City of St. Cloud, FL

Update - Moody’s assigns positive outlook to St. Cloud, FL’s outstanding non-ad valorem debt; A2 rating affirmed

Summary Rating Rationale
Moody’s Investors Service has assigned a positive outlook to City of St. Cloud, FL’s outstanding non-ad valorem debt. Concurrently, we have affirmed the A2 rating on the city’s non-ad valorem debt.

The A2 rating reflects the city’s ample reserve levels, sufficient non-ad valorem revenues, a rebounding tax base and a manageable debt and pension burden.

Credit Strengths
» Strong reserve levels
» Manageable debt burden

Credit Challenges
» Below average wealth levels
» Tax base size below average for rating category

Rating Outlook
The positive outlook reflects the expectation that non-ad valorem revenues will continue to grow, and the tax base will continue to recover.

Factors that Could Lead to an Upgrade
» Increased non-ad valorem revenues
» Tax base growth

Factors that Could Lead to a Downgrade
» Significant additional non-ad valorem debt
» Contraction of the tax base
» Declines in non-ad valorem revenues

Key Indicators
Exhibit 1

<table>
<thead>
<tr>
<th>St. Cloud (City of) FL</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economy/Tax Base</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Full Value ($000)</td>
<td>$2,345,581</td>
<td>$1,946,832</td>
<td>$1,789,262</td>
<td>$2,034,702</td>
<td>$2,157,187</td>
</tr>
<tr>
<td>Full Value Per Capita</td>
<td>$66,668</td>
<td>$54,253</td>
<td>$47,432</td>
<td>$51,944</td>
<td>$54,373</td>
</tr>
<tr>
<td>Median Family Income (% of US Median)</td>
<td>84.8%</td>
<td>84.8%</td>
<td>84.2%</td>
<td>84.2%</td>
<td>84.2%</td>
</tr>
<tr>
<td>Finances</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating Revenue ($000)</td>
<td>$29,708</td>
<td>$33,987</td>
<td>$30,816</td>
<td>$35,918</td>
<td>$37,137</td>
</tr>
<tr>
<td>Fund Balance as a % of Revenues</td>
<td>13.2%</td>
<td>25.7%</td>
<td>27.9%</td>
<td>22.8%</td>
<td>23.3%</td>
</tr>
<tr>
<td>Cash Balance as a % of Revenues</td>
<td>49.6%</td>
<td>49.8%</td>
<td>55.1%</td>
<td>52.5%</td>
<td>42.4%</td>
</tr>
<tr>
<td>Debt/Pensions</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net Direct Debt ($000)</td>
<td>$36,892</td>
<td>$33,086</td>
<td>$28,770</td>
<td>$38,319</td>
<td>$35,911</td>
</tr>
<tr>
<td>Net Direct Debt / Operating Revenues (x)</td>
<td>1.2x</td>
<td>1.0x</td>
<td>0.9x</td>
<td>1.6x</td>
<td>1.5x</td>
</tr>
<tr>
<td>Net Direct Debt / Full Value (%)</td>
<td>1.6%</td>
<td>1.7%</td>
<td>1.6%</td>
<td>2.9%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)</td>
<td>N/A</td>
<td>N/A</td>
<td>1.8x</td>
<td>1.6x</td>
<td>N/A</td>
</tr>
<tr>
<td>Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)</td>
<td>N/A</td>
<td>N/A</td>
<td>3.0%</td>
<td>2.8%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

Source: Audited Financial Sources, Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Moderately-Sized Tax Base Benefits from Proximity to Orlando

St. Cloud’s sizeable $2.2 billion tax base, located in Osceola County (Issuer Rating Aa2), 26 miles southeast of Orlando (Issuer Rating Aa1), experienced significant declines from 2009 when assessed values peaked at $2.7 billion. Assessed values declined 57% to $1.2 billion in 2013, but have rebounded to $1.5 billion in 2016, including a 11.5% increase in 2016. The city continues to benefit from tourism associated with Walt Disney World (Walt Disney Company, A2 stable outlook) and EPCOT Center. According to Moody’s Economy.com, the local economy has experienced record tourism as well as above average growth in higher paying professional jobs, which have reduced the unemployment rate to 4.4% (October 2015), lower than the state (5.1%) and nation (4.8%). Officials report some new residential development and increased building permit issuance. The city’s generally below average socio-economic profile is reflective in per capita income and median family income at 78.1% and 84.2% of national levels, respectively.

Financial Operations and Reserves: Stable Financial Position

Moody’s believes the city’s financial position will remain stable given its strong reserve levels and conservative budgeting practices. The available (committed, assigned and unassigned) General Fund balance increased from $5.8 million (21.8% of revenues) in 2009 to $7.5 million (26.3% of revenues) in 2014, with surpluses in five out of six years. Surpluses were primarily due to conservative budgeting of expenditures. The available operating funds (includes General, Debt Service and Special Revenue Funds) balance was a strong $8.6 million or 26.6% of revenues in 2014. Notably, General Fund operations rely heavily on transfers from the city’s electric and water and wastewater enterprise funds (30.3% of 2014 revenues); transfers are made on a monthly basis and are based on the enterprise revenues from the second preceding fiscal year.

Moody’s expects legally available non-ad valorem revenues will provide adequate coverage for non-ad valorem bonds. Fiscal 2014 legally available non-ad valorem revenues (net of gas tax and public service/communication tax backed debt service) of $27.7 million were comfortably in excess of annual debt service requirements of $6.3 million. However, a sizable portion of non-ad valorem revenues ($19 million) are used to pay essential services, resulting in a $8.7 million available balance to pay debt service for non-ad valorem bonds. With an improving economy, non-ad valorem revenue sources, including sales taxes, are expected to increase providing an additional cushion for non-ad valorem debt service. Any decline in the availability of non-ad valorem revenues, whether due to declines in non-ad valorem revenues or increased essential costs, could negatively impact the rating.
The 2015 budget included a General Fund appropriation of $1.5 million. Management expects to replenish most of the appropriation, but will run a slight deficit. The 2016 budget included a General Fund appropriation of $3 million. Management reports being on budget at this point in the year.

LIQUIDITY
The city ended 2014 with $15.8 million in cash in its operating funds, or a significant 42.4% of operating funds revenues. The city has no plans to spend down cash at this time.

Debt and Pensions: Manageable Debt and Pension Burdens
Moody's expects the city’s debt burden to remain affordable, given a lack of future borrowing plans and the self supporting nature of the city’s water and sewer enterprise funds. The city’s direct debt burden is above average, at 2.5% of full value. Amortization of debt is below-average, with 47.4% of principal retired within ten years.

DEBT STRUCTURE
The city has $48.8 million in outstanding non-ad valorem debt. Additionally, the city has a $2.2 million loan secured by public service and communication service taxes and $2.8 million in outstanding loans with Florida DEP Revolving fund backed by gas taxes.

DEBT-RELATED DERIVATIVES
The city does not have any variable rate debt and is not party to any swap agreements.

PENSIONS AND OPEB
The city participates in two single-employer plans, the General Employees’ Retirement Plan and the Police Officers’ and Firefighters’ Retirement Plan. The 2014 Annual Required Contribution for both plans combined totaled $4.6 million or 12.5% of operating expenses. The city’s three-year average combined adjusted net pension liability, under Moody’s methodology for adjusting reported pension data, is $60 million, or a moderate 1.6 times operating revenues. Moody’s uses the adjusted net pension liability to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city’s reported liability information, but to improve comparability with other rated entities.

St. Cloud’s Other Post Employment Benefits (OPEB) unfunded liability is $2.4 million. The city currently pays the OPEB liability on a pay-as-you-go basis, including $88,000 in 2014.

Management and Governance
Florida cities have an institutional framework score of "Aa," or strong. Cities rely primarily on property tax revenues and sales taxes, and to a lesser extent on a variety of other user fees, which in total are moderately predictable. Revenue-raising flexibility is moderate as cities can increase property tax rates up to the 10 mill operating limit. Expenditures, which largely consist of public safety, are highly predictable. Expenditure reduction ability is moderate as cities retain a strong legal ability to cut expenses, but they also face rising fixed costs, notably for pensions.

Legal Security
The bonds are secured by the city’s covenant to budget-and-appropriate from legally-available non-ad valorem revenues, by amendment if necessary, in amounts sufficient to repay this obligation.

Use of Proceeds
Not applicable.

Obligor Profile
St. Cloud has is located in Osceola County, south of Orlando and had a population of 39,674 in 2014.

Methodology
The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. The additional methodology used in this rating was The Fundamentals of Credit Analysis for Lease-Backed Municipal Obligations published in December 2011. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies.
Moody’s has assigned a credit rating of Aaa to St. Cloud, Minnesota, with a outlook Stable. The rating reflects the city’s strong economic base, diversified employment base, and solid financial position.

The outlook Stable indicates that Moody’s does not expect any significant changes in the city’s creditworthiness in the near term. The rating is supported by the city’s strong economy, which is diversified across multiple industries, including manufacturing, healthcare, and education.

The city’s financial position is strong, with a robust revenue base and diversified tax base. The city has a history of prudent financial management and has maintained a strong fund balance ratio. The city’s debt management is also strong, with a low debt burden and a history of timely debt service payments.

However, the rating is subject to certain factors that could affect the city’s creditworthiness in the future. These include the potential for economic disruption due to events outside the city’s control, such as a downturn in the manufacturing industry or a decrease in tourism. Additionally, any significant increases in the city’s debt burden or a decline in tax revenues could also have a negative impact on the rating.

In conclusion, Moody’s remains confident in St. Cloud’s creditworthiness and expects the city to maintain its current rating in the near term.

Moody’s Investors Service
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