S&P Global
Ratings

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Summary:

St. Louis, Missouri
St. Louis City Parking Commission; Parking

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St. Louis (St Louis City Pkg Comm) pkg		
Unenhanced Rating	A-(SPUR)/Negative	Affirmed
St. Louis (St Louis City Pkg Comm) pkg (BAM)		
Unenhanced Rating	A(SPUR)/Negative	Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings affirmed its 'A' underlying rating (SPUR) on St. Louis, Mo.'s senior-lien parking revenue bonds series 2016.
- At the same time, we affirmed our 'A-' SPUR on the city's subordinate-lien parking revenue bonds series 2015A and 2015B. All bonds were issued for the St. Louis City Parking Commission.
- The outlook remains negative.

Security

Certain parking division net revenue (including fees, fines, tickets, tags, charges, and penalties for a variety of on- and off-street parking lots and meters) and city parking enforcement revenue secure the bonds. However, our analysis of the system includes all parking assets, not just those pledged to the senior and subordinate bonds, as well as all parking revenue debt outstanding. The parking division derives revenue from seven garages and three off-street lots, totaling more than 5,000 off-street spaces, and 7,700 parking meters.

As of January 2023, the system had approximately $43 million in parking revenue debt outstanding: approximately $37.8 million in rated debt (series 2015A, 2015B, and 2016) and $5.2 million in unrated debt, which includes the series 2003A and 2003B parking revenue bonds secured by Cupples Garage.

A common debt service reserve account, funded at the lowest of maximum annual debt service (MADS), 125% of average annual debt service, or 10% of par, provides added liquidity for bonds. St. Louis also maintains a parking trust fund equal to half of MADS on all parity debt outstanding (current balance: $526,975 as of Dec. 31, 2022), which it would use before the debt service reserve fund to make up any debt service shortfall. Excess pledged parking facility revenue can flow out to the city after all required deposits under the flow of funds, which has historically occurred and which we expect will continue. In our view, bond provisions are credit neutral.

The rate covenant requires that parking facility net revenue and pledged meter and fine revenue provide at least 1.35x annual debt service coverage (DSC) on the senior bonds and all-in DSC of 1.20x on the senior and subordinate bonds.

Credit overview

The rating reflects our opinion of the parking system's enterprise and financial risk profiles, which are unchanged at strong. Although parking activity and revenue performance are recovering, we expect financial metrics may remain pressured in the near-term. July-October 2022 parking division revenues improved to 105% of pre-pandemic 2019 levels; however, our assessment of financial performance has worsened to adequate from strong given sustained weakness in DSC for fiscal years 2020-2022 and our expectation that coverage will be sustained at weaker adequate levels (1.1-1.25x) given a material increase in operating expenses budgeted for fiscal 2023. Furthermore, we believe overall system parking demand will likely be sustained at weaker levels due to a shift to more remote work and evolving urban centers that could result in a modest sustained loss in downtown parking activity compared with pre-pandemic levels (See "U.S. Transportation Infrastructure Sector Update And Medians: U.S. Parking Sector View Is Now Stable," published May 4, 2022.)

Historically, the parking system has maintained strong financial performance and very strong debt capacity with DSC of 1.34x (S&P Global Ratings-calculated) and debt to net revenue of 5.4x in 2019, supported by no additional debt plans. Overall DSC was below the 1.20x rate covenant in fiscal years 2020, 2021, and 2022, but based on management's forecasts and actions, including material increases to parking rates, we expect coverage will improve going forward. In a round of rate increases that took effect on October 1, 2021, the City of St. Louis increased parking fines by $5 for Class 1-3 violations. Class 4 and 5 violation fines will remain the same. Parking meter rates were increased by $0.50, to $1.50 from $1.00 in low-demand areas and to $2.00 from $1.50 in high-demand areas. In the most recent round of rate increases, which took effect on July 1, 2022, the commission increased rates at 4 garages downtown and 2 in the Central West End. Also implemented were varying increases in monthly rates at the garages. Daily and monthly rates at locations where many city employees park, such as the lot outside City Hall, did not increase. Additionally, special-event charges at garages and lots would be $20 across the board, as prior to the increase some facilities were charging $10. We believe financial metrics will remain consistent with a strong financial risk profile in fiscal 2023, with DSC recovering to a level we consider adequate. Although revenue projections appear reasonable given recovery trends and implemented rate increases, the sustainability and effects on financial metrics are still subject to uncertainty, in our view, given the dependence on office workers and event parking, as well as operating expense increases. We could weaken the financial risk profile if system utilization stagnates or declines such that DSC and debt to net revenue to remain weak in fiscal 2023. Key credit strengths, in our opinion, are the system's:

- Size and diversity, with seven garages and three parking lots comprising more than 5,000 off-street parking spaces and 7,700 on-street parking meters throughout the City of St. Louis and its surrounding area;
- Generally high utilization rates and substantial revenue recovery in the second half of fiscal 2022 and the first several months of fiscal 2023;
- Favorable service area economic fundamentals, which will continue to support parking demand through good economic activity as measured by GDP per capita, unemployment below the national average, and a good population base of 2.8 million, partly offset by stagnant population growth; and
- Strong management and governance, evident in a history of adjusting rates to maintain good financial margins and

cash reserves while maintaining the pledged parking facilities in a state of good repair.

Key credit weaknesses, in our view, are the parking system's:

- Exposure to potentially weaker near-term parking demand as a result of the pandemic and lingering associated effects, complicating financial budgeting and planning;
- Competition (for a portion of the garaged spaces) from private operators and other parking options that a hospital provides; and
- Adequate liquidity and financial flexibility with unrestricted cash balances of $7.2 million, equal to 205 days and 16.8% of fiscal 2023 debt outstanding, as of December 2022.

Environmental, social, and governance

We analyzed the parking system's risks and opportunities related to environmental, social, and governance credit factors relative to its market position, management and governance, and financial performance. Elevated health and safety risks, which we consider a social risk factor, are a moderately negative credit risk, given the substantial impact resulting in weakened activity levels and financial performance in fiscal years 2020 and 2021. However, we view this risk as abating somewhat, given a general recovery in parking demand near pre-pandemic levels. Nevertheless, we believe evolving work trends could result in a modest sustained loss in parking system demand longer term. We consider environmental and governance credit factors neutral in our credit rating analysis.

Outlook

The negative outlook reflects our view of the ongoing uncertainties regarding activity recovery at the parking facilities and the long-term effects on financial metrics, given the system's exposure to commuter parking, which could remain materially weaker with a shift toward more people working from home.

Downside scenario

We could lower the rating if the parking system continues to fail to meet its 1.20x rate covenant.

Upside scenario

We could revise the outlook to stable if we come to believe that the parking system's recent demand and revenue recovery is sustainable, and that financial metrics will return to levels consistent with the current rating.

Credit Opinion

As a result of the revenue declines from lower parking demand as a result of COVID-19, the parking system did not meet overall DSC (1.20x) required by the rate covenant in fiscal years 2020, 2021, and 2022, or senior-lien DSC (1.35x) in fiscal 2021. As a result, the commission used excess cash reserves to pay for a portion of expenses and debt service in fiscal years 2020 and 2021. Per a bond indenture requirement, management enlisted a consultant to recommend rate adjustments to meet the 1.20x rate covenant in fiscal 2022 and again in fiscal 2023. The commission implemented two rounds of rate increases, the first on Oct. 1, 2021, and additional increases on July 1, 2022. Recommendations of the independent consultant undertaken by the commission include increases to monthly garage rates at six garages, upgrades to all single-space and multi-space meters, and a flat rate for event meter parking during certain hours leading up to and after an event. Additionally, the commission continues to operate at the reduced full-time staffing levels that began after fiscal year 2021.

S&P Global Ratings currently believes that the U.S. economy will fall into a recession in 2023. Supply-chain disruptions persist and will continue to drive inflation, which remains high, although it likely peaked in third-quarter 2022. As the weight of high prices adversely affects purchasing power and the Federal Reserve remains aggressive in its policies to combat inflation, borrowing costs are expected to increase. Our U.S. GDP growth forecast is 1.8% for 2022 and a 0.1% decline for 2023 (compared with 1.6% and 0.2% growth, respectively, in our September 2022 forecast). While economic momentum has protected the U.S. economy this year, of greater concern is what is in store for 2023. Extremely high prices and aggressive rate hikes will weigh on affordability and aggregate demand. With the Russia-Ukraine conflict ongoing, tensions over Taiwan escalating, and the China slowdown exacerbating supply-chain and pricing pressures, the U.S. economy appears to be teetering on the edge of recession. We expect the unemployment rate, at 3.7% in October and just above its pre-pandemic level, will remain near that rate until early 2023 before rising to 5.6% by the end of 2023, then slowly descend to 4.7% by the fourth quarter of 2025. The Fed will keep its tight monetary policy stance until inflation begins to moderate in late 2023, with the risk of more rate hikes this year and the next. Our lower GDP and inflation forecasts for 2023 and 2024 reflect the likely outcome of this more aggressive policy stance. (See "Economic Outlook U.S. Q1 2023: Tipping Toward Recession," published Nov. 28, 2022, on RatingsDirect.)

Related Research

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

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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