August 16, 2023

Mr. John McCarthy, Director
Ms. Sarah Brown, Treasurer
Mr. Neal Younghans, Debt Manager
City of Saint Paul
Office of Financial Services
15 West Kellogg Boulevard, Room 700
Saint Paul, Minnesota 55102

Re: Recommendations for Award of the City of Saint Paul's:
$6,800,000 General Obligation Capital Improvement Bonds, Series 2023D
(the "Series 2023D Bonds")

Dear Mr. McCarthy, Ms. Brown and Mr. Younghans:

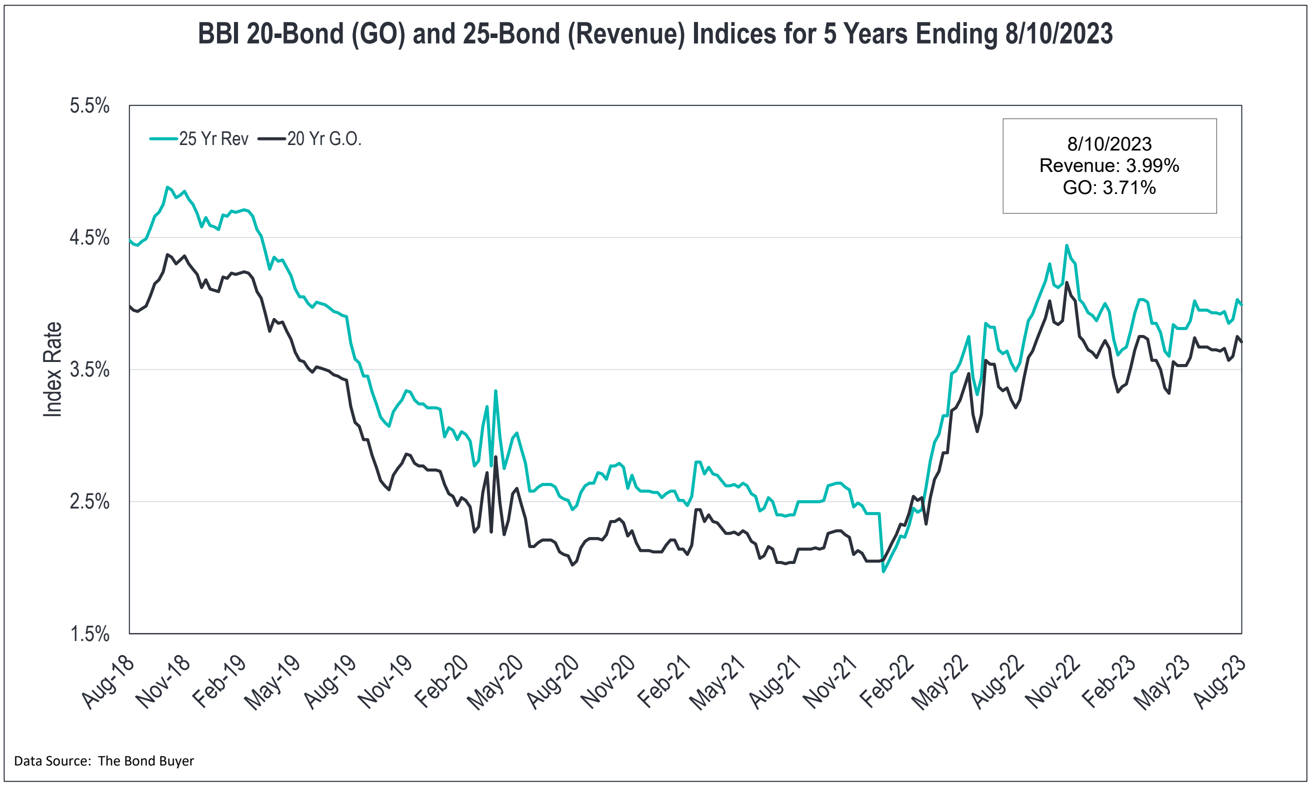
This letter summarizes the results of the competitive bid taken this morning for the Series 2023D Bonds.

Purpose and Repayment Sources of the Series 2023D Bonds

The purpose of the Series 2023D Bonds is to (i) provide financing for certain capital improvement projects identified in the City's adopted Capital Improvement Budget for the years 2023 through 2027; and (ii)pay the associated costs of issuance.

Tax-Exempt Market Rates

The chart on the following page provides a snapshot of current market conditions in the tax-exempt market. Municipal borrowing rates have volatile this year, pushed by inflationary concerns and in responding to the Federal Reserve Bank's tightening of interest rates. The tax-exempt muni market's primary indicator is the weekly Bond Buyer's Index. The five-year historical BBI mapping below shows the recent increase in borrowing rates, although rates remain low from a historical perspective.



Sale Results – Series 2023D Bonds

The City received nine (9) bids on the Series 2023D Bonds.

Bidder	TIC (%)
FHN Financial Capital Markets	3.0410%
Piper Sandler & Co.	3.0764%
Hilltop Securities Inc.	3.0898%
BOK Financial Securities, Inc.	3.1041%
KeyBanc Capital Markets	3.1262%
Huntington Securities, Inc.	3.1577%
The Baker Group	3.1680%
Robert W. Baird & Co. Inc.	3.1807%
TD Securities (USA) LLC	3.2243%

The lowest (or best) bid was received from FHN Financial Capital Markets at a true interest cost of 3.0410%. Our estimate of the interest rates based on market conditions at the beginning of July was 3.0288%.

This Issue was bid with premium. As a result, the principal amount of the Series 2023D Bonds decreased from $$7,375,000 (as printed on the POS) to $6,800,000.

We require bidders to submit their bids on a true interest rate (TIC) basis to reflect the present value of their bids and, thereby, ensure the award is based on the lowest cost to the City. We have enclosed a bid tabulation form summarizing the bid specifics.

Recommendations

We recommend award of sale of the Series 2023D Bonds to FHN Financial Capital Markets.

Basis of Recommendations

Our recommendation is based on three primary factors. The City received nine (9) bids, which constitute a strong representation of the market and are reflective of current market conditions. All bids came in within 18 basis points of one another with no outliers again evidencing a market bid. And finally, the rates are in line with what was projected and shown to the City little over a month ago.

Credit Rating

The City's general obligation rating has been reaffirmed at AAA by S&P Global Ratings (S&P) and AAA by Fitch Ratings (Fitch). S&P and Fitch also retained their 'stable' outlook.

The AAA is the highest possible rating, and it is limited to a few jurisdictions nationally across all types of bonds. High credit ratings are essential to obtaining the lowest possible financing costs, which, for the City's borrowings, lead to lower property taxes and utility customer bills.

Baker Tilly congratulates the City of Saint Paul on the completion of this financing process with its highly successful results.

We welcome any discussion on the sale and its outcome. We are very appreciative of the opportunity to again be of service to the City of Saint Paul.

Respectfully,

Elizabeth Bergman, Principal

BAKER TILLY MUNICIPAL ADVISORS, LLC

$7,375,000*

City of Saint Paul, Minnesota

General Obligation Capital Improvement Bonds, Series 2023D

S&P Underlying Rating: AAA
Fitch Underlying Rating: AAA

Sale Date: August 16, 2023 | **BBI: 3.71%**
Average Maturity: 5.128 Years

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Winning Bidder Information	Maturity	Interest Rate	Reoffering Yield	Reoffering Price
FHN FINANCIAL CAPITAL MARKETS	3/01/2024	5.00%	3.27%	100.787%
Morgan Stanley & Co. LLC	3/01/2025	5.00%	3.24%	102.495%
Raymond James & Associates, Inc.	3/01/2026	5.00%	3.07%	104.545%
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Advisors Asset Management, Inc.	3/01/2031	5.00%	2.78%	114.869%
	3/01/2032	4.00%	2.90%	107.334%
	3/01/2033	4.00%	3.05%	106.297%

Purchase Price: $7,914,286.95*
Net Interest Cost: $1,206,207.08*
TIC: 3.0410%*

* *Subsequent to bid opening, the par amount decreased to $6,800,000.00; and the price, net interest cost, and true interest cost have changed to $7,302,214.83, $1,137,081.56, and 3.0415%, respectively.*

RES 23-1152

COMPLETIONS AND CONFORMING DETAILS
FOR
CITY OF SAINT PAUL, MINNESOTA
GENERAL OBLIGATION CAPITAL IMPROVEMENT BONDS
SERIES 2023D

There is before this Council a draft resolution for the sale of the above general obligation improvement bonds that requires certain completions and details that conform to those. The Clerk or bond counsel for the Series 2023D Bonds shall revise the draft resolution to read as it should with the completions and details provided here directly or by reference to other materials before this Council. Spots in the resolution are noted in the second column. The third column is optional but may contain the completion or note the specific source of the other materials.

COMPLETIONS AND DETAILS		SPOTS IN THE RESOLUTION	COMPLETION, DETAIL OR SOURCE (OPTIONAL)
1.	Principal Amounts. Other materials before this Council indicate the principal amount of the Series 2023D Bonds; in paragraph 1.01 shall be revised to conform if necessary, and the issue amount stated in the form of bond shall be revised to conform if necessary. The principal amount of the Series 2023D Bonds shall be inserted in Exhibit A to the resolution.	¶ 1.01, 1.03 and Exhibit A	Par amount decreased to $6,800,000
2.	Winning Proposer. Other materials before this Council indicate the Purchaser, whose name shall be inserted in paragraph 1.03.	¶1.03	FHN Financial Capital Markets (on behalf of itself and a syndicate)
3.	Purchase Price. Other materials before this Council indicate the proposed purchase price of the Series 2023D Bonds, and, if applicable, the purchase price for a revised issue size. The blanks in paragraph 1.03 shall be completed with the purchase price.	¶1.03	$7,302,214.83 (the principal amount of the Series 2023D Bonds ($6,800,000.00), plus original issue premium of $527,460.10, less a Purchaser's discount of $25,245.27)
4.	Redemption. Other materials before this Council indicate that there are no term bonds which are subject to mandatory redemption, and if applicable, paragraph 1.06(b) shall be revised to show the scheduled mandatory redemption of any term bonds.	¶1.06	No Term Bonds

5.	Interest Rates, Yield, Price & True Interest Cost. Other materials before this Council indicate the interest rates, the yields, and the price for the maturity dates of the Series 2023D Bonds, and the true interest cost for the Series 2023D Bonds to be added to the schedule in Exhibit B attached to the resolution.	Exhibit B	See columns 3, 4, and 6 of the attached schedule A-1 (Pricing Summary) True Interest Cost is 3.0415410%.
6.	Tax Levies. A schedule of tax levy is before this Council, and Exhibit C shall be completed in conformance therewith.	Exhibit C	See attached schedule on page A-2 (Post-Sale Tax Levies)
7.	Proposals for the Series 2023D Bonds. The proposals for the Series 2023D Bonds shall be inserted in Exhibit D to the resolution.	Exhibit D	See attached bid tabulation on page A-3

DMFIRM #408596656 v2

Final

$6,800,000

City of Saint Paul, Minnesota

General Obligation Capital Improvement Bonds, Series 2023D

Pricing Summary

Maturity	Type of Bond	Coupon	Yield	Maturity Value	Price		YTM	Call Date	Call Price	Dollar Price
03/01/2024	Serial Coupon	5.000%	3.270%	695,000.00	100.787%		-	-	-	700,469.65
03/01/2025	Serial Coupon	5.000%	3.240%	555,000.00	102.495%		-	-	-	568,847.25
03/01/2026	Serial Coupon	5.000%	3.070%	580,000.00	104.545%		-	-	-	606,361.00
03/01/2027	Serial Coupon	5.000%	2.930%	610,000.00	106.770%		-	-	-	651,297.00
03/01/2028	Serial Coupon	5.000%	2.880%	640,000.00	108.819%		-	-	-	696,441.60
03/01/2029	Serial Coupon	5.000%	2.840%	675,000.00	110.859%		-	-	-	748,298.25
03/01/2030	Serial Coupon	5.000%	2.800%	710,000.00	112.924%		-	-	-	801,760.40
03/01/2031	Serial Coupon	5.000%	2.780%	745,000.00	114.869%		-	-	-	855,774.05
03/01/2032	Serial Coupon	4.000%	2.900%	780,000.00	107.334%	c	3.012%	03/01/2031	100.000%	837,205.20
03/01/2033	Serial Coupon	4.000%	3.050%	810,000.00	106.297%	c	3.223%	03/01/2031	100.000%	861,005.70
Total	**-**	**-**	**-**	**$6,800,000.00**	**-**	**-**	**-**	**-**	**-**	**$7,327,460.10**

Bid Information

Par Amount of Bonds	$6,800,000.00
Reoffering Premium or (Discount)	527,460.10
Gross Production	$7,327,460.10
Total Underwriter's Discount (0.371%)	$(25,245.27)
Bid (107.386%)	7,302,214.83
Total Purchase Price	$7,302,214.83
Bond Year Dollars	$35,639.44
Average Life	5.241 Years
Average Coupon	4.5996688%
Net Interest Cost (NIC)	3.1905143%
True Interest Cost (TIC)	3.0415410%

Final

$6,800,000

City of Saint Paul, Minnesota

General Obligation Capital Improvement Bonds, Series 2023D

Post-Sale Tax Levies

Payment Date	Principal	Coupon	Interest	Total P+I	105% Overlevy	Fiscal Total/Levy Amount	Levy/Collect Year
03/01/2024	695,000.00	5.000%	150,346.39	845,346.39	887,613.71	887,613.71	2022/2023
09/01/2024	-	-	144,675.00	144,675.00	151,908.75	-	
03/01/2025	555,000.00	5.000%	144,675.00	699,675.00	734,658.75	886,567.50	2023/2024
09/01/2025	-	-	130,800.00	130,800.00	137,340.00	-	
03/01/2026	580,000.00	5.000%	130,800.00	710,800.00	746,340.00	883,680.00	2024/2025
09/01/2026	-	-	116,300.00	116,300.00	122,115.00	-	
03/01/2027	610,000.00	5.000%	116,300.00	726,300.00	762,615.00	884,730.00	2025/2026
09/01/2027	-	-	101,050.00	101,050.00	106,102.50	-	
03/01/2028	640,000.00	5.000%	101,050.00	741,050.00	778,102.50	884,205.00	2026/2027
09/01/2028	-	-	85,050.00	85,050.00	89,302.50	-	
03/01/2029	675,000.00	5.000%	85,050.00	760,050.00	798,052.50	887,355.00	2027/2028
09/01/2029	-	-	68,175.00	68,175.00	71,583.75	-	
03/01/2030	710,000.00	5.000%	68,175.00	778,175.00	817,083.75	888,667.50	2028/2029
09/01/2030	-	-	50,425.00	50,425.00	52,946.25	-	
03/01/2031	745,000.00	5.000%	50,425.00	795,425.00	835,196.25	888,142.50	2029/2030
09/01/2031	-	-	31,800.00	31,800.00	33,390.00	-	
03/01/2032	780,000.00	4.000%	31,800.00	811,800.00	852,390.00	885,780.00	2030/2031
09/01/2032	-	-	16,200.00	16,200.00	17,010.00	-	
03/01/2033	810,000.00	4.000%	16,200.00	826,200.00	867,510.00	884,520.00	2031/2032
Total	**$6,800,000.00**	**-**	**$1,639,296.39**	**$8,439,296.39**	**$8,861,261.21**	**$8,861,261.21**	

$7,375,000*

City of Saint Paul, Minnesota

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S&P Global Ratings

RatingsDirect®

Summary:

St Paul, Minnesota St Paul Port Authority; General Obligation; Special Assessments; Tax Increment

Primary Credit Analyst:
Emma Drilias, Madison (1) 312-233-7132; emma.drilias@spglobal.com

Secondary Contact:
Virginia A Murillo, San Francisco 1-415-371-5098; virginia.murillo@spglobal.com

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Credit Highlights

Outlook

Related Research

Summary:

St Paul, Minnesota
St Paul Port Authority; General Obligation; Special Assessments; Tax Increment

Credit Profile		
US$10.0 mil taxable GO bnds (St Paul) ser 2023-1 due 02/01/2038		
Long Term Rating	AAA/Stable	New
US$7.375 mil GO cap imp bnds ser 2023D due 03/01/2033		
Long Term Rating	AAA/Stable	New
US$5.0 mil tax-exempt GO bnds (St Paul) ser 2023-2 due 02/1/2040		
Long Term Rating	AAA/Stable	New
St Paul GO		
Long Term Rating	AAA/Stable	Affirmed
St Paul Port Authority, Minnesota		
St Paul, Minnesota		
St Paul Port Auth (St Paul) GO		
Long Term Rating	AAA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating to the City of St. Paul, Minn.'s anticipated $7.375 million series 2023D general obligation (GO) capital improvement bonds.
- At the same time, S&P Global Ratings assigned its 'AAA' long-term rating to St. Paul Port Authority's anticipated $10 million series 2023-1 taxable GO bonds and $5 million series 2023-2 tax-exempt GO bonds.
- S&P Global Ratings also affirmed its 'AAA' rating on St. Paul's existing GO debt, issued by the city and the St. Paul Port Authority, and its 'AAA' rating on the limited property tax debt issued by the port authority.
- The outlook is stable.

Security

The bonds are secured by the city's and the authority's unlimited ad valorem tax pledge, respectively. The series 2023D bonds will pay for capital projects identified in the city's capital improvement plan. The series 2023-1 and 2023-2 bonds will pay for acquisition and preparation of blighted and underutilized sites for development, as well as improvements to public infrastructure.

Many of St. Paul's GO bonds outstanding are secured by additional revenue pledges, including special assessments and tax-increment revenue, but we rate all GO bonds based on the city's GO pledge.

The port authority's GO bonds are secured by the authority's pledge of its property tax, without limitation as to rate or amount. The limited-tax GO bonds issued by the port authority are secured by the authority's pledge of its property tax, which is limited to 0.01813% of estimated market value, applicable to all taxable property within the city. We rate the limited property taxes pledged to the bonds on par with the issuer credit rating on St. Paul. In our view, the likelihood of payment is tied to the credit fundamentals of the city, rather than just the port authority, because of their shared tax base, the significant oversight that the city has over the authority and its debt issuance, and the core function that the authority provides for the city. In addition, we view resources to be generally fungible, even if specific revenues are designated for a particular purpose.

Credit overview

Key factors supporting the 'AAA' rating include St. Paul's very diverse and growing economy, benefiting from the presence of several stabilizing institutions, paired with the city's very strong management. City officials anticipate closing out fiscal 2022 (year-end Dec. 31) with a $5 million general fund surplus, with higher-than-budgeted revenue across major revenue categories and cost savings driven by staff position vacancies, primarily in public safety. St. Paul adopts a balanced budget annually and is on track to achieve a balanced general operating result for fiscal 2023. Due to a 2022 court decision, the city was required to move its budget for street maintenance to the general fund in the 2023 budget, necessitating a larger than typical 14.7% levy increase. The mayor's proposed 2024 budget will soon be released, with the expectation of another balanced budget and a more modest levy increase. St. Paul continues to benefit from several one-time and new revenue opportunities including remaining funds from its total $166 million federal American Rescue Plan Act allocation, a one-time $13.6 million public safety state grant budgeted for 2024, and an anticipated $8.8 million increase to its state local government aid beginning in 2024. In November 2023, the city will present a new 1% local option sales tax to voters in a referendum, which if approved, would produce new sales tax revenue for streets and parks and recreation facility improvements as early as April 2024.

Somewhat offsetting these strengths is the city's weakened debt profile, which we have revised to adequate from very strong, due to a slowed amortization rate just below the level that we consider rapid (65% due in 10 years) and because net direct debt now exceeds 60% of total revenue. These changes are driven by the city's 2023 issuance of more than $118 million in water revenue bonds to finance reconstruction and replacement of its McCarron water treatment plant. Despite the change in our characterization, we do not view the city's debt profile as materially weaker given that both data points are very close to their respective thresholds.

Key factors supporting the 'AAA' rating include the following:

- Very strong economy with several multiacre developments underway that are expected to add several thousand new housing units, extensive commercial/retail space, and light industrial space, and create thousands of jobs. The city's economy also benefits from the prominence of stabilizing institutions such as state government and multiple higher education institutions, including University of Minnesota's St. Paul campus;
- Very strong management, with a history of well-managed budgets and demonstrated willingness to raise revenues and an ability to control expenditures, paired with a strong institutional framework score;
- Strong financial performance after adjusting for routine transfers and one-time public safety costs in 2021, which is partially offset by the city's weakened budgetary flexibility due to deterioration of several other governmental and enterprise funds that have a negative cash balance and outstanding payables to the general fund. Management is taking steps to improve the funds' cash balances, including raising revenues and controlling costs, but there is no

timeline for eliminating the receivable;

- Very strong liquidity position, with $448 million in unrestricted cash and investments in fiscal 2021. We note the series 2023C ($29.5 million) variable-rate bonds are direct-placement debt with an agreement we view as permissive since it allows for principal acceleration. However, if the debt were accelerated due to an event of default or cross-default of parity GO debt, in our view, St. Paul has ample liquidity to cover debt service; and
- Adequate debt and contingent liability profile, with plans to marginally increase debt levels, and modest pension and other postemployment benefit costs, although funding levels worsened in 2022 due to low investment performance, but with little likelihood of meaningful cost acceleration.

Environmental, social, and governance

We analyzed St. Paul's environmental, social, and governance factors relative to the city's economy, management, financial measures, and debt and liability profile, and consider them to be neutral in our credit analysis. We also note St. Paul is proactive in mitigating cybersecurity risks. The city hired a chief information security officer in 2023 and maintains contracts with rapid response teams in the event of cyberattacks.

Outlook

The stable outlook reflects our expectation that St. Paul's very strong management and growing economy will support balanced budgetary operations in the medium term.

Downside scenario

If a sustained negative trend emerges in the city's financial or debt profiles, or if the interfund receivables pressure available general fund reserves to levels no longer comparable with those of peers at the current rating, we could lower the rating.

Rating above the sovereign

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 U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign--Corporate And Government Ratings: Methodology And Assumptions" (published Nov. 19, 2013), U.S. local governments have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy and independent treasury management with no history of federal government intervention, and we believe St. Paul's financial flexibility is sufficiently demonstrated by its very strong budgetary reserves and liquidity.

St. Paul, Minnesota--Key credit metrics

	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	86			
Market value per capita ($)	114,913			
Population (no.)		311,856	312,492	311,454
County unemployment rate(%)	2.7			

St. Paul, Minnesota--Key credit metrics (cont.)	Most recent	Historical information		
		2021	2020	2019
Market value ($000)	36,008,992	31,059,407	28,877,725	27,431,689
Ten largest taxpayers % of taxable value	4.3			
Strong budgetary performance				
Operating fund result % of expenditures		0.3	1.2	0.8
Total governmental fund result % of expenditures		4.4	2.8	(0.5)
Strong budgetary flexibility				
Available reserves % of operating expenditures		10.8	13.7	17.7
Total available reserves ($000)		34,195	42,298	54,267
Very strong liquidity				
Total government cash % of governmental fund expenditures		83	57	62
Total government cash % of governmental fund debt service		809	450	565
Very strong management				
Financial Management Assessment	Strong			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		10.3	12.6	10.9
Net direct debt % of governmental fund revenue	63			
Overall net debt % of market value	2.9			
Direct debt 10-year amortization (%)	64			
Required pension contribution % of governmental fund expenditures		5.1		
OPEB actual contribution % of governmental fund expenditures		0		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2022 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of August 9, 2023)		
St Paul Port Auth		
Long Term Rating	AAA/Stable	Affirmed
St. Paul taxable GO street imp special assessment rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
St. Paul GO cap imp bnds		
Long Term Rating	AAA/Stable	Affirmed

Ratings Detail (As Of August 9, 2023) (cont.)		
St. Paul GO rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
St. Paul GO tax increment rfdg bnds		
Long Term Rating	AAA/Stable	Affirmed
St. Paul GO temporary tax increment bnds		
Long Term Rating	AAA/Stable	Affirmed
St. Paul GO		
Long Term Rating	AAA/Stable	Affirmed
St Paul Port Authority, Minnesota		
St Paul, Minnesota		
St Paul GO		
Long Term Rating	AAA/Stable	Affirmed
St Paul Port Auth taxable GO bnds		
Long Term Rating	AAA/Stable	Affirmed
St Paul Port Auth tax-exempt GO bnds		
Long Term Rating	AAA/Stable	Affirmed
St Paul Port Auth (St. Paul) GO		
Long Term Rating	AAA/Stable	Affirmed
St Paul Public Library Agency, Minnesota		
St Paul, Minnesota		
St. Paul Pub Lib Agy (St. Paul) GO		
Long Term Rating	AAA/Stable	Affirmed

FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Saint Paul, MN's $7.4MM Series 2023D GO Bonds 'AAA'; Outlook Stable

Wed 09 Aug, 2023 - 4:08 PM ET

Fitch Ratings - Chicago - 09 Aug 2023: Fitch Ratings has assigned a 'AAA' rating to the following city of Saint Paul, MN (the city) general obligation (GO) bonds:

--$7.4 million GO capital improvement bonds series 2023D.

In addition, Fitch has affirmed the city's Long-Term Issuer Default Rating (IDR) and ratings on the city's outstanding GO bonds at 'AAA'.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
Saint Paul (MN) [General Government]	LT IDR	AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable
Saint Paul (MN) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable Affirmed	AAA Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

The bonds are scheduled for a competitive sale the week of August 14. Proceeds will be used to finance various capital purchases.

SECURITY

The bonds are payable from the city's unlimited full faith and credit pledge to levy property taxes on all taxable property in the city to pay debt service on the bonds.

ANALYTICAL CONCLUSION

Fitch's affirmation of the IDR and GO ratings at 'AAA' reflects the city's solid revenue growth prospects coupled with its strong control over revenues and expenditures. Fitch believes the city is well positioned to address future cyclical downturns while maintaining superior gap-closing capacity.

Economic Resource Base

Saint Paul is the capital of Minnesota and a major element of the vibrant twin cities economy. The city has a population of over 311,000, with education attainment levels and unemployment rates that are better than national averages.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Fitch expects the city's revenue growth to be solid, between the rate of CPI and national GDP growth. The city has a high degree of independent legal revenue-raising flexibility.

Expenditure Framework: 'aa'

Fitch anticipates that the city's natural pace of expenditure growth will be marginally above its solid pace of revenue expansion. Saint Paul's expenditure flexibility is solid, supported by currently moderate costs for servicing debt and other long-term liabilities.

Long-Term Liability Burden: 'aaa'

The city's long-term liability burden, including net pension liabilities and overall debt, is currently low at just over 8% of personal income.

Operating Performance: 'aaa'

Saint Paul has high gap-closing capacity due to its superior inherent budget flexibility and strong budget management practices. Fitch expects the city to maintain available reserves above Fitch's 'aaa' reserve safety margin level through a typical economic cycle.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable for 'AAA' ratings.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Sustained growth in the long-term liability burden to 10% or more of personal income;

--Weakening of the revenue framework due either to slower than expected revenue growth consistently at or below Fitch's long-term expectations for national inflation, or imposition of ongoing constraints by the state of Minnesota on the city's revenue-raising ability.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

Saint Paul ended fiscal 2021 (Dec. 31 FYE) with general fund reserves of $64.7 million, equal to 20% of spending and transfers out. Fiscal 2021 operations concluded with a $4.1 million draw on reserves equal to a just under 6% decrease from fiscal 2020 reserve levels. The reserve draw was due largely to unrealized declines in the fair market value of the city's investments.

According to unaudited 2022 results, the city estimates that it added $5 million to general fund reserves, bringing total reserves to approximately 21% of fiscal 2022 spending and transfers out. The estimated positive operating results were due to revenues outperforming budget and expenditures tracking very closely to budgeted amounts. Both interest earnings and permit & license income are estimated to have come in approximately $2 million above budget.

The city's $353 million general fund budget for fiscal 2023 represents a 9% increase over the fiscal 2022 adopted budget. The 2023 property tax levy of $201 million increased by nearly 15% above the 2022 levy. Just over half the increase is due to the street maintenance function moving into the general fund and onto the property tax levy in 2023. The city also budgeted to receive an additional $13.6 million in public safety aid from the state in the current year.

CREDIT PROFILE

Saint Paul's leading employer, the state of Minnesota (including the University of Minnesota), provides stability to its economy. Employment levels have increased over the past decade, at a pace slightly higher than the state. The city's population growth has also been solid, increasing by over 6% from 2010 through 2022 ahead of county (5.5%) but below that of the state (7.8%) and nation (7.9%). A diverse group of businesses support the commercial tax base and 3M Company is the second largest employer. Approximately 30% of property in the city is tax-exempt, given the large number of government-owned properties located in the city due to its role as the state capital.

Revenue Framework

The city has a diverse revenue mix. Over 40% of 2021 operating fund (general and library funds) revenue consisted of property taxes while about 30% took the form of transfers from the state of Minnesota. The remainder was largely comprised of charges for services, other taxes, and fines and forfeitures.

Fitch expects the natural pace revenue growth to be solid, between the Fed's long-term target rate for inflation and national GDP growth. This assessment reflects the city's expectations for strong assessed value (AV) growth as well as solid growth prospects for state aid to local governments given the state of Minnesota's (AAA/Stable) robust financial health. AV growth expectations are driven by a growing population, low unemployment, and large ongoing development projects.

The city maintains unlimited legal flexibility to raise the property tax levy as necessary. In the past, Minnesota has enacted statewide limits to the property tax levies of its local governments as a means of providing local taxpayer relief. These limitations have been temporary in nature, generally expiring after one year, and have never applied to taxes levied to pay debt service. There is no guarantee that the state will not enact similar limits in the future, or other limits of a more permanent nature. Minnesota has, on occasion, enacted multi-year property tax levy caps; most recently for fiscal years 2009 to 2011. The longest period of multi-year caps was from 1972 to 1992, when the caps were repealed.

Expenditure Framework

The city's largest expenditure item is public safety at over 65% of 2021 operating fund expenditures. The city also spent around 16% on general government administration and 12% on culture and recreation.

Fitch expects the city's natural pace of expenditure growth will be in line with, to marginally above, the revenue growth rate. The main drivers of expenditure growth come from mandated cost of living adjustments in union contracts.

The city maintains solid flexibility over its main expenditure items. Carrying costs for long-term liabilities including debt service (net of refundings), actuarially determined contributions (ADC) to public pension plans, and pay-go costs for other post-employment benefits (OPEB) have been moderate, hovering around 17% of governmental expenditures. Employer contributions to Minnesota's pension plans are statutorily set as a percentage of payroll; recent legislative changes increased statutory contribution rates, which exceeded the ADC rates from 2018 to 2021 funding valuations.

Fitch expects higher employer and employee contributions, along with other changes adopted by Minnesota in 2018, to put the state's public pension plans on a more solid path to funding progress, assuming the plans otherwise achieve their actuarial assumptions over time. Fitch anticipates that the budgetary effects of the city's contribution increases will be offset by declining debt service levels, given a fast amortization rate (around 75% in the next 10 years) for city debt. The city has also demonstrated an ability to implement spending reductions in the past, as management cut vacant positions and other expenditure items to maintain the reserves above its 15% of expenditures policy floor in response to previous mid-year state aid declines.

Long-Term Liability Burden

Overall debt and pension liabilities equal around 8% of personal income, including the new money portion of the current issuance. Fitch expects the city's direct debt, equal to about 25% of the total liability, will decline due to the fast amortization rate noted above and minimal new issuance plans.

Net pension liabilities account for approximately 17% of the total $1.2 billion liability burden, as adjusted by Fitch to reflect its standard 6% discount rate rather than the 7.5% official rate of return (ROR) used by the pension systems. The systems' relatively high ROR assumption could lead the net pension liability to increase to levels inconsistent with Fitch's current 'aaa' assessment for the long-term liability burden. The remainder of the liability burden is comprised of debt of overlapping entities.

Saint Paul participates in the Minnesota Public Employee Retirement Plan (PERA), which is a state-run cost-sharing, multiple-employer defined benefit pension system. 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). Fitch calculated the combined ratio of assets to adjusted liabilities for the city's share of the two sub-plans to be 86% in fiscal 2021.

Operating Performance

Fitch expects that the city's available reserve levels, which have remained above 16% of operating fund spending since fiscal 2010, will remain well above the 'aaa' reserve safety margin level through potential revenue declines depicted by Fitch's Analytical Stress Test (FAST) model under a moderate economic downturn scenario, given the city's superior revenue and expenditure controls. The city has a formal policy of maintaining general fund reserves equal to at least 15% of budgeted operating fund expenditures and has an informal target of maintaining reserves at between 20% and 30% of spending.

Saint Paul implemented its 15% of expenditures fund balance policy for its operating funds in 2005. The city uses the 15% policy as a floor and in most years manages to maintain available reserves closer to, or above, its informal target of 20% of operating fund spending. In addition to building and maintaining strong reserves during economic expansions, the city also regularly makes pension contributions at, or above, the ADC levels and does not engage in material deferrals of required spending.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

The highest level of ESG credit relevance is a score of '3', unless otherwise disclosed in this section. A score of '3' means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. Fitch's ESG Relevance Scores are not inputs in the rating process; they are an observation on the relevance and materiality of ESG factors in the rating decision. For more information on Fitch's ESG Relevance Scores, visit https://www.fitchratings.com/topics/esg/products#esg-relevance-scores.

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Saint Paul Public Library Agency (MN)	EU Endorsed, UK Endorsed

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