S&P Global Ratings

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Summary:

St. Peter, Minnesota; General Obligation; Tax Increment

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Credit Profile		
US$7.65 mil GO bnds (Street Improvement Projects And Equipment Purchases) ser 2024A dtd 10/05/2024 due 01/29/2045		
Long Term Rating	AA-/Negative	New
St Peter GO imp bnds		
Long Term Rating	AA-/Negative	Affirmed
St Peter GO tax increment rfdg bnds		
Long Term Rating	AA-/Negative	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA-' long-term rating to St. Peter, Minn.'s $7.7 million series 2024A general obligation (GO) bonds, based on the application of its criteria "Methodology For Rating U.S. Governments," published Sept. 9, 2024.
- At the same time, we affirmed our 'AA-' long-term rating on the city's existing GO debt, GO tax-increment bonds, and GO improvement and utility bonds.
- The outlook is negative.

Security

The city's series 2024A bonds are secured by its unlimited ad valorem GO pledge. The city intends to pay debt service first from its pledge enterprise revenues from its water, sanitary sewer, storm water utilities, tax increment and special assessment revenues from benefited properties. While we factored enterprise self-support coverage, we rate the series to the GO pledge, as we do not have sufficient legal information to rate its alternative pledges. Proceeds of the series 2024A will be used to finance various citywide equipment purchases.

Credit overview

In our view the city's mostly balanced operations and maintenance of reserves above its policy minimums support its general creditworthiness. Offsetting these credit strengths are the city's exposure to speculative contingent liabilities of the city and its component unit economic development authority (EDA) issued debt for River's Edge Hospital and Clinic. We view the exposure to these liabilities as a credit pressure given the combination of the city's commitment to supporting River's Edge although not legally obligated to pay or levy for debt service of the hospital and River's Edge pattern of thin reserves and below-covenant requirement debt service coverage (DSC). The GO rating also incorporates our view of the city's incomes below the national average, significant growth in assessed values in the past five years, and its potential future debt plans.

The city ended with a small surplus in fiscal 2023 and is anticipating to end fiscal 2024 with slightly positive results as it layers in 4% salary increases for staff citywide. More than halfway through the 2024 fiscal year, performance is better than the original deficit budget largely due to medical costs increasing less than estimated (along with a variety of small changes to expenditures). Fiscal 2025 budget is structured with a 1% deficit.

Debt and reserves scores were lowered to reflect our view of potential budgetary pressure to the city's operations if its component unit, Rivers Edge, continues to post insufficient revenues to cover debt service. Management will seek another waiver from its lenders on its covenant requirements before the end of the fiscal year (Dec. 31) for fiscal 2025. The component unit is unlikely to meet DSC requirement (1.25x) in fiscal 2025 reporting coverage of negative 0.58x, and 69 days' cash (just over the 60 days' cash requirement) as of August 2024. River's Edge Hospital breached a covenant requirement for its existing loans and reported coverage of 0.7x at fiscal year-end 2023, on its existing debt in February 2024. Both lenders, the U.S. Department of Agriculture (USDA) and Frandsen Bank, provided a waiver to DSC requirement of 1.25x in fiscal years 2023 and 2024, preventing the need of engaging a financial management consultant at the hospital for performance improvement as the remedy measure. While the related debt agreements contain a cross-default provision across the hospital's $32 million in USDA loans, a covenant breach would not constitute an event of default and result in payment acceleration for both USDA and Frandsen Bank debt.

While the city can step in for financial support if the hospital becomes operationally distressed, at this time, we believe financial pressure on the city has been mitigated at least through fiscal 2024, given the waiver secured, along with the current cash level ($8.3 million) of the hospital and no restrictions on use of available cash for debt service.

Credit fundamentals supporting the 'AA-' rating, in our view, include:

- Growing annual valuation as result of construction and redevelopment, with incomes and gross county product below national averages, despite the city's close proximity to Mankato, largely a result of the presence of Gustavus Adolphus College and the Saint Peter Regional Treatment Center, which we consider stabilizing institutions.
- Historically steady general fund performance expected to remain near-balanced in most years, with general fund revenues predominantly made up of intergovernmental receipts (49%) and property taxes (36%) in last audit 2023.
- Reserves maintained well above the city's policy minimum of 35% of expenditures. Management intends to bring reserves back in line with its maximum reserve goal of 50% and is budgeting to use excess funds with plans to draw about $100,000 of reserves in fiscal budget 2025.
- Management reports investment holding and budget-to-actual results to the board on a quarterly basis, but budget assumptions to do not include cost estimates for a scenario in which the city needs to provide financial support to the hospital. The city maintains a 10-year financial plan, but no long-term forecasting. St. Peter is in compliance with its reserve policy, has a formalized investment policy, and no debt management policies.
- We expect the debt metrics will worsen with this new issuance given the amortization schedule with increasing fixed costs starting in 2025 for several years. Should the district move forward with its city hall building revitalization or new construction project, it will likely materially weaken net direct debt per capita and carrying charges--projects costs and timing are unknown this time. However, fixed costs are presently manageable and there is limited exposure to pension and other postemployment benefits. Of St. Peter's existing direct debt, the hospital revenue bonds account for 45%, or $36.3 million.
- For more information on our institutional framework assessment for Minnesota local governments, see "Institutional Framework Assessment: Minnesota Local Governments," published Sept. 10, 2024.

Environmental, social, and governance

We have analyzed the city's environmental, social, and governance (ESG) factors and view them as neutral within our credit analysis. St. Peter maintains a tornado-disaster revolving loan--a contingency fund that can be used for weather-related costs.

Outlook

The negative outlook reflects the potential for the hospital to require financial subsidy from the city for either operations or debt service in fiscal 2025 given city officials' commitment to maintain this essential service. We have analyzed the hospital's net position and cash position relative to its debt service payments; based on the latest projection, DSC will be weaker at fiscal year-end 2024 compared with that of fiscal year-end 2023. There is at least a one-in-three likelihood that we could lower the rating on the city, given the uncertainty of how the hospital will generate sufficient net income to comply with its covenants in the next year, and the amount of financial support the city would provide, in the event the hospital cannot make debt service payments. In our view, the city's liquidity is not sufficient to sustain long-term support for the hospital.

Downside scenario

Should River's Edge DSC not improve over the course of a year as projected, or the hospital's lenders not extend a waiver before the start of fiscal 2025, if needed, we could lower the rating due to the city's potential budgetary pressure resulting from financial support for the hospital.

Upside scenario

We could return the outlook to stable if the city maintains near breakeven or positive operations while sustaining its reserve levels, and if the hospital has evidence of stable net income, reduced accounts receivables, and has credible plan to improve and sustain DSC to levels of at least 1.25x.

Table 1

St. Peter, Minn.--Credit summary	
Institutional framework (IF)	1
Individual credit profile (ICP)	2.79
Economy	4.0
Financial performance	2
Reserves and liquidity	2
Debt and liabilities	3.25
Management	2.70

Table 2

St. Peter, Minn.--Key credit metrics

	Most recent	2023	2022	2021
Economy				
GCP per capita % of U.S.	71.0	0.0	71.0	69.0
County PCPI % of U.S.	89.0	0.0	89.0	88.0
Market value ($000s)	946,558	902,792	784,203	739,238

Table 2

St. Peter, Minn.--Key credit metrics (cont.)				
	Most recent	**2023**	**2022**	**2021**
Market value per capita ($)	77,006	73,445	64,132	61,079
Top 10 taxpayers % of taxable value	10.2	10.2	0.0	0.0
County unemployment rate (%)	2.3	2.2	1.9	3.0
Local median household EBI % of U.S.	89.0	94.0	97.0	95.0
Local per capita EBI % of U.S.	70.0	69.0	70.0	68.0
Local population	12,292	12,292	12,228	12,103
Financial performance				
Operating fund revenues ($000s)	--	7,299	8,724	8,716
Operating fund expenditures ($000s)	--	9,160	9,222	8,234
Net transfers and other adjustments ($000s)	--	1,947	--	--
Operating result ($000s)	--	86	-498	482
Operating result % of revenues	--	1.2	-5.7	5.5
Operating result three-year average %	--	0.3	0.6	-0.4
Reserves and liquidity				
Available reserves % of operating revenues	--	57.3	47.3	53.5
Available reserves ($000s)	--	4,180	4,124	4,666
Debt and liabilities				
Debt service cost % of revenues	9.5	9.5	10.1	12.3
Net direct debt per capita ($)	2,943	2,739	2,169	2,226
Net direct debt ($000s)	36,178	33,663	26,528	26,944
Direct debt 10-year amortization (%)	57.0	65.0	--	--
Pension and OPEB cost % of revenues	4.0	4.0	5.0	5.0
Net pension liabilities per capita ($)	463	463	777	299
Combined net pension liabilities ($000s)	5,686	5,686	9,507	3,623

GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of September 19, 2024)		
St Peter GO imp and util rev bnds		
Long Term Rating	AA-/Negative	Affirmed
St Peter GO swr rev rfdg bnds		
Long Term Rating	AA-/Negative	Affirmed
St Peter GO tax abatement bnds		
Long Term Rating	AA-/Negative	Affirmed

Ratings Detail (As Of September 19, 2024) (cont.)		
St Peter GO tax incre bnds		
Long Term Rating	AA-/Negative	Affirmed
St Peter GO wtr rev rfdg bnds ser 2011B dtd 12/01/2011 due 02/01/2013-2026		
Long Term Rating	AA-/Negative	Affirmed