FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms St. Louis, MO's IDR at 'A-' and Municipal Finance Corp. RBs at 'BBB+'; Outlook Remains Positive

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Fitch Ratings - New York - 19 May 2022: Fitch Ratings has affirmed the City of St. Louis, MO's Issuer Default Rating (IDR) at 'A-' and the rating of the city's lease revenue bonds issued through the city's municipal finance corporation at 'BBB+'.

The rating action affects the following securities:

--$108.8 million (Pension Funding Project) leasehold revenue refunding bonds (taxable), Series 2007 at 'BBB+'.

The Rating Outlook is Positive.

SECURITY

Leasehold revenue improvement bonds issued by the St. Louis Municipal Finance Corporation are rated one notch below the city's IDR, reflecting an annual appropriation pledge of general revenues to pay debt service.

ANALYTICAL CONCLUSION

Fitch's affirmation of St. Louis' 'A-' IDR)and 'BBB+' lease revenue bond rating is driven by the city's adequate gap-closing capacity, particularly strengthened available reserve balances, adequate spending controls and a moderate long-term liability burden. Revenue growth prospects, in the absence of further voter-approved tax increases, remain slow to stagnant.

The Positive Outlook reflects improved financial resilience as evidenced by the increases in reserve levels over the past several years. Continued stability in reserves as the city works through the economic uncertainty of the pandemic, including potential reduction of revenue streams related to telecommuters, could support an upgrade.

Economic Resource Base

St. Louis is the hub of a regional economy extending westward into central Missouri and across the Mississippi River into Illinois, with the city's downtown serving as the region's largest employment center. Health care and higher education are the main growth drivers. Resident wealth and income levels are below state and national averages, while the city's poverty rate is high and more than double that of the surrounding county.

KEY RATING DRIVERS

Revenue Framework:

Revenue growth prospects remain below the national rate of inflation, consistent with historical trends. The city's legal ability to raise revenues is constrained by state constitutional provisions that require voter approval for most tax increases. Voters have shown a tendency to approve most tax increases, including re-authorizing the earned income tax every five years, particularly when matched with proposals to fund specific services.

Expenditure Framework:

Spending growth is likely to outpace the natural rate of revenue expansion for the longer term, making the structural balance difficult to sustain, despite a demonstrated ability to control costs and a fairly flexible state labor framework. The city's carrying costs are moderately high at roughly 21% of governmental funds spending.

Long-Term Liability Burden:

The city's long-term moderate liability burden of approximately 16% benefits from pension changes enacted several years ago, and full funding of actuarially-determined contributions in recent years.

Operating Performance:

St. Louis steadied its operating results in recent years after several deficits during the last economic expansion. Management's spending restraint and voter approval of tax increases allowed the city to grow available reserves with annual deposits.

RATING SENSITIVITIES

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

--Ongoing structural budgetary balance, even if litigation or legislation impairs the city's revenue related to telecommuters, that leads to sustained reserves and liquidity at or near current levels;

--Reductions in the city's fixed carrying costs, which would lead to improved expenditure flexibility.

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

--An unanticipated revenue shock that would occur if the city's earnings tax fails to be re-approved in future re-authorization votes or if revenue is negatively affected by litigation or legislation;

--Failure to maintain an adequate fiscal reserve cushion, potentially due to a reliance one-time funds to balance the budget by paying for recurring expenses.

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

St. Louis ended fiscal 2021 (FYE June 30) with a surplus of over $26 million, increasing available reserves to over $133 million (almost 27% of general fund expenditures) inclusive of nonmajor funds that are available for general operations. The surplus was largely driven by earnings tax revenue coming in over budget, but also lower than budgeted expenditures due to vacancies from the pandemic and eligible expenditures offset by stimulus funds.

Fiscal 2022 revenue through the third quarter is tracking around $20 million (4% of budget) above the budget, which assumed a gradual recovery in the revenue base. The budget anticipated the utilization of $17.3 million of American Rescue Plan Act (ARPA) funds, but that may not be necessary given YTD results. Management currently expects to finish fiscal 2022 with an operating surplus.

The city was awarded over $498 million in ARPA funds, with allocations made for various programs, including capital improvement projects and economic development. Management also allocated $19 million in the fiscal 2023 budget, including $12 million for one-time employee compensation. The only ARPA spending allocated towards recurring costs was the $17.3 million budgeted in the fiscal 2022 budget that the city does not anticipate using. The city has over $247 million in ARPA funds that are not yet allocated.

The city, St. Louis County, and the Regional Convention and Sports Complex Authority recently reached a settlement with the St. Louis Rams National Football Team that will net the three entities a combined $513 million. While it is unclear how those funds will be split between the three entities, it is likely that the city will receive a large infusion of funds.

Voters approved an issuance of no more than $50 million of new general obligation bonds, with the first tranche expected to be issued in the next 12 to 18 months.

The city has faced litigation in which commuters had sued for refunds of the earnings tax if they telecommuted during the last two years. The city has won one suit regarding the 1% earnings tax, pending appeals, although another suit related to the 0.5% payroll tax on employees who neither live nor work inside the city remains outstanding. The payroll tax lawsuit would have a much smaller impact on the city's revenue than the earnings tax lawsuit.

Fitch will continue to monitor litigation as well as a proposed bill in the Missouri House of Representatives that may disallow the ongoing collection of the earnings tax on telecommuters. Any potential lost revenue would be reimbursable by ARPA funds as long as those funds were allocated by 2024 and spent by 2026.

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

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This 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. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
St. Louis (MO) [General Government]	LT IDR	A- Rating Outlook Positive	Affirmed	A- Rating Outlook Positive
St. Louis (MO) /Issuer Default Rating - General Government/1 LT	LT	A- Rating Outlook Positive	Affirmed	A- Rating Outlook Positive
St. Louis (MO) /Lease Obligations - Standard/1 LT	LT	BBB+ Rating Outlook Positive	Affirmed	BBB+ Rating Outlook Positive

VIEW ADDITIONAL RATING DETAILS

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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

St. Louis Municipal Finance Corporation (MO)	EU Endorsed, UK Endorsed

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