

Research Update:

# Kasson, MN Series 2025A GO Water Revenue Bonds Assigned 'AAA' And 'AA' Ratings; Outlook Stable

October 1, 2025

## Overview

- S&P Global Ratings assigned its 'AAA' long-term program rating (based on credit enhancement) and 'AA' underlying rating to [Kasson](#), Minn.'s \$3.18 million series 2025A general obligation (GO) water revenue bonds, based on the application of our criteria "[Methodology for Rating U.S. Governments](#)," Sept. 9, 2024.
- We also affirmed our 'AA' long-term rating on the city's existing GO debt.
- The outlooks are stable.

## Rationale

### Security

The bonds are a GO of the city, which has pledged its full faith, credit, and taxing powers without limitation as to rate or amount. In addition, the city pledges revenue from special assessments on benefitted properties and water, sewer, and storm sewer utilities to bond payments. However, the rating reflects the unlimited-ad valorem-tax pledge due to insufficient provisions and information to rate the other security pledges. The 2025A bonds will finance the city's water tower project.

The long-term enhanced rating reflects our assessment of the city's eligibility for, and participation in, Minnesota's Credit Enhancement Program. The stable outlook on the long-term enhanced rating mirrors the outlook on our Minnesota GO rating and moves in tandem with it (see: "[Minnesota Credit Enhancement Programs](#)," July 10, 2024).

### Credit highlights

Kasson's sustained history of surplus operations and very strong reserves is a key credit strength that we believe will continue given the city tends to outperform breakeven budgets. The most recent surplus was aided by conservative spending, receipt of a one-time federal grant, and savings from vacancies in the police department. The city makes discretionary transfers to the

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capital fund annually; otherwise, the audited surplus would be much larger. Given management's ability to control expenses and no plans to spend down general fund reserves, we expect the fund balance will likely remain at current levels and operations positive.

Kasson is in Dodge County, just west of Rochester on U.S. Highway 14. Largely a bedroom community, residents have easy access to Rochester, including daily bus routes directly from Kasson to leading employers such as the Mayo Medical Center and IBM, which anchor the Rochester economy. Kasson's assessed valuation has steadily increased over the past few years. Most recent growth is attributed to appreciating home values. We anticipate stability in the local economy as the city proceeds with new residential and commercial developments.

The city intends to issue approximately \$6 million in debt for its flood control and sewer projects over the next two years. Management expects the related debt service to be fully covered by utility revenue. After this issuance, we expect net direct debt to increase and remain elevated. We view the elevated debt burden as a credit weakness but manageable, since the city has a track record of managing high debt while maintaining extraordinarily high reserves.

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

- Expanding economy and the benefits from its proximity to Rochester, which is also continuing to expand and we believe is vital to the strength of Kasson's economy.
- Robust reserves relative to expenditure, supported by multiple years of consecutive general fund surpluses, with another healthy surplus projected for fiscal 2025 and no anticipated drawdowns in the next couple of years;
- Conservative financial management, highlighted by monthly budget-to-actual and investment holdings reporting, an annually updated long-term capital plan that identifies capital spending items and funding sources, a formal debt management policy, an investment management policy, and a formal reserve policy that calls for 50%-70% of general fund expenditure.
- Weak debt and contingent liability profile, characterized by a high debt burden and debt service carrying charges after issuance, with slower-than-average amortization, but no near-term pressure from pension and other postemployment benefit (OPEB) plans. We expect the debt burden will remain high but believe management can maintain control over it, like in the past.
- For more information on our institutional framework assessment for Minnesota cities, see: ["Institutional Framework Assessment: Minnesota Local Governments,"](#) Sept. 10, 2024.

## **Environmental, social, and governance**

We view environmental, social, and governance risk factors as neutral in our credit analysis.

## **Outlook**

The stable outlook reflects our expectation that management will continue to report positive operations, maintaining reserves at or near current levels, despite the elevated debt burden over the next two-to-three years.

## **Downside scenario**

We could lower the underlying rating if the city issues any material new debt without offsetting economic growth, or an unaddressed operational imbalance emerges, leading to weaker

budgetary performance. We could also lower the rating if the city's reserves decline considerably below present levels.

## Upside scenario

We could raise the rating if key economic indicators improve to levels that better align with those of higher-rated peers and the city's debt burden moderates.

### Kasson, Minnesota--credit summary

<b>Institutional framework (IF)</b>	<b>1</b>
Individual credit profile (ICP)	2.05
Economy	3.5
Financial performance	1
Reserves and liquidity	1
Management	2.00
Debt and liabilities	2.75

### Kasson, Minnesota--key credit metrics

	Most recent	2024	2023	2022
<b>Economy</b>				
Real GCP per capita % of U.S.	56	--	56	58
County PCPI % of U.S.	87	--	87	91
Market value (\$000s)	821,921	752,411	730,365	617,120
Market value per capita (\$)	116,585	106,725	104,026	93,080
Top 10 taxpayers % of taxable value	8.2	--	6.4	--
County unemployment rate (%)	3.0	3.0	2.8	2.5
Local median household EBI % of U.S.	130	130	129	119
Local per capita EBI % of U.S.	109	109	107	101
Local population	7,050	7,050	7,021	6,630
<b>Financial performance</b>				
Operating fund revenues (\$000s)	--	5,218	5,410	5,708
Operating fund expenditures (\$000s)	--	4,316	4,428	4,391
Net transfers and other adjustments (\$000s)	--	(601)	(566)	(1,125)
Operating result (\$000s)	--	301	416	192
Operating result % of revenues	--	5.8	7.7	3.4
Operating result three-year average %	--	5.6	4.1	6.6
<b>Reserves and liquidity</b>				
Available reserves % of operating revenues	--	66.3	65.8	55.2
Available reserves (\$000s)	--	3,460	3,561	3,148
<b>Debt and liabilities</b>				
Debt service cost % of revenues	--	14.7	10.6	14.3
Net direct debt per capita (\$)	3,260	2,993	3,179	2,596
Net direct debt (\$000s)	22,983	21,101	22,320	17,213
Direct debt 10-year amortization (%)	55	61	60	--
Pension and OPEB cost % of revenues	--	4.0	3.0	4.0

Kasson, Minnesota--key credit metrics

	Most recent	2024	2023	2022
NPLs per capita (\$)	--	207	364	705
Combined NPLs (\$000s)	--	1,460	2,558	4,673

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\$3.18 mil GO wtr rev bnds ser 2025A dtd 10/22/2025 due 02/01/2046	
Long Term Rating	AAA/Stable
Underlying Rating for Credit Program	AA/Stable
New Rating	
Local Government	
Kasson, MN State Standing Appropriation Program	AAA/Stable
Kasson, MN Unlimited Tax General obligation and Water System Revenues	AA/Stable
Ratings Affirmed	
Local Government	
Kasson, MN Unlimited Tax General Obligation	AA/Stable
Kasson, 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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