

Research Update:

# Welcome, MN Series 2025A GO Improvement And Utility Revenue Bonds Assigned 'A+' Rating; Outlook Is Stable

May 27, 2025

## Overview

- S&P Global Ratings assigned its 'A+' rating to Welcome, Minn.'s \$3.76 million series 2025A general obligation (GO) improvement and utility revenue bonds.
- At the same time, S&P Global Ratings affirmed its 'A+' rating on the city's GO bonds outstanding.
- The outlook is stable.
- The ratings reflect the application of our criteria, "Methodology For Rating U.S. Governments," published Sept. 9, 2024.

## Rationale

### Security

The 2025A bonds are secured by the city's GO pledge and power to levy direct, general ad valorem taxes on all property within its borders. The 2025A bonds are also payable from net revenues of the city's water and sewer utilities and special assessments. In addition, several of the city's GO bonds have additional revenues pledged, but we rate them all to the GO pledge. The city will use the bond proceeds for street improvements and water and sewer utility infrastructure projects.

### Credit highlights

Our 'A+' rating reflects the city's stable operations and high degree of financial flexibility given available reserves that are very large for its size. Offsetting factors include the city's highly concentrated tax and employment base and its elevated debt burden.

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Welcome is located near Minnesota's southern border, which is representative of its local economy centered around the agricultural sector. The city's tax base is largely dependent on Valero Renewables Fuels, which operates an ethanol plant in Welcome that accounts for 40% of the city's net tax capacity and has employment equivalent to approximately 10% of the local population. Despite this concentration, we do not view its presence in the city as a heightened risk to the economy. In addition, below-average GCP per capita, county-level per capita personal income, and local effective buying income metrics limit the rating.

The city's recent operating results have been consistently positive and we expect them to remain balanced-to-positive, primarily due to investment income trends, local government aid, and property tax growth. The city's 2024 fiscal year ended in a \$51,000 surplus, or 4% of general fund revenues, which included \$276,000 in transfers to other funds to support capital and equity needs. Previous audited years were positive, though inflated due to one-time federal revenues of \$171,000 in fiscal years 2021 and 2022. 2023 saw an increase in costs for street repairs and public safety, which management has indicated will be the primary drivers of expenditure growth. The city expects that the 2025 fiscal year should conclude with either a break-even or surplus result, and management has indicated that it is not expecting to draw on reserves to fund operations.

The city's available general fund balance increased by 30%, or \$613,000, since the 2021 audited year and was \$2.7 million, or 212% of the general fund revenue budget, at fiscal year-end 2024. These very high relative reserves lend the city operating flexibility to pursue capital needs or one-time costs should they arise. Management has an adopted reserve policy of 50% of the next year's operating expenditures and has consistent oversight of the budget, but lacks long-term capital planning or multiyear financial planning. We estimate that debt costs will rise to 26% of current costs with this issuance, which we view as a credit limitation.

Our rating reflects our view of the city's:

- Limited local economic metrics, with a tax and employment base concentrated in a single ethanol plant. In addition, local income metrics are well below national averages.
- Positive financial performance, due to a residential tax base that has grown by 34% since 2020 and is expected to continue on an upward trend.
- High degree of operating flexibility, with the available general fund balance consistently above 50% of revenues, and no plans to draw down.
- Basic financial policies, such as debt management and investments that follow broader state guidance. The city reports on budget-to-actual and investment performance monthly, and maintains a reserve policy that allows sufficient fund balance should any one-time costs or fluctuations in state local government aid occur. However, the lack of a long-term financial or capital plan to assist in forward-looking projections are a limiting factor in our assessment of overall financial management.
- Very high debt levels, which we estimate to sharply rise with the issuance of \$3.76 million in new debt. We estimate that costs will rise to 26% of current revenues, or \$12,513 of net direct debt on a per capita basis. The city does not plan on issuing more debt in the near term, and yearly pension contributions are not viewed as an overall budget pressure.
- For more information on our institutional framework assessment for Minnesota municipalities, see "Institutional Framework Assessment: Minnesota Local Governments," published Sept. 10, 2024.

## Environmental, social, and governance

We have analyzed Welcome's environmental, social, and governance (ESG) risks relative to the county's economy, management, financial measures, and debt and liability profile, and have determined that all are neutral within our credit rating analysis.

## Outlook

The stable outlook reflects our view that the city will continue to have stable-to-positive operating results and will maintain large reserve levels relative to its budget.

## Downside scenario

We could take a negative rating action should the increase in debt costs pressure the general fund budget enough to cause a material weakening in reserve levels, or if the city posts persistent deficits indicating structural instability.

## Upside scenario

Though unlikely, we could raise the rating if the economy materially diversifies and income metrics improve, while debt levels moderate.

Ratings List	
New Issue Ratings	
US\$3.76 mil GO imp and util rev bnds ser 2025A dtd 06/17/2025 due 02/01/2046	
Long Term Rating	A+/Stable
Ratings Affirmed	
Local Government	
Welcome, MN Unlimited Tax General Obligation and Special Assessments	A+/Stable
Welcome, MN Unlimited Tax General Obligation, Water and Sewer System, and Special Assessments	A+/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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