

Research Update:

# Northfield, MN Series 2025A GO Bonds Assigned 'AA' Rating; Series 2025B Lease Revenue Bonds Assigned 'AA-' Rating

July 15, 2025

## Overview

- S&P Global Ratings assigned its 'AA' rating to [Northfield](#), Minn.'s \$4.44 million series 2025A general obligation (GO) street reconstruction and equipment bonds and its 'AA-' rating to [Northfield Economic Development Authority](#) (EDA), Minn.'s \$22.93 million series 2025B lease revenue bonds.
- At the same time, we affirmed our 'AA' rating on the city's existing GO debt.
- The outlook is stable.
- The city's rating reflects the application of our "[Methodology For Rating U.S. Governments](#)," Sept. 9, 2024.

## Rationale

### Security

The series 2025A bonds are secured by the city's unlimited-tax GO pledge and will fund street reconstruction projects and a fire department equipment purchase.

The series 2025B bonds represent an interest in lease rental payments by the city, as lessee, to the EDA, as lessor. The city intends to increase its property tax levy to make these payments. Northfield School District plans to contribute \$250,000 annually, of which \$200,000 will be applied to debt service and the remainder toward operation of the ice facility. The city of Dundas plans to annually contribute an amount based on the relative size of its tax base, which the city estimates will likely be around \$205,000. We rate the bonds one notch lower than the city's GO rating to account for appropriation risk associated with the lease payments. Although the first debt service payment each calendar year occurs just one month after the fiscal year begins, in our view, late budget adoption risk is mitigated because this payment will be annually funded from the levy adopted in the prior year's budget, which is typically passed in December, and thus the levy will be adopted over a year in advance of the due date. The city does not have

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a track record of late budget adoption. In our view, the lease terms are standard. The bonds will fund the construction of a new city ice arena.

## Credit highlights

The rating reflects our view of the city's well-managed finances with healthy reserve levels and a stable local economy anchored by St. Olaf and Carleton colleges. Limiting the rating are debt metrics that are increasing to somewhat higher levels relative to those of similarly rated cities, though we expect debt service will be manageable for the local tax base. The city's economic metrics are also lower relative to those of higher-rated cities, but are likely somewhat understated due to the local student population.

The city has consistently posted operating surpluses, supported by conservative budgeting and a stable revenue mix consisting mainly of property taxes (56% of fiscal 2024 operating revenue) and state aid (20%). Reserves (inclusive of the liquor store fund) have generally hovered around 60% to 70% of operating revenues, above the city's 50% fund balance policy.

The city budgeted for an approximately \$357,000 general fund deficit in fiscal 2025, or 1.8% of budgeted revenues, which reflects a spend-down on salary increases of one-time state public safety aid received in fiscal 2023. The city plans to draw down this funding source over the next few years, and management expects savings from retirements will offset the depletion of these funds. The city may also spend down some of its liquor store fund cash to relocate the store to facilitate an economic development project, but otherwise has no plans to spend down reserves, which we expect will remain robust and a key credit strength.

The city plans to issue around \$5 million in additional debt for street projects in 2026, and we expect the city's practice of annually issuing for this purpose will continue without materially increasing its debt. Management noted there are other facility projects the city may issue debt for, but the timing is uncertain and the city is prioritizing a level tax rate. We note \$19 million of the city's GO debt is self-supported from utility revenues; removing this reduces net direct debt per capita to about \$2,900.

The rating further reflects our view of the following factors:

- Stable economy with ongoing residential development and modest population growth. Our economic assessment reflects our view that Carleton and St. Olaf colleges, which have seen steady enrollment, are stabilizing institutions whose student populations likely result in understated local income metrics.
- Stable finances supported by manageable labor costs, a predictable revenue mix, and conservative budgeting, with about \$2 million in additional reserves in the liquor store fund.
- Management practices that support financial stability, including quarterly budget-to-actual and investment reporting to the city council, detailed long-term capital plans that identify funding sources and estimated costs by year, and the above-mentioned 50% fund balance policy that also calls for a one-month emergency reserve. Management is taking steps to mitigate cyber risk.
- Debt metrics that are increasing to somewhat higher levels relative to those of similarly rated cities, with current costs that could increase to just over 20% of total governmental fund revenue following these issuances, accounting for the planned contributions from the Northfield School District and Dundas. In our view, pension costs are manageable.

- For more information on our institutional framework assessment for Minnesota municipalities, see "[Institutional Framework Assessment: Minnesota Local Governments](#)," Sept. 10, 2024, on RatingsDirect.

Environmental, social, and governance

The city's location along the Cannon River creates some flooding risk. We understand that the Cannon River flooded in 2024, but there was only minimal damage to businesses along the riverfront, without any permanent closures, and the city's assets did not experience any damage. Northfield has adopted a climate-action plan that includes resiliency planning; it has moved certain critical assets, such as power transformers, above a 500-year-flood level, which we believe indicates active-risk management.

Since 2019, the city's drinking water has tested for levels of manganese above a health risk limit from the Minnesota Department of Health for infants under one year old. The city has communicated this risk to residents over the years and may build a reverse osmosis station in the city-owned Northfield Community Resource Center for residents to use. The city has considered building a new water treatment plant, which was last estimated to cost \$83 million, to address this issue, but does not expect to move forward with this in the near term. There is no mandate from the state to build the plant. The city's social and governance factors are neutral within our credit analysis.

Outlook

The stable outlook reflects our view that the city's finances will remain well managed and a key credit strength.

Downside scenario

While we do not anticipate this during the two-year outlook period, we could take a negative rating action if the city issues a substantial amount of additional debt that weakens debt metrics beyond expectations .

Upside scenario

We could take a positive rating action if economic metrics improved to levels we consider more commensurate with what we typically see among higher-rated peers and if the city's debt moderated.

Northfield, Minnesota--Credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.40
Economy	3.5
Financial performance	2
Reserves and liquidity	1
Management	2.00
Debt and liabilities	3.50

## Northfield, Minnesota--Key credit metrics

	Most recent	2024	2023	2022
<b>Economy</b>				
Real GCP per capita % of U.S.	66	--	66	66
County PCPI % of U.S.	80	--	80	81
Market value (\$000s)	2,443,453	2,345,400	2,224,133	1,990,731
Market value per capita (\$)	115,519	110,883	105,150	91,284
Top 10 taxpayers % of taxable value	11.0	10.2	10.2	10.7
County unemployment rate (%)	3.1	3.0	2.8	2.5
Local median household EBI % of U.S.	112	--	112	109
Local per capita EBI % of U.S.	89	--	89	86
Local population	21,152	--	21,152	21,808
<b>Financial performance</b>				
Operating fund revenues (\$000s)	--	19,028	18,646	16,802
Operating fund expenditures (\$000s)	--	18,764	17,360	16,813
Net transfers and other adjustments (\$000s)	--	200	(305)	24
Operating result (\$000s)	--	464	981	13
Operating result % of revenues	--	2.4	5.3	0.1
Operating result three-year average %	--	2.6	3.5	3.7
<b>Reserves and liquidity</b>				
Available reserves % of operating revenues	--	58.3	52.4	54.8
Available reserves (\$000s)	--	11,086	9,775	9,214
<b>Debt and liabilities</b>				
Debt service cost % of revenues	--	12.5	13.0	14.4
Net direct debt per capita (\$)	3,789	2,652	2,369	1,299
Net direct debt (\$000s)	80,136	56,100	50,102	28,334
Direct debt 10-year amortization (%)	51	64	--	--
Pension and OPEB cost % of revenues	--	4.0	4.0	5.0
NPLs per capita (\$)	--	284	2,236	2,996
Combined NPLs (\$000s)	--	6,011	47,297	65,330

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. Local population is sourced from Claritas. Claritas estimates are point in time and not meant to show year-over-year trends. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPLs--Net pension liabilities.

## Ratings List

## New Issue Ratings

US\$22.93 mil lse rev bnds (Northfield) ser 2025B due 02/01/2046

Long Term Rating AA-/Stable

US\$4.44 mil GO str reconstruction & equip bnds ser 2025A due 02/01/2041

Long Term Rating AA/Stable

## New Rating

## Local Government

**Ratings List**

Northfield, MN Lease Appropriation	AA- /Stable
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**Ratings Affirmed**

**Local Government**

Northfield, MN Unlimited Tax General Obligation	AA/Stable
Northfield, MN Unlimited Tax General Obligation and Special Assessments	AA/Stable
Northfield, MN Unlimited Tax General Obligation with Stormwater and Sewer System Revenues	AA/Stable
Northfield, MN Unlimited Tax General Obligation, Sewer and Storm Water System, and Special Assessments	AA/Stable
Northfield, MN Unlimited Tax General Obligation, Tax Abatement Revenues, and Stormwater System Revenues	AA/Stable
Northfield, MN Unlimited Tax General Obligation, Water, Sewer, and Storm Water System, and Special Assessments	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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