 92% of total governmental-fund revenue, as well as rapid amortization, with 75.1% of debt scheduled to be retired within 10 years; and
- Strong institutional framework score.

The stable outlook reflects S&P Global Ratings' opinion St. Louis Park will likely maintain, at least, adequate budgetary performance with very strong budgetary flexibility and liquidity, supported by very strong management. We think the city's very strong economy and participation in the Twin Cities MSA's broad and diverse economy provide additional rating stability. Therefore, we do not expect to change the rating within the two-year outlook. Although our rating outlook timeframe is up to two years, because of current uncertainty surrounding COVID-19, our view of the city's credit risks centers on the more-immediate effects during the next 12 months.

Environmental, social, and governance (ESG) factors

The rating incorporates our view regarding health-and-safety risks posed by COVID-19, which we consider social risks and in-line with the sector standard. We have reviewed the city's environmental risks and have determined they are in-line with our view of the sector standard. We have also reviewed governance risks and have determined they are better than the sector standard because of management's strong financial policies and practices.

Stable Outlook

Downside scenario

We could lower the rating if the city does not maintain, at least, balanced operations most years, resulting in substantially reduced available reserves.

Credit Opinion

Very strong economy

We consider St. Louis Park's economy very strong. The city, with a population estimate of 49,909, is in Hennepin County in the Minneapolis-St. Paul-Bloomington MSA, which we consider broad and diverse. Projected per capita effective buying income is 139% of the national level and per capita market value is $155,655. Overall, market value, in terms of the assessor's estimated market value, grew by 7.8% during the past year to $7.8 billion in fiscal 2020. County unemployment averaged 2.8% in 2019 but grew to 8.6% in August 2020 due to the pandemic.

St. Louis Park is an affluent inner-ring suburb, roughly three miles west of downtown Minneapolis. Although the 10.7-square-mile St. Louis Park is mostly built out, commercial and housing development continues.

We understand that within the next few years, 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--will result in the city having three stations along the line. Management reports significant development in the surrounding areas of these stations, which will help expand the property tax base.

In addition to employment opportunities in Minneapolis-St. Paul, residents have access to several leading city employers, including:

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

In terms of net tax capacity, the tax base grew by 34% to $96 million from 2016-2020. The tax base is very diverse with the 10 leading taxpayers accounting for only 13% of net tax capacity.

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-management policy with quarterly investment-holdings-and-earnings reports 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.

Adequate budgetary performance

St. Louis Park's budgetary performance is adequate, in our opinion. The city had surplus operating results in the general fund at 4.9% of expenditures but deficit results across all governmental funds at 3.9% in fiscal 2019. Our assessment considers the possibility of event risk related to COVID-19 and recent recessionary pressure having an effect on finances during the current and next fiscal years.

We adjusted general fund revenue to include annual transfers from enterprise funds, as well as to exclude one-time general fund transfers and capital spending paid with debt proceeds.

Property taxes generated 70% of general fund revenue in fiscal 2019 and licenses and permits accounted for 14% while charges for services accounted for 9%.

Management structured the fiscal 2020 general fund budget with breakeven operations after transfers. Management can draw up to $3.7 million of Coronavirus Aid, Relief, & Economic Security Act aid in fiscal 2020, which will allow it to end fiscal 2020 with a general fund surplus of about $2 million.

Due to management's recent history of balancing the budget and expectations for fiscal 2020, we think budgetary performance will likely remain, at least, adequate despite COVID-19 and related recent recessionary pressure.

Very strong budgetary flexibility

St. Louis Park's budgetary flexibility is very strong, in our view, with available fund balance in fiscal 2019 at 53% of operating expenditures, or $20.4 million. We expect available fund balance will likely remain more than 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 50% of expenditures in fiscal 2018 and 52% in fiscal 2017.

Budgetary flexibility is combined assigned and unassigned general fund balances. Due to management's formal fund-balance policy of maintaining 40%-50% of subsequent-year budgeted expenditures, and expectations for fiscal 2020, we think budgetary flexibility will likely remain very strong during the next few fiscal years.

Very strong liquidity

In our opinion, St. Louis Park's liquidity is very strong, with total government available cash at 98.6% of total governmental-fund expenditures and 16.1x governmental debt service in fiscal 2019. In our view, the city has strong access to external liquidity if necessary.

The city reported $71.9 million of unrestricted cash and investments in its governmental and enterprise funds were available for operational liquidity at fiscal year-end 2019. 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.

The city holds most cash and investments in state investment pools, 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.

Due to management's expectations for fiscal 2020, we think liquidity will likely remain very strong during the next few fiscal years.

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 6.1% of total governmental-fund expenditures, and net direct debt is 92% of total governmental-fund revenue. Officials plan to retire about 75.1% of direct debt over the next 10 years, which is, in our view, a positive credit factor.

The city has about $90 million of GO debt outstanding, including $28.4 million paid from net water-and-sewer-utility revenue. Officials currently plan to issue up to $18 million of new-money GO debt by 2022 to finance various improvements, including infrastructure. Due to the city's history of supporting a large part of GO debt with net utility revenue, coupled with rapid amortization, we expect the debt profile will likely remain strong during the next few years.

Pensions and other-postemployment-benefit (OPEB) highlights

We do not think pension liabilities represent a medium-term credit pressure because contributions are only a modest share of the budget and we think the city has capacity to absorb higher costs without pressuring operations.

The city participates in:

- Minnesota General Employees' Retirement Fund (MGERF), which was 80.2% funded, as of June 30, 2019, with the city's proportionate share of the plan's net pension liability at $13 million;
- Minnesota Public Employees' Police & Fire Fund (MPEPFF), which was 89.3% funded, as of June 30, 2019, with a proportionate share of $8.3 million; and
- St. Louis Park's 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, with a total OPEB liability of $3.8 million as of Dec. 31, 2019.

St. Louis Park's combined required pension and actual OPEB contribution totaled 3.9% of total governmental-fund expenditures in fiscal 2019. The city made its full annual required pension contribution in fiscal 2019.

The city annually pays 100% of its statutorily required contributions for both pension plans. Total contributions to MGERF and MPEPFF were 89% and 94%, respectively, of our minimum-funding-progress metric; they were both slightly above static funding. Annual contributions reflect a statutory formula that has typically produced lower-than-actuarially determined contributions for each plan. In our view, this increases the risk of underfunding over time if the Minnesota Legislature does not make adjustments to offset future funding shortfalls.

Other key risks include:

- A 7.5% investment-rate-of-return assumption, which is higher than our 6% guideline, indicating some cost-acceleration exposure due to market volatility; and
- An amortization method that significantly defers contributions through a lengthy, closed 30-year amortization period based on a level 3.25% payroll-growth assumption.

Regardless, costs remain only a modest share of total spending. We, however, think they are unlikely to pressure the county's medium-term operational health.

City and union representatives negotiated contribution requirements for the OPEB plan, which the city funds on a pay-as-you-go basis.

Strong institutional framework

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

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020
- 2019 Update Of Institutional Framework For U.S. Local Governments
- The U.S. Economy Reboots, With Obstacles Ahead, Sept. 24, 2020
- Potholes On The Road To Recovery, Sept. 29, 2020

Ratings Detail (As Of October 22, 2020)		
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
St. Louis Pk GO hsg imp area rfdg bnds ser 2019C due 02/01/2028		
Long Term Rating	AAA/Stable	Affirmed