



RATING ACTION COMMENTARY

Fitch Rates Bloomington, MN's \$5.4MM 2021 Series 55 GOs 'AAA'; Outlook to Stable

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Fitch Ratings - New York - 19 Oct 2021: Fitch Ratings has assigned a 'AAA' rating to the following City of Bloomington, MN general obligation (GO) bonds:

--\$5.4 million GO permanent improvement revolving fund bonds of 2021 series 55.

Fitch Ratings has affirmed the following city of Bloomington, MN ratings at 'AAA':

--The city's Issuer Default Rating (IDR);

--\$49 million of outstanding GO debt;

--\$6 million of GO tax increment bonds issued by the Bloomington Port Authority.

The Rating Outlook has been revised to Stable from Negative.

The bond proceeds, along with available city funds will finance various improvements within the city including the city's 2021 pavement management program. The bonds are expected to be competitively sold on October 25.

SECURITY

The bonds are general obligations of the city, for which the city pledges its full faith and credit and power to levy direct general ad valorem taxes, unlimited as to rate or amount. In addition to the GO pledge, the city will pledge special assessments against benefited properties.

ANALYTICAL CONCLUSION

The city's 'AAA' GO rating and Issuer Default Rating (IDR) reflect a wealthy and growing local economy anchored by the Mall of America (MOA), which has driven strong tax base and revenue growth over the past several years. The city also benefits from sophisticated financial planning and a track record of healthy reserves and positive operating performance. The long-term liability burden is low relative to the resource base.

The Outlook revision to Stable from Negative reflects a stabilization in the local tax base after significant economic uncertainty associated with the pandemic and related health measures, which resulted in revenue pressures for some of the city's top tax payers. The city's local economy is highly concentrated with retail and tourism-linked businesses, including hotels and the MOA.

The MOA is the city's largest taxpayer accounting for 11.8% of 2021 assessed valuation. During 2020, the MOA had been delinquent on its tax obligations to the city and appealed its property tax valuations. The city and the MOA came to an agreement to reduce assessed property values by 16% in 2021 and the MOA paid all of its back taxes owed to the city in 2020.

Economic Resource Base

The City of Bloomington is located in Hennepin County (AAA/Stable). In addition to the Mall of America (MOA), the city is home to large corporate entities including the Toro Company, the Donaldson Company, HealthPartners and Seagate Technology. City officials report ongoing development activity in the local tax base including new industrial development. In 2020, the city entered into development agreement with SICK, a German technology company for a phased purchase of a 14-acre, 500,000 square foot office, production and logistics space.

Recent property assessments reflect an improvement in the residential housing market driven by new residential developments and housing price appreciation. A population of about 89,987 in 2020 reflected 8.6% growth since the 2010 U.S. Census versus 6.3% growth for the nation. Median household income is approximately 120% of the U.S. average.

KEY RATING DRIVERS

Revenue Framework: 'aaa'

Fitch expects revenues to expand below U.S. GDP but above the rate of inflation absent policy action as a result of good prospects for future economic development despite an only modestly growing population. The city's independent ability to raise revenues is strong although vulnerable to the potential for the state to enact temporary tax levy caps.

Expenditure Framework: 'aa'

Carrying costs for debt, pension and other post-employment benefits (OPEB) are moderate. Overall flexibility of the city's main spending items is solid.

Long-Term Liability Burden: 'aaa'

Long-term liabilities are low compared with the economic resource base, with debt and pension liabilities equal to about 8% of residents' personal income. Future borrowing plans are modest.

Operating Performance: 'aaa'

Strong revenue-raising ability and solid control over expenditures provide the city significant financial resilience with which to manage through moderate economic downturns. The city's low revenue volatility and ample reserves support its superior financial resilience.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable for a 'AAA' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A slow economic recovery that pressures the MOA and the city's hotel industry leading to sustained weaker-than-historical economic and tax revenue growth;

--Enactment by the state of longer-term or more stringent property tax limitations than it has occasionally enacted in the past.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit <https://www.fitchratings.com/site/re/10111579>.

CURRENT DEVELOPMENTS

Bloomington ended 2020 with a general fund surplus of \$2.5 million, increasing unrestricted general fund balance to 50.5% of spending. General fund revenues declined by 6.3% compared to 2019, driven primarily by shortfalls in lodging and admissions taxes that were \$6.8 million under budget. The loss of tourist related revenues was mitigated by a \$5.1 million transfer of CARES funds to offset pandemic-related spending and expenditure reductions. Expenditures came in \$4.8 million (6%) below the adopted budget driven by spending reductions including delaying capital projects, implementing a hiring freeze and making cuts in discretionary spending for all departments.

The \$79.5 million 2021 adopted general fund budget assumed a \$5.6 million decline in lodging and admissions taxes, and a property tax levy increase of 6% budget to budget. The budget is balanced with use of general fund balance. The expenditure budget was relatively flat compared to the 2020 adopted budget included a \$1.9 million, or 2.5% contingency available for unbudgeted spending or revenue shortfalls.

The city reports that year-to-dates results are tracking positive to budget and the city anticipates a surplus by year end. Managements plans to transfer \$3 million to fund its ongoing strategic initiatives from positive budgetary variance. The city received half of its \$11.4 million in American Rescue Plan Act (ARPA) allocation with expectations for the receipt of remaining half in May of 2022.

The city's market values are projected to increase over the next several years including a 2% certified increase for 2022 and an estimated 9.5% increase for 2023. The city reported a 9% loss in commercial market valuation in 2021, which was offset by an increase in residential housing values and by ongoing development activity.

The MOA's overall property valuation was revised downward by 16% to \$1.97 billion in 2021 from \$2.3 billion in 2020, reflecting the economic effects of the pandemic. The city does not receive general sales tax revenue from MOA, but the mall is the city's largest employer, supplying approximately 13,000 jobs (or nearly 1% of the total non-farm employment in the Minneapolis-St. Paul-Bloomington metropolitan statistical area). An additional 10,000 persons are employed in the city's hotel industry, and several new hotels are in development.

CREDIT PROFILE

Bloomington participates in the Twin Cities metropolitan economy, although the city has its own broad economic base that incorporates a diverse mix of industries including technology, healthcare and manufacturing. The city is expansive, covering 38 square miles of land. Unemployment rates have historically approximated the state average and been well below the U.S. average.

Revenue Framework

Property taxes accounted for approximately 70% of audited general fund revenues in 2020. The remaining 30% of revenues are drawn from lodging and admissions taxes, business licenses, other local sources and intergovernmental aid.

The rate of revenue growth net of policy actions has been less than that of U.S. GDP over the past decade, but above U.S. CPI. Fitch expects tax revenue growth to remain above the rate of inflation based on improved revenue results from the return of shoppers and other visitors to the MOA. The city reports significant ongoing development activity near the MOA and Bloomington Central Station expansion include notable residential, hotel and retail space components.

The city's independent legal authority to raise property tax revenues is unlimited. In the past, Minnesota has enacted temporary statewide limits to local governments' ability to raise their property tax levies. These limitations have generally expired after one year and have never applied to taxes raised to pay debt service. There is no guarantee that the state will not enact similar limits in the future, or impose limits of a more permanent nature. Minnesota has occasionally enacted multi-year tax levy caps. The longest such period of multi-year caps lasted from 1972 to 1992.

Expenditure Framework

Public safety services account for approximately 44% of audited general fund expenditures, followed by public works (15%), development services (13%) and community service (8%) in

2020.

Fitch expects the natural pace of expenditure growth will likely remain in line with that of revenues. The city typically offers competitive salary increases in order to attract and retain qualified employees in a competitive public sector labor market surrounding the Twin Cities.

Total carrying costs for debt, pensions and OPEB were moderate at 14.6% of governmental fund spending in fiscal 2020. The city typically pays more than the actuarially-determined annual pension contribution for its firefighters' pension plan, which has resulted in a strong assets-to-liabilities ratio. For the two cost-sharing, multi-employer pension plans in which the city participates, annual pension contributions are made at a statutory rate that is less than the actuarial rate.

The city has managed labor costs through attrition and keeping vacant positions open. With a workforce of approximately 563 FTE positions, Fitch believes the city retains significant ability to control spending by adjusting headcount. The city's solid expenditure flexibility is evidenced by an annual city charter-required contingency appropriation equal to a minimum of 2.5% of current-year spending.

Roughly one-third of the workforce participates in one of five labor unions serving primarily public safety and general government employees. Typically, labor contracts are settled for a two- to three-year period with salary increases slightly above inflation. The most recent negotiated fire fighters dispatch labor contract settled for a two-year period with pay increases in the 3% range for 2022 and 2023. The city's police and other law enforcement labor contract expire at the end of 2021 and will be renegotiated.

Long-Term Liability Burden

Bloomington's long-term liability burden is low compared with its economic resource base at about 7% of personal income. The largest portion of the long-term liability (61%) consists of overlapping debt issued by Hennepin County, Bloomington School District and several smaller taxing jurisdictions. Hennepin County and the city each have modest debt plans. Principal amortization is rapid with approximately 90% retired within 10 years.

Fitch's long-term liability assessment includes the city's share of statewide plan liabilities for general and uniformed employees. The city participates in two state-run cost-sharing multi-employer (CSME) defined benefit pension plans -- the General Employees Retirement Fund (GERF) and Public Employees Police and Fire Fund (PEPFF) -- that cover all city employees except volunteer firefighters, for whom the city has a single-employer plan: the

Bloomington Fire Department Relief Association (Relief). Annual funding of contributions to the GERF and PEPFF plans is calculated on a statutory basis; however, the city has exceeded the annual actuarially determined contributions for the Relief plan for its volunteer firefighters in most years.

The city reports assets-to-liabilities ratios of 79% and 87%, respectively, for its portion of the GERF and PEPFF plans, using a 7.5% discount rate in its most recent financial statements. Using Fitch's standard 6% discount rate assumption would lower these ratios to 67% and 75%, respectively, for the GERF and PEPFF. Recent statewide pension reform is likely to modestly improve the sustainability of the plans over time if the plans' assumptions are met. The Relief Plan for volunteer firefighters had a ratio of assets to liabilities of 127.8% as of Dec. 31, 2020 based on a 6% discount rate, matching Fitch's adjusted discount rate assumption.

Bloomington's OPEB liabilities are minimal.

Operating Performance

The Fitch Analytical Stress Test (FAST) scenario analysis tool, which relates historical revenue volatility to U.S. GDP to support Fitch's assessment of operating performance, assumes a moderate economic downturn. The city's reserves, independent revenue-raising ability and solid expenditure controls provide it with the ability to close budget gaps and maintain superior financial flexibility in a normal economic downturn. The city strives to maintain unassigned general fund balance in a range equal to 35% to 40% of budgeted general fund expenditures.

The city has built up a sizable available general fund balance following a long trend of operating surpluses. Year-end available reserves for 2020, which include unassigned, unrestricted and committed fund balances in the general fund, totaled \$39 million, equal to 50.5% of spending and transfers out. Management follows conservative budgeting practices that include contingency funding, modest revenue growth projections and long-term financial planning. The city employs a 10-year capital improvement plan with plans to issue \$11 million general obligation bonds in April 2022 to rebuild one of the city's fire stations.

The preliminary fiscal 2022 budget increases general fund revenues by 7.3% (\$5.8 million) and includes a proposed 2.75% property tax levy increase (a \$1.14 million increase), \$950,000 in ARPA funds and \$3 million (1.5%) in increased lodging and admissions. Additionally, the budget increases expenditures by \$5.8 million including a \$2 million contingency (2.5%) and a \$1.8 million increase to reinstate prior budget cuts and increase

fire department staffing levels. The city does not anticipate any substantial increases in post-employment benefits and assumes a slight decrease in employee health care costs based on changes to employee health care plans.

The bonds are general obligations of the city for which the city pledges its full faith and credit and power to levy direct ad valorem taxes, unlimited as to rate or amount, in addition to the GO pledge.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit

www.fitchratings.com/esg.

RATING ACTIONS

| ENTITY/DEBT | RATING | | | PRIOR |
|---|-----------|---------------------------|----------|-----------------------------|
| Bloomington (MN) [General Government] | LT IDR | AAA Rating Outlook Stable | Affirmed | AAA Rating Outlook Negative |
| ● Bloomington (MN) /General Obligation - Unlimited Tax/1 LT | LT | AAA Rating Outlook Stable | Affirmed | AAA Rating Outlook Negative |

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[U.S. Public Finance Tax-Supported Rating Criteria \(pub. 04 May 2021\) \(including rating assumption sensitivity\)](#)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

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Bloomington (MN)

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US Public Finance Infrastructure and Project Finance North America United States
