

# RatingsDirect®

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## Summary:

# Ada, Minnesota; General Obligation; Non-School State Programs

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### Credit Profile

US\$0.935 mil GO Tax Abatement Bnds (Dekko Center Improvements Project) ser 2024A dtd 08/17/2024 due 01/29/2040		
<i>Long Term Rating</i>	A+/Stable	New
Ada NONSCHSTPR		
<i>Long Term Rating</i>	A+/Stable	Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'A+' long-term rating to the City of Ada, Minn.'s \$935,000 series 2024A general obligation (GO) tax abatement bonds.
- At the same time, we affirmed our 'A+' long-term rating on the city's GO debt outstanding.
- The outlook is stable.

### Security

The city's full-faith-and-credit unlimited ad valorem tax GO pledge secures the series 2024 GO certificates. Proceeds will be used to finance various improvements to the city's Dekko Community Center. Some of the city's GO debt outstanding is additionally secured by water and sewer revenues, but we rate to the GO pledge.

### Credit overview

Positive operations and low debt burden remain the city's key credit strengths while Ada's limited economy continues to preclude the rating.

Ada's stable reserves are supported by historically positive operations as the city reports its fifth consecutive surplus in fiscal 2023. We view available reserves as very strong compared with Ada's small budget; however, the city continues to report under \$2 million on a nominal basis after including its liquor fund (\$26,000) and funds committed for capital outlay from the hospital (\$962,000). We anticipate the combined fund balance will remain stable since officials are budgeting for another positive result in fiscal 2024 and have no plans to draw down on reserves in the near term.

The city's electric enterprise currently supports general fund and water/sewer fund shortfalls. Affecting general fund operations is the Dekko Community Center, which Ada inherited. Officials plan to continue the Dekko operations in the long term and do not anticipate future self-support. Concurrently, the Event Center has experienced income losses while under construction. We do not view this as a financial pressure at present since the city has flexibility in utility transfers, planned rate increases through 2028, and additional monetary support for the Dekko Community Center through matching donations. Although we believe this will not pose medium-term financial risk to the city, we will continue to monitor these funds for growing operational support.

## Summary: Ada, Minnesota; General Obligation; Non-School State Programs

Ada serves a small community in northwest Minnesota. There is very little agricultural land within the city limits, but the local economy is somewhat dependent on agriculture and food processing. Residents have access to employment throughout Norman County or commute into the Moorhead-Fargo area. We view the local economy as a credit weakness, with incomes remaining below national levels and market value per capita sitting significantly lower than that of higher-rated peers. We do not expect significant improvement in these metrics in the near term as city officials report limited space for new development and there are no new businesses coming to the area.

The rating reflects our assessment of Ada's:

- Stable yet limited local economy, with demographic challenges of population decline;
- Standard management policies and practices, which includes monthly budget-to-actual results presented to the board, and a five-year capital plan but that is lacking funding sources. The city does not perform long-term financial projections nor does it maintain a formal debt management and reserve policy; however, management follows an informal reserve target of 35%-50% of expenditures. The institutional framework score is strong;
- Stable budget though limited in size, has a strong track record of positive general fund operations (after enterprise transfers) supporting very strong reserves;
- Strong debt and liability profile, with low debt service carrying costs, rapid amortization of its debt, and no medium-term debt plans beyond this issuance; and
- Adequately funded pension obligations that we don't view as a medium-term credit pressure given that contributions are only a modest share of the budget and given our belief that the city has the capacity to absorb higher costs without pressuring operations.

### Environmental, social, and governance

We assessed environmental, social, and governance factors for Ada and view them as neutral in our credit rating analysis.

## Outlook

The stable outlook reflects our view that the city will maintain balanced operations and manageable debt burden over the next two years.

### Downside scenario

If the city were to significantly draw down its general fund or other available nongeneral fund reserves for one-time purposes or due to weak budgetary performance, we could lower the rating.

### Upside scenario

If Ada were to experience significant economic expansion while adopting more formalized policies and practices, we would consider raising the rating.

## Summary: Ada, Minnesota; General Obligation; Non-School State Programs

### Ada, Minnesota--Key credit metrics

	Most recent	Historical information		
		2023	2022	2021
<b>Very weak economy</b>				
Projected per capita EBI % of U.S.	85			
Market value per capita (\$)	64,282			
Population (no.)		1,745	1,639	1,665
County unemployment rate(%)	3.5	3.5	3.6	4.3
Market value (\$000)	112,172	92,381	82,881	81,443
Ten largest taxpayers % of taxable value	14.0			
<b>Strong budgetary performance</b>				
Operating fund result % of expenditures		4.1	3.2	9.3
Total governmental fund result % of expenditures		5.2	9.3	3.2
<b>Very strong budgetary flexibility</b>				
Available reserves % of operating expenditures		81.8	83.7	83.6
Total available reserves (\$000)		1,874	1,700	1,623
<b>Very strong liquidity</b>				
Total government cash % of governmental fund expenditures		133	159	140
Total government cash % of governmental fund debt service		7,342	6,983	6,418
<b>Adequate management</b>				
Financial Management Assessment	Standard			
<b>Strong debt &amp; long-term liabilities</b>				
Debt service % of governmental fund expenditures		1.8	2.3	2.2
Net direct debt % of governmental fund revenue	63			
Overall net debt % of market value	1.9			
Direct debt 10-year amortization (%)	65			
Required pension contribution % of governmental fund expenditures		3.7		
OPEB actual contribution % of governmental fund expenditures		-		
<b>Strong institutional framework</b>				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

## Related Research

- 2023 Update Of Institutional Framework For U.S. Local Governments, Nov. 28, 2023
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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