

RatingsDirect®

Summary:

Waconia, Minnesota; General Obligation

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Credit Profile

US\$4.295 mil GO bnds ser 2023A dtd 06/01/2023 due 02/01/2034

Long Term Rating

AA+/Stable

New

Credit Highlights

- S&P Global Ratings assigned its AA+' long-term rating to the City of Waconia, Minn.'s \$4.3 million series 2023A general obligation (GO) bonds.
- The outlook is stable.

Security

The city's unlimited ad valorem tax GO pledge secures the bonds. Proceeds will be used for road and utility improvements.

Credit overview

The rating reflects the city's very strong and expanding local economy with access to the Twin Cities and strong financial management practices and policies. Waconia has had stable operations in recent years, highlighted by very strong reserves and liquidity. Fiscal 2022 ended with a larger-than-expected surplus, which the city expected to spend down on capital projects in fiscal 2023. Through the first four months of fiscal 2023, officials state revenue and expenditures are on target. Approximately \$650,000 of the \$750,000 budgeted deficit for fiscal 2023 will be funded by the excess surplus from the prior year. Although debt carrying charges are very high relative to the city's governmental expenditures, the rapid amortization schedule and a portion of the debt service being supported by the city's enterprises help mitigate some of this risk. The rapid population and tax base growth also helps mitigate the risk associated with the elevated debt burden. We expect the local economy will keep expanding, which will continue to drive capital needs. We expect fixed costs from pension and other postemployment benefits to remain manageable, supporting our belief that the city will be able to handle the fixed costs associated with the growth. We expect its strong financial management practices and policies will help Waconia maintain its current financial profile and manage its liabilities.

The rating reflects our assessment of the following factors for Waconia:

- Very strong economy, which has been expanding and is expected to keep growing robustly, given its proximity to the broad and diverse Minneapolis metropolitan statistical area;
- Strong Financial Management Assessment and strong institutional framework score;
- Very strong financial profile that we expect will remain so, given management's practices and policies and the growing economy; and
- Weak debt and contingent liability profile, stemming from frequent debt issuance to address capital needs to

support growth.

Environmental, social, and governance

We view Waconia's environmental and governance risks as neutral in our credit rating analysis. We view the city's social capital risks as positive based on Waconia's rapidly rising population, leading to robust development and tax base growth over the past five years, as it provides underlying economic strength while ensuring positive local revenues relative to cities facing population stagnation or loss.

Outlook

The stable outlook reflects our views of the increasing tax base, very strong reserves and liquidity that we expect will persist, and budgetary management supported by strong practices and policies. Therefore, we do not expect to change the ratings within the two-year outlook period.

Downside scenario

If Waconia's financial performance were to weaken significantly, leading to sustained decreases in reserves, we could lower the rating. In addition, we could lower the rating if debt service carrying charges were to increase to a level that posed a likelihood of fiscal stress, thereby weakening our view of management.

Upside scenario

We could raise the rating if the city experienced significant growth in either its available reserves or economic metrics. We could also raise the rating if reserves and economic metrics improved while the debt burden also improved.

Waconia, Minnesota -- key credit metrics				
	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	137			
Market value per capita (\$)	147,128			
Population (no.)		13,298	13,181	13,001
County unemployment rate(%)		2.7		
Market value (\$000)	1,956,511	1,734,091	1,691,840	
Ten largest taxpayers % of taxable value	8.6			
Strong budgetary performance				
Operating fund result % of expenditures		9.7	8.9	4
Total governmental fund result % of expenditures		7.6	10.1	1.4
Very strong budgetary flexibility				
Available reserves % of operating expenditures		51.2	42.3	34
Total available reserves (\$000)		3987	3224	2564
Very strong liquidity				
Total government cash % of governmental fund expenditures		157	142	122
Total government cash % of governmental fund debt service		608	456	413

Waconia, Minnesota -- key credit metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Very strong management				
Financial Management Assessment	Strong			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		25.7	31.2	29.5
Net direct debt % of governmental fund revenue	281			
Overall net debt % of market value	5.3			
Direct debt 10-year amortization (%)	78			
Required pension contribution % of governmental fund expenditures		1.4		
OPEB actual contribution % of governmental fund expenditures		--		
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
- 2021 Update Of Institutional Framework For U.S. Local Governments

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