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RESEARCH

St Louis, Missouri; Appropriations; General Obligation

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Credit Profile

US$24.86 mil tax-exempt juvenile detention ctr leasehold rev bnds (St Louis) ser 2008B due 06/01/2038		
Long Term Rating	A/Stable	New
US$19.445 mil taxable pub safety sales tax leasehold rev bnds (St Louis) (Pension Fdg Proj) ser 2008A due 06/01/2019		
Long Term Rating	A/Stable	New
St Louis GO ICR		
Long Term Rating	A+/Stable	Upgraded
St Louis GO		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised to 'A+' from 'A' the issuer credit rating (ICR) and the general obligation (GO) rating on The City of St. Louis, Mo. The outlook is stable.

We also raised the rating on the city's appropriation and leasehold revenue bonds to 'A' from 'A-', and assigned an 'A' rating and stable outlook to the series 2008A and 2008B leasehold revenue bonds issued by St. Louis Municipal Finance Corp.

The upgrades reflect the city's maintenance of strong reserves and its recent settlement with all three of its pension systems.

The 'A' rating on St. Louis Municipal Finance Corp.'s police capital improvements sales tax leasehold revenue bonds series 2008A and 2008B, issued for St. Louis, reflects the city's pledge to make lease-rental payments covering debt service, subject to annual appropriation.

Proceeds of the series 2008A leasehold revenue bonds will be used to pay part of the city's fiscal 2008 annually required contribution (ARC) for its police and firefighter retirement systems. Series 2008B proceeds will be used to improve the city's juvenile detention center and for other capital projects.

The 'A+' ICR and GO rating on St. Louis reflect:

- The city's position as the center of a diverse regional economy encompassing an 11-county metropolitan area in Missouri and Illinois;
- Strong tax base growth in recent years due to ongoing development in the city's downtown and neighborhoods;
- Good financial management, and
- Limited future debt plans.

Credit weaknesses include:

- Historically high unemployment and well-below-average income levels; and

- Moderately high overall debt burden.

The city intends to make lease rental payments on the series 2008A bonds from revenues generated by its new half-cent public safety sales tax. To the extent the sales tax is insufficient, the city will appropriate monies from other available funds to make up the deficiency. The city will make its rental payments for the series 2008B bonds from general revenues.

Due to conservative budgeting and gains in economically sensitive earnings, sales, and franchise taxes, the city has regained financial stability since fiscal 2004 (June 30) and currently maintains strong levels of reserves. Following general fund surpluses after transfers, reported on a generally accepted accounting principles basis, totaling $10.4 million in 2005 and 2006, the city reported a general fund drawdown of $5.6 million. The drawdown in 2007 was mostly due to the transfer of $4.8 million to the capital projects fund, pursuant to a city ordinance that requires the city to transfer half of each year's general fund operating surplus, calculated on a budgetary cash basis, to capital projects the following year. The city anticipates that it will transfer $1.5 million to the capital projects fund in 2008 for the same reason.

The general fund balance for 2007 totaled $74.7 million, or a very strong 18% of expenditures. Of that amount, $53.6 million (13%) is unreserved. Liquidity is strong, with $51.8 million of cash and investments held in the general fund at the end of fiscal 2007, or nearly 13% of expenditures. The city projects that it will report break-even general fund operations for 2008 following the application of series 2008B bond proceeds, and that its final budget for 2009 will be balanced.

St. Louis' overall net debt burden, including GO bonds and lease-backed debt, and debt issued by the city's school district, is a moderately high $3,200 per capita and 6.3% of market value. Total debt service expenditure in fiscal 2007 was a moderate 10% of total governmental expenditure less capital outlays.

Each year, the city issues tax and revenue anticipation notes for seasonal cash flow needs and has averaged annual issuance of $43 million during fiscals 2000 through 2007. Almost half of the city's $38.4 million capital budget for fiscal 2008, which includes debt service payments on lease revenue bonds, is cash-funded by a dedicated half-cent sales tax and general fund surpluses. Sources of revenue for bond-funded capital projects include general fund transfers, tax increment revenues, the city's casino-boat admissions tax, circuit court fees, and unused lease debt appropriations.

Outlook

The stable outlook reflects the progress the city has made in attracting economic development, which has led to good increases in its tax, employment, and population bases. The outlook is also based on Standard & Poor's expectation that the city will maintain at least balanced financial operations with strong reserves, helped by its recent pension settlements and institution of new tax revenues to help pay future pension obligations.

Economy

St. Louis is the cultural, financial, health care, and educational center for 2.6 million people living in six counties in Missouri and five in Illinois. Due to outmigration to the suburbs, the city's population decreased 12% in the 1990s to 348,189 in 2000, which was only 41% of the city's population in 1950. Coordinated public and private improvement efforts, however, have brought a considerable amount of new investment into the downtown area in recent years, helping reverse the outmigration trend.

According to the U.S. Census Bureau, the city's population began to grow in 2003 after decades of decline and is estimated at 350,759 as of 2007, a gain of 2,570 since the 2000 U.S. Census. City residents as a whole continue to be very low-income, with the city's median household effective buying income about 30% below state and national averages. In addition, unemployment has traditionally been very high relative to state and national averages; the city's unemployment rate averaged 7% for 2007, compared with 5% and 4.6% for the state and nation, respectively.

The estimated market value of the city's property tax base increased 57% from 2002-2007 to $17.8 billion, or an adequate $50,800 per capita. The recent strong gains in market value are the result of numerous private and public economic development efforts in the city, including the addition of more than 24,000 new and substantially rehabilitated homes. Since 2002, public and private efforts have brought about $2 billion of newly completed projects into downtown, and another $1.3 billion of neighborhood projects. A further $4.9 billion of developments are currently planned or under construction.

Most economic development investments have been targeted toward the convention and tourist industry, with expansions and improvements to the city's convention center, hotels, and transportation network. Such investments have allowed the city to remain vital and retain most of its corporate citizens while restructuring itself into a service-based economy from a historically manufacturing-based economy. Other private and public efforts have led to the completion of a number of new and redeveloped housing units both downtown and in the outer neighborhoods. However, city residents as a whole continue to be very low-income, with the city's median household effective buying income about 30% below state and national averages.

St. Louis residents have access to a wide variety of employment opportunities in the city and in neighboring communities. Leading local employers include BJC Health Systems (15,350 employees), Washington University (13,010), Saint Louis University (9,380), City of St. Louis (8,650), St. Louis Board of Education (6,230), AT&T Inc. (6,630), U.S. Postal Service (5,800), State of Missouri (5,310), Anheuser-Busch Inc. (5,030), Wachovia Bank (5,030), Federated Retail Holdings Inc. (4,140), National Finance Center (3,660), Defense Finance and Accounting Services (3,340), Ameren Corp. (2,430), and Tenet Health Systems (2,240).

Finances And Pension Settlement

St. Louis' ability to raise property taxes is limited by the Hancock Amendment to the Missouri Constitution, which requires that property tax rates be rolled back in the event that assessed values exceed the rate of inflation. However, new construction is exempt from the amendment's restrictions. As new developments take time to hit the tax rolls and in order to improve its revenue-raising ability, St. Louis has turned to other tax sources. Over the years, it has sought voter approval to implement several alternative taxes. Therefore, general fund revenues are well diversified and composed primarily of earnings and payroll tax receipts (34% of general fund revenues in 2007), franchise/utility tax receipts (13%), sales taxes (12%), property taxes (12%), and payroll taxes (9%).

The economic downturn in the early 2000s adversely affected the city's earnings, franchise, and sales tax revenues, prompting management to draw upon reserves in each of fiscals 2002 through 2004. However, as additional economic development created jobs within the city, general fund revenues before transfers-in increased 10% between 2004 and 2006. Importantly, the city's leading and most economically sensitive general fund revenue source, the earnings tax, which came in under budget in 2002 through 2004, was on budget in 2005, 2006, and 2007. Earnings tax revenue rose 8.8% in fiscal 2006 from 2005, and increased 3.6% in fiscal 2007 to $136.4 million.

Subsequent to passage of the fiscal 2008 budget, the city settled with its three pension funds (police, firefighter, and other employees) to make back payments, part of which was funded by the series 2007 pension funding bonds. It also resolved to pay the full ARCs to all three pension funds, starting with the current fiscal year.

To pay debt service on the pension bonds and to help its full ARCs for all three systems, the city took two initiatives to enhance tax revenues. In November 2007, the city broadened the tax base upon which the 7.5% gross receipts telecommunications tax is levied. This should generate an additional $7 million annually which, with another $6.5 million from telecommunications tax revenue, is dedicated to pay part of the debt service for the series 2007 pension bonds and help pay the ARC for its employee retirement system. In February 2008, voters approved a half-cent sales tax dedicated to public safety that the city projects will generate about $18 million annually, $11 million of which will go to debt service for the series 2007 pension bonds and the series 2008A pension deficit bonds, as well as help pay the ARCs for the police and firefighter pension systems.

Financial Management Assessment: 'Good'

St. Louis's financial management practices are considered "good" under Standard & Poor's Financial Management Assessment, which indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Key items include quarterly reporting of the city's financial position to the board of aldermen, with procedures for budget adjustments. The city has a comprehensive five-year capital plan with identified sources of funds, but long-term financial planning for operations rarely goes beyond one year. The city has no formal debt management policies, but investment management is governed according to conservative guidelines and good oversight. The city has a formal fund balance policy of 5% of total operating expenditures, which it has exceeded in the past several years.

Ratings Detail (As Of 19-May-2008)

St Louis tax incre rev nts (600 Washington Redev Proj-One City Centre)		
Long Term Rating	A/Stable	Upgraded
St Louis Mun Fin Corp, Missouri		
St Louis, Missouri		
St Louis Mun Fin Corp (St Louis) police cap imp sales tax leasehold ser 2007		
Unenhanced Rating	A(SPUR)/Stable	Upgraded
St Louis Mun Fin Corp (St Louis) Carnahan Courthouse ser 2006A		
Unenhanced Rating	A(SPUR)/Stable	Upgraded
St Louis Mun Fin Corp (St Louis) (Pension Fdg Proj) taxable lsehold ser 2007		
Unenhanced Rating	A(SPUR)/Stable	Upgraded
St. Louis Regl Conv & Sports Complex Auth, Missouri		

St Louis, Missouri

St. Louis Regl Conv & Sports Complex Auth conv & sports faci proj (Edward Jones Dome)

Unenhanced Rating	A(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.