

RatingsDirect®

Summary:

New Prague, Minnesota; General Obligation

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Credit Profile

US\$3.71 mil GO bnds ser 2023A dtd 06/29/2023 due 02/01/2039

<i>Long Term Rating</i>	AA/Stable	New
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New Prague GO

<i>Long Term Rating</i>	AA/Stable	Affirmed
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Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to New Prague, Minn.'s \$3.71 million series 2023A general obligation (GO) bonds.
- At the same time, we affirmed our 'AA' rating on the city's GO debt outstanding.
- The outlook is stable.

Security

The series 2023A bonds are secured by the city's unlimited-tax GO pledge. A portion of the bonds will be payable from special assessments, and the remaining portion of the bonds from net revenues of the water, sanitary sewer, and stormwater utilities. We rate these bonds based on the GO pledge because the bond provisions supporting the revenue pledges are insufficient to rate pursuant to our criteria. Officials will use proceeds to finance street and utility improvements.

Credit overview

New Prague continues to maintain high reserves and is seeing strong population and market value growth, supported by the city's proximity to the Twin Cities. The city's operating results have been generally positive, supported by an operating revenue mix consisting mainly of property tax revenue and state aid, which lends stability and predictability to the city's financial performance. The city is planning to draw down its assigned general fund balance in fiscal 2023 by \$200,000 for various one-time capital items, but we expect the city's reserves will remain very strong.

The city is currently contemplating issuing up to \$15 million in GO debt over the next few years in order to construct a new public safety facility, renovate city hall, and construct or purchase a parking garage. Relative to the city's current amount of net direct debt outstanding, this represents a sizable potential increase, though we believe it would be manageable and would likely not put downward pressure on the rating. The issuance of sales tax debt would require voter approval.

We expect the pace of residential development and population growth could moderate in the near term given recessionary headwinds (see "Economic Outlook U.S. Q2 2023: Still Resilient, Downside Risks Rise," published March 27, 2023, on RatingsDirect) and in the long term because management reported the city is running out of developable land. Still, we expect the city's proximity to the Twin Cities and its strong financial profile, supported by good

management practices, will continue to provide credit stability through at least the two-year outlook horizon. Upside rating potential will largely hinge on sustained improvements in the city's key economic metrics to levels that better align with those of higher-rated peers, along with some moderation in its direct debt burden and carrying charges.

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

- Growing local economy, with the city's population and market value growing by 10% and 50%, respectively, in the last five years due to the city's proximity to the Twin Cities, but with wealth and income metrics that lag those of higher-rated peers;
- Strong budgeting practices with reserves that we expect will remain very strong and a key credit strength despite potential plans to use \$1.5 million of the assigned general fund balance in lieu of issuing debt to purchase the previously mentioned parking garage building; and
- Good management policies and practices under our Financial Management Assessment, highlighted by monthly budget-to-actual reporting to the city council, a 50% reserve policy that we expect the city will continue to exceed, and an annually updated and rolling capital improvement plan, along with a strong institutional framework score; and
- Very weak debt profile, with one series of privately placed debt outstanding that we note has no nonstandard events of default, and modest pension and other postemployment benefits costs.

Environmental, social, and governance

We have analyzed New Prague's environmental, social, and governance (ESG) risks relative to the city's economy, management, financial measures, and debt and liability profile and consider them to be neutral in our credit analysis.

Outlook

The stable outlook reflects our view that the city's very strong reserves, supported by strong budgeting and management practices, and the city's growing economy will support credit stability through at least the two-year outlook period.

Downside scenario

We could take a negative rating action if the city's budgetary performance were to weaken, causing available reserves to fall significantly.

Upside scenario

We could take a positive rating action if the city's economy strengthens so that per capita income and market value better align with what we typically see among higher-rated peers, and if the city's debt profile improves.

	Most recent	Historical information		
		2022	2021	2020
Very strong economy				
Projected per capita EBI % of U.S.	112			
Market value per capita (\$)		111,276		

New Prague, Minnesota--key credit metrics (cont.)

	Most recent	Historical information		
		2022	2021	2020
Population			8,720	8,593
County unemployment rate(%)			3.5	
Market value (\$000)	970,326	845,340	788,204	
Ten largest taxpayers % of taxable value	12.2			
Strong budgetary performance				
Operating fund result % of expenditures	3.1	1.1	7.1	
Total governmental fund result % of expenditures	3.5	1.0	(6.5)	
Very strong budgetary flexibility				
Available reserves % of operating expenditures	92.9	93.7	92.2	
Total available reserves (\$000)	5,180	4,913	4,844	
Very strong liquidity				
Total government cash % of governmental fund expenditures	338	231	244	
Total government cash % of governmental fund debt service	2,484	1,539	1,513	
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures	13.6	15.0	16.1	
Net direct debt % of governmental fund revenue	156			
Overall net debt % of market value	4.4			
Direct debt 10-year amortization (%)	64			
Required pension contribution % of governmental fund expenditures	5.8			
OPEB actual contribution % of governmental fund expenditures	0.1			
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Credit Conditions North America Q2 2023: Coalescing Stresses, March 28, 2023
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- 2022 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of May 25, 2023)

Ratings Detail (As Of May 25, 2023) (cont.)

New Prague GO bnds		
<i>Long Term Rating</i>	AA/Stable	Affirmed
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