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Summary:

New Prague, Minnesota; General Obligation

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Credit Profile		
US$4.745 mil GO bnds ser 2024A due 02/01/2040		
Long Term Rating	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA' rating to New Prague, Minn.'s $4.745 million series 2024A general obligation (GO) bonds.
- The outlook is stable.

Security

The series 2024A bonds are secured by the city's unlimited-tax GO pledge. A portion of the bonds will be payable from special assessments. We rate these bonds based on the GO pledge because the bond provisions supporting the revenue pledge are insufficient to rate pursuant to our criteria. Officials will use proceeds to finance street and related utility improvements and to purchase capital equipment.

Credit overview

New Prague maintains high reserves and is seeing strong population and market value growth, supported by the city's proximity to the Twin Cities. Its operating results have been generally positive, benefiting from 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 drew down its reserves by $460,000 in fiscal 2023, mainly to purchase a building for a new parks department garage, though management reports that the budget was operationally balanced with an operating surplus of about $218,000, or 3% of estimated expenditures. Aside from a planned $95,000 use of reserves for capital in fiscal 2024, management expects an operationally balanced result. Even with these drawdowns, we estimate reserves will remain very strong and in compliance with the city's 50% fund balance policy. The city has no plans to draw down reserves further and we expect finances will remain stable and a key credit strength.

New Prague plans to issue up to $6 million in GO debt in 2025 for street improvements and up to $12 million in GO debt in the next couple of years to construct an addition to its fire station to house the police department. 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 city's proximity to the Twin Cities has fueled population and market value growth of 11% and 60%, respectively, in the last five years. Despite higher mortgage rates, management reports homes still sell quickly. While the city is running out of land ready for development, management notes surrounding land can be annexed to accommodate further growth. We expect New Prague'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 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, 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; and
- Good management policies and practices under our Financial Management Assessment, highlighted by monthly budget-to-actual reporting to the city council and an annually updated and rolling capital improvement plan, along with a strong institutional framework score; and
- Weak but rapidly amortizing 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 view New Prague's environmental, social, and governance factors as 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 that its 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 debt profile improves.

New Prague, MN -- Key credit metrics				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
Very strong economy				
Projected per capita EBI % of U.S.	112			
Market value per capita ($)	123,475			
Population		8,892	8,720	8,593
County unemployment rate(%)		2.3		
Market value ($000)	1,097,943	970,326	845,340	788,204
Ten largest taxpayers % of taxable value	11.7			

New Prague, MN -- Key credit metrics (cont.)				
	Most recent	**Historical information**		
		2022	**2021**	**2020**
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			
Weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		13.6	15.0	16.1
Net direct debt % of governmental fund revenue	177			
Overall net debt % of market value	4.0			
Direct debt 10-year amortization (%)	66			
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.

Related Research

- Credit Conditions North America Q3 2022: Credit Headwinds Turn Stormy, June 28, 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
- 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

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.spglobal.com/ratings for further information. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.