

Research Update:

Waconia, MN Series 2025A GO Bonds Assigned 'AA+' Rating; Outlook Stable

June 10, 2025

Overview

- S&P Global Ratings assigned its 'AA+' rating to [Waconia](#), Minn.'s roughly \$9.4 million series 2025A general obligation (GO) bonds based on the application of its "[Methodology For Rating U.S. Governments](#)" criteria, Sept. 9, 2024.
- At the same time, we affirmed our 'AA+' rating on the city's existing GO bonds.
- The outlook is stable.

Rationale

Security

Securing the 2025A bonds is a GO pledge of Waconia's full-faith-and-credit ad valorem property taxes without limitation as to rate or amount. The intended payment source of the bonds is a combination of special assessments levied against benefited properties and net utility revenue. We rate the city's GO debt to its general creditworthiness because we have insufficient information to rate to other security types under our criteria. Proceeds will finance city-wide improvements and equipment purchases.

Credit highlights

Waconia benefits from its proximity to the Twin Cities metro area, which supports its rapidly growing economy and strong net tax capacity. City officials report stability in larger taxpayers and employers, along with continued commercial and retail development. Spurring recent assessed valuation growth is new construction that we anticipate will continue given the county's significantly strong growth rate, which outpaces that of both Minnesota and the U.S.

Further supporting the rating is Waconia's forward-looking management team, which has historically maintained nominally healthy and overall stable reserves. The city's general fund outperformed in fiscal year 2024 given strong tax collections and higher-than-anticipated building permit revenue. Officials are budgeting for a 2% deficit in fiscal 2025 as a result of a

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planned spenddown to better align with its formal reserve policy; however, given the conservative nature of city estimates, actual results are likely to be favorable compared to the budget. We anticipate unassigned reserves will remain level after the planned draw, as the city communicates strong commitment to remain in compliance with its formal fund balance policy of maintaining at least 40% of general fund expenditures (less annual transfers).

Although Waconia's debt burden remains a rating constraint, debt service being supported by the city's enterprises helps mitigate some of this risk. As the city continues to grow, officials plan to continue to issue new debt on an annual basis. We expect fixed costs from pension and other postemployment benefits (OPEB) to remain manageable, supporting our belief that the city will be able to handle any fixed costs associated with the growth.

The rating reflects our assessment of the city's:

- Attractive location given its proximity to the Twin Cities, which has led to rapid growth that is expected to continue exceeding state and national rates;
- Forward-looking management that incorporates robust long-term planning into its budget; regular financial monitoring and reporting to the council with adjustments made regularly to address changes throughout the year; and well-defined policies that go beyond state limitations in areas such as debt and investment diversification, arbitrage monitoring, and reporting;
- Sustained maintenance of healthy reserve levels despite management's strategic use of reserves in upcoming years; we believe available reserves will remain in line with management's formal policy that the unassigned general fund balance should never fall below 40% of operating expenditures; and
- Elevated debt profile, reflecting the capital needs of a growing community. The city has gross direct debt of \$53 million, with current plans to issue up to \$6 million in 2026 that we do not believe will materially affect the debt profile given the rate of amortization. Slightly offsetting debt pressure is its limited exposure to pension and other postemployment benefits (OPEB) liabilities, with low per capita net pension liabilities and current retirement-benefit costs that, while growing, will likely remain a small share of the city's budget, in our view.
- 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

We consider Waconia's environmental and governance factors neutral in our credit rating analysis. We view the city's social capital factor as positive based on its rapidly rising population, which has led to robust development and tax base growth over the last five years and provided underlying economic strength while ensuring positive local revenues relative to any population stagnation or loss experienced.

Outlook

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

Downside scenario

If Waconia's financial performance deteriorates significantly, leading to sustained decreases in reserves, we could lower the ratings. The rating could also be lowered if debt service carrying charges were to increase to a level that weakens financial performance and potentially our view of management.

Upside scenario

We could raise the rating if the city experiences significant growth in either its available reserves or underlying economic metrics, and if its debt burden becomes more in line with that of higher-rated peers.

Waconia, Minnesota--Credit summary

Institutional framework (IF)	1
Individual credit profile (ICP)	2.20
Economy	2.5
Financial performance	2
Reserves and liquidity	1
Management	1.00
Debt and liabilities	4.50

Waconia, Minnesota--Key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita % of U.S.	81	--	81	83
County PCPI % of U.S.	134	--	134	134
Market value (\$000s)	2,570,672	2,482,412	2,314,000	1,956,511
Market value per capita (\$)	188,190	181,729	169,400	144,777
Top 10 taxpayers % of taxable value	9.3	8.3	7.7	8.6
County unemployment rate (%)	2.7	2.6	2.4	2.0
Local median household EBI % of U.S.	138	--	138	141
Local per capita EBI % of U.S.	117	--	117	127
Local population	13,660	--	13,660	13,514
Financial performance				
Operating fund revenues (\$000s)	--	10,808	9,755	9,124
Operating fund expenditures (\$000s)	--	8,755	7,459	9,332
Net transfers and other adjustments (\$000s)	--	(1,732)	(1,756)	--
Operating result (\$000s)	--	321	540	(208)
Operating result % of revenues	--	3.0	5.5	(2.3)
Operating result three-year average %	--	2.1	4.0	4.9
Reserves and liquidity				
Available reserves % of operating revenues	--	38.2	38.5	41.8
Available reserves (\$000s)	--	4,129	3,754	3,811

Waconia, Minnesota--Key credit metrics

	Most recent	2024	2023	2022
Economy				
Debt and liabilities				
Debt service cost % of revenues	--	27.0	28.1	26.8
Net direct debt per capita (\$)	--	3,869	3,870	4,059
Net direct debt (\$000s)	--	52,847	52,863	54,850
Direct debt 10-year amortization (%)	--	53	--	--
Pension and OPEB cost % of revenues	--	2.0	2.0	2.0
NPLs per capita (\$)	--	120	173	222
Combined NPLs (\$000s)	--	1,637	2,364	3,002

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\$9.425 mil GO bnds ser 2025A dtd 07/01/2025 due 02/01/2036

Long Term Rating AA+/Stable

Ratings Affirmed

Local Government

Waconia, MN Unlimited Tax General Obligation AA+/Stable

Waconia, MN Unlimited Tax General Obligation and Special Assessments AA+/Stable

Waconia, MN Unlimited Tax General Obligation and Water and Sewer System AA+/Stable

Waconia, MN Unlimited Tax General Obligation, Water and Sewer System, and Special Assessments AA+/Stable

Waconia, MN Unlimited Tax General Obligation, Water, Sewer, and Storm Water Systems, Special Assessments, and Tax Abatement Revenues AA+/Stable

Waconia, MN Unlimited Tax General Obligation, Water, Sewer, and Storm Water Systems, and Tax Abatement Revenues 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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