S&P Global Ratings

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Summary:

Northfield, Minnesota; General Obligation; Tax Increment

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Credit Profile		
US$18.24 mil GO util rev bnds ser 2023A dtd 10/11/2023 due 02/01/2044		
Long Term Rating	AAA/Stable	New
Underlying Rating for Credit Program	AA/Stable	New
US$7.88 mil GO str reconstruction, abatement and equip bnds ser 2023B dtd 10/11/2023 due 02/01/2039		
Long Term Rating	AA/Stable	New
Northfield GO		
Long Term Rating	AA/Stable	Affirmed
Northfield GO		
Long Term Rating	AA/Stable	Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AAA' long-term rating and 'AA' underlying rating to Northfield, Minn.'s $18.2 million series 2023A general obligation (GO) utility revenue bonds.
- S&P Global Ratings also assigned its 'AA' rating to the city's $7.9 million series 2023B GO street reconstruction, abatement, and equipment bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' rating on the city's existing GO debt.
- The outlook is stable.

Security

Both series are secured by Northfield's unlimited-tax GO pledge. The 'AAA' rating on the 2023A bonds reflects the additional security provided by the Minnesota State Standing Appropriation Program. The bonds are further secured by net revenues of the city's sewer and stormwater systems, though we rate to the GO pledge because legal provisions are insufficient to rate to the net revenue pledge. Series 2023A proceeds will go toward wastewater and storm water system improvements, and 2023B proceeds will fund street reconstruction projects, park improvements, and capital equipment purchases.

Credit overview

While the city's direct debt burden is growing considerably with the 2023A and 2023B issuance compared with a historically low baseline, its preexisting credit fundamentals, i.e., its strong economy, stable finances with very strong reserve balances, and its strong management, continue to support the 'AA' rating with a stable medium-term credit outlook. The essentially break-even $17.5 million general fund budget for fiscal 2023 marks a 4% increase from 2022, and includes some additions to public safety staff and otherwise incremental changes over the previous year. Management reports that year-to-date actuals continue to align with the budget, and we expect that the city will likely outperform budget by year-end, as has typically been the case historically. The city's economy continues to grow at a rapid pace; in particular, strong housing demand has contributed to price growth and new construction. While key economic variables, such as per capita wealth and income, as well as the city's higher debt burden, represent upside rating constraints, we expect limited downside pressure in the next few years, so long as the city continues to realize stable operations and reserves aligned with its fund balance policy.

The 'AA' rating further reflects our assessment of the following factors:

- Northfield' s economic stature as a college town that is home to both Carleton and St. Olaf colleges, and location approximately one hour away from the Twin Cities, Rochester, and Mankato metropolitan statistical areas (MSAs), which we believe will continue to support new development and valuation growth.
- The city's strong financial performance, as evidenced by consecutive operating surpluses in each of the last eight audited fiscal years, with typically positive results across governmental funds after adjusting for one-time expenditures.
- Available reserves between the assigned and unassigned general fund balance and unrestricted liquor store cash that totaled 64% of operating expenditures at the close of fiscal 2022. The general fund is supported by a formal 40% fund balance policy, and management reports no plans to spend down reserves.
- Good financial policies and practices under our Financial Management Assessment (FMA) methodology, and a strong institutional framework. Key financial management policies and practices include quarterly reporting on budget-to-actual performance and investment holdings; rolling, long-term capital and financial plans that are updated regularly; and formal policies governing debt, investments, and reserve levels.
- Northfield's very weak debt and liabilities profile following the issuance of the series 2023A and 2023B bonds, with substantial medium-term bonding plans. We calculate net direct debt increasing to $50.5 million following the 2023 issuance, though we note that the 2023A series will be funded entirely from utility revenues and so will not result in additional tax burden. Aside from regular capital improvement plan projects for which Northfield regularly issues new debt, the city could issue substantial new-money debt for its share of a new ice arena in the next few years, with an estimated total project cost of $18 million.
- The Northfield Municipal Hospital recently disclosed that it failed to meet a coverage requirement under its 2016A bond indenture, which triggered a prepayment requirement. The hospital is required to pay the outstanding balance by Dec. 31, 2024. City management indicates that the hospital will most likely make the payment with cash on hand or refinance the remaining balance, and because the bonds are secured solely by hospital revenues and the city does not otherwise subsidize hospital operations or payments on debt obligations, we do not consider this a contingent risk to the city's GO credit.
- Moderate pension and other postemployment benefits (OPEB) costs that we believe are unlikely to accelerate meaningfully in the medium term, though pose some long-term risk of cost acceleration due to back-loaded contributions and an extended amortization period. (For more information, see "Pension Spotlight: Minnesota," published Aug. 10, 2023, on RatingsDirect.)

Environmental, social, and governance

The city's location along the Cannon River creates some risk of flooding, though we understand that it has not had a significant flood in years. Northfield has adopted a climate action plan that includes resiliency planning and has moved certain critical assets, such as power transformers, above a 500-year flood level, which we believe indicates active risk management. The city's social and governance risks are neutral within our credit analysis.

Outlook

The stable outlook reflects our expectation that despite a growing debt burden, Northfield should continue realizing consistently balanced operating results and maintaining reserves that, at minimum, are above its 40% fund balance policy requirement, and the city should also continue to enjoy strong economic growth prospects that will likely result in a gradual moderation in its debt ratios.

Downside scenario

However unlikely in the next two years, we could lower the rating if the city's reserves were to fall materially below its 40% reserves policy floor, without a plan for timely replenishment.

Upside scenario

We could raise the rating if the city's economic measures, especially per capita incomes and market value, improve to levels commensurate with what we typically see among more highly rated peers, and if its now-elevated debt burden were to moderate from current levels.

State enhancement program

The long-term rating on the series 2023A bonds reflects our view of the city's eligibility for, and participation in, the Minnesota State Standing Appropriation Program for cities and counties, a state standing appropriation program administered by Minnesota Public Facilities Authority to prevent a default on bond issues, as authorized by Minnesota State Statutes, section 446A.086. Under the program, the state will pay debt service from its general fund if the city fails to meet its debt service obligations for the qualified debt. Payments from the state represent a standing appropriation from Minnesota's general fund. We view this standing appropriation pledge as equivalent to a general fund pledge because it does not require budget adoption or any action of the Minnesota Legislature to make payment. Furthermore, the standing appropriation is not subject to executive unallotment authority. The credit-enhancement program supports projects central to the state's operations and purpose. We see no unusual political, timing, or administrative risk related to debt payment. The rating on obligations that received program enhancement reflects the rating of Minnesota and moves in tandem with the state rating.

Northfield--Key credit metrics

	Most recent	Historical information		
		2022	2021	2020
Strong economy				
Projected per capita EBI % of U.S.	88			
Market value per capita ($)	101,987			
Population		21,808	21,472	21,350
County unemployment rate (%)		2.6		
Market value ($000)	2,224,133	1,990,731	1,783,950	
Ten largest taxpayers % of taxable value	10.2			

Northfield--Key credit metrics (cont.)	Most recent	Historical information		
		2022	2021	2020
Strong budgetary performance				
Operating fund result % of expenditures		0.1	5.2	6.3
Total governmental fund result % of expenditures		9.0	6.5	1.2
Very strong budgetary flexibility				
Available reserves % of operating expenditures		64.3	71.2	70.9
Total available reserves ($000)		10,829	10,425	10,344
Very strong liquidity				
Total government cash % of governmental fund expenditures		149	196	152
Total government cash % of governmental fund debt service		1157	1380	1266
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		12.9	14.2	12.0
Net direct debt % of governmental fund revenue	221			
Overall net debt % of market value	4.0			
Direct debt 10-year amortization (%)	61			
Required pension contribution % of governmental fund expenditures		18.8		
OPEB actual contribution % of governmental fund expenditures		0.0		
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

Ratings Detail (As Of September 14, 2023)		
Northfield GO		
Long Term Rating	AA/Stable	Affirmed
Northfield GO		
Long Term Rating	AA/Stable	Affirmed
Northfield GO		
Long Term Rating	AA/Stable	Affirmed
Northfield GO cap imp bnds		
Long Term Rating	AA/Stable	Affirmed
Northfield GO str reconstruction and equip bnds ser 2022A dtd 08/04/2022 due 02/01/2035		
Long Term Rating	AA/Stable	Affirmed

Ratings Detail (As Of September 14, 2023) (cont.)		
Northfield GO tax inc rfdg bnds		
Long Term Rating	AA/Stable	Affirmed