

RatingsDirect®

Summary:

St. George, Utah; General Obligation

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Credit Profile		
US\$13.885 mil GO bnds ser 2024 due 04/01/2046		
Long Term Rating	AA+/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA+' long-term rating to St. George, Utah's anticipated \$13.885 million series 2024 general obligation (GO) bonds.
- The outlook is stable.

Security

Revenue from unlimited ad valorem taxes levied on taxable property in the city secures the GO bonds. Bond proceeds will finance the construction, acquisition, and improvement of trails, parks, recreation facilities, and amenities throughout the city.

Credit overview

St. George is the largest city in southern Utah and is the region's main economic hub and employment center. The local economy reflects strong tax base growth and draws in both permanent residents as well as a large number of visitors, given its proximity to tourist destinations such as Zion National Park, Bryce Canyon, and the northern rim of the Grand Canyon. The city has historically maintained a very strong financial position and liquidity to support community services and capital needs and management reports very strong operating surpluses in its general fund, driven by continued growth in property tax and sales tax revenue. Adding to our view of the city's credit strength is its extensive and well-integrated fiscal management practices and policies, which are the bedrock for its long history of fiscal stability and maintenance of strong reserves. In our view, the city's strong operating results during the past decade, its manageable debt burden, and strong economic profile support credit quality.

The rating further reflects our view of the city's:

- Strong local economy with a growing tax base, driven by continued demand for residential properties and a strong tourism component;
- Very strong financial profile characterized by a track record of double-digit positive operating results in the general fund, maintenance of robust reserves, and a revenue profile that is largely supported by local sales, property, and franchise taxes;
- Strong financial policies and practices, including long-term planning, that support financial stability, combined with a very strong institutional framework score; and
- Manageable debt burden and well-funded pension plans.

Environmental, social, and governance

We view the city's social, environmental, and governance factors as neutral in our credit analysis.

Outlook

The stable outlook reflects our view that the city will maintain its strong financial profile at a minimum, despite growing expenditure costs and a potential softening of sales and use tax revenue due to recent inflationary pressure. In addition, the outlook reflects our view of the city's strong economy, with continued tax base growth, strong tourism demand, and rising population. We do not expect to change the rating during our two-year outlook horizon.

Downside scenario

We could lower the rating if the city experiences financial pressure--stemming from rising budgetary costs or elevated capital spending--that results in a material reduction in general fund reserves.

Upside scenario

We could raise the rating should the city's income metrics improve to stronger levels, while maintaining its very strong financial profile in the form of very strong reserve and liquidity levels.

Credit Opinion

Strong economic base serves as the main economic and employment hub in southern Utah

The city is located in Washington County, about 118 miles northeast of Las Vegas, Nev., and about 300 miles southwest of Salt Lake City, Utah. Although the city does not participate in a metropolitan statistical area that we consider broad and diverse, it serves as the regional economic hub for southern Utah and there are several economic development projects in the construction phases within the city's boundaries. Current projects include Tech Ridge, Desert Color, Divario, New Intermountain Health Regional Hospital, St. George Musical Theatre, and BigShots Golf. There are also two large master planned developments under construction that are estimated to yield an additional 2,532 residential units.

St. George is a popular retirement community and is also known for its outdoor recreation and access to several state parks, Zion National Park, and the Grand Canyon. The city is also home to Utah Tech University and Dixie Technical College and Southern Utah University are within close proximity. We estimate that the city's population is 100,437 in 2022, although management report it estimates that its full-time equivalent residents is approximately 105,000 based on year-to-date data. Although the city's projected per capita effective buying incomes is adequate in our view, we believe income levels are likely understated due to the presence of Utah Tech University, with an estimated enrollment of 12,556 students, or approximately 13% of the city's 2022 population levels. We understand the city also projects roughly 25% of the city's population comprises retirees, which may also understate the reported income levels for the city. The city's overall tax base has been growing at a strong pace in recent years, and taxable value rose by nearly 17% and 39% in fiscals 2022 and 2023, respectively, to reach \$17.9 billion. Management reports that this strong tax base growth is primarily due to the strong demand for residential housing as well as the ongoing construction projects.

History of very strong budgetary performance, with maintenance of very strong reserve and liquidity levels

The city has reported very strong general fund surpluses in each of the past three fiscal years, leading to very strong reserve and liquidity levels that management expects to maintain. In fiscal 2023, the primary source of operating revenue was taxes, primarily consisting of sales taxes (61%), property taxes (20%), and franchise taxes (15%). The city's sales tax revenue have seen very strong growth in recent years following the pandemic, reporting double-digit growth that has continued to support the general fund and contribute toward its strong operating performance. Management expects some softening of sales tax revenue collection in the near term, due to the currently high inflationary environment and the city expects growth will moderate to a more modest level going forward. Property tax revenue are growing steadily, and we expect this revenue stream to remain stable, especially in light of the city's strong tax base growth.

We expect rising general fund revenue growth will offset the continued increase in expenditures. Management also continues to budget conservatively and expects to finish fiscal 2024 with balanced operations as a result of conservative budgeting and core revenue growth.

The city also maintains very strong liquidity levels. We understand the city invests the majority of its cash with the Utah Public Treasurer's Investment Fund, which includes conservative investments.

Strong framework of financial management with several adopted policies and long-term planning tools

Highlights of the city's financial management policies and practices include:

- Budget assumptions that incorporate historical trend analysis and independent third-party sources;
- Bimonthly budget-to-actual reports to the council, with regular, monthly review of revenue and expenditure trends by city management;
- Lack of a formal long-term financial forecast for the general fund, although we understand city management actively incorporates any multiyear impacts for new major expenditures and programs as part of its budgeting process;
- A five-year capital improvement plan that identifies funding sources for the current budget year and is updated at least once a year;
- Formal debt and investment management policies with reporting on holdings and performance in the city's annual financial report; and
- A formal general fund reserve policy that requires the city to maintain at least 20% of general fund budgeted revenues in the city's combined unreserved general fund balance and capital project fund's fund balance. The policy also requires a minimum of balance of \$7.5 million in the city's general capital projects fund.

The institutional framework score for Utah cities is very strong.

Management reports that the city has not been the subject of a successful major cyber attack in recent years and manages this risk with an array of policies and practices to harden its defenses, plus system backups that would aid in a recovery. We note the city maintains cyber insurance with the Utah Local Government Trust (UGLT).

Manageable debt burden with average principal amortization and well-funded pension plans

Total net direct debt outstanding is about \$44.5 million, primarily consisting of general obligation, priority-lien debt, and appropriation (lease) debt. We note that the city plans on issuing the remaining GO authorization of approximately \$15 million by 2027 to complete its capital projects.

Well-funded pension liabilities and no other postemployment benefits (OPEB)

The city participates in several cost-sharing defined benefit pension plans managed by the Utah Retirement Systems, all of which are funded at 90% or more. The city also participates in defined contribution savings plans with the Utah Retirement Systems. The city's contributions are actuarially determined and, in the most recent year, exceeded our minimum funding progress metric, indicating our view that the city is making timely progress toward full funding.

We consider the city's plans' discount rate, which is higher than our guideline, to include risk of contribution volatility. In addition, the plans' somewhat high payroll growth rate basis of 3.25% defers contributions, and this could pose a risk to credits in the future. The reasonably short amortization period of 20 years, in line with our guidance, somewhat mitigates these factors and risks.

St. George, Utah--key credit metrics				
	Most recent	Historical information		
		2023	2022	2021
Strong economy				
Projected per capita EBI % of U.S.	82.93348607			
Market value per capita (\$)	272969.9812			
Population		100437	95226	
County unemployment rate (%)		2.5		
Market value (\$000s)	27416286	19815931	16937967	
Ten largest taxpayers % of taxable value	5.090589761			
Very strong budgetary performance				
Operating fund result % of expenditures	9.328571572	5.088096881	5.86130056	
Total governmental fund result % of expenditures	27.03500946	21.96769981	23.80903558	
Very strong budgetary flexibility				
Available reserves % of operating expenditures	30.5247635	24.10178253	23.08843721	
Total available reserves (\$000s)	30428	23405	20515	
Very strong liquidity				
Total government cash % of governmental fund expenditures	205.8002163	215.7704756	192.3122093	
Total government cash % of governmental fund debt service	7019.409866	7397.219132	5409.701101	
Strong management				
Financial Management Assessment	Good			
Very strong debt & long-term liabilities				
Debt service % of governmental fund expenditures	2.931873479	2.916913393	3.55495074	
Net direct debt % of governmental fund revenue	23.67086789			
Overall net debt % of market value	0.530680924			
Direct debt 10-year amortization (%)	51.59001314			

St. George, Utah--key credit metrics (cont.)

Required pension contribution % of governmental fund expenditures	6.415247364
OPEB actual contribution % of governmental fund expenditures	--

Very 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
- 2023 Update Of Institutional Framework For U.S. Local Governments

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