

CREDIT OPINION

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Bloomington (City of) MN

Update to credit analysis

Summary

The [City of Bloomington](#) (Aaa) benefits from a large tax base that plays an integral role in the Twin Cities regional economy, strong resident incomes, consistently well-managed finances supported by ample reserves and a modest debt burden. The city's proactive management team made several budgetary adjustments to mitigate the temporary revenue disruptions caused by the coronavirus pandemic. The city's positive credit attributes offset tax base concentration and an elevated pension burden.

Credit strengths

- » Favorably situated in the Twin Cities metropolitan area
- » Strong resident incomes
- » Well-managed finances with strong reserves
- » Modest debt burden

Credit challenges

- » Somewhat concentrated tax base
- » Elevated pension burden

Rating outlook

Outlooks are typically not assigned to local government issuers with this amount of debt.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Significant and sustained weakening of tax base or resident incomes
- » Material weakening of the city's financial position
- » Increased leverage

Key indicators

Bloomington (City of) MN	2016	2017	2018	2019	2020
Economy/Tax Base					
Total Full Value (\$000)	\$12,316,534	\$13,088,048	\$13,927,317	\$14,094,237	\$14,721,565
Population	85,080	85,417	85,394	85,332	85,332
Full Value Per Capita	\$144,764	\$153,225	\$163,095	\$165,169	\$172,521
Median Family Income (% of US Median)	124.1%	123.2%	123.7%	123.4%	123.4%
Finances					
Operating Revenue (\$000)	\$76,583	\$79,256	\$84,066	\$86,390	\$87,448
Fund Balance (\$000)	\$47,274	\$52,644	\$51,779	\$54,120	\$58,193
Cash Balance (\$000)	\$52,468	\$52,602	\$51,067	\$55,046	\$63,740
Fund Balance as a % of Revenues	61.7%	66.4%	61.6%	62.6%	66.5%
Cash Balance as a % of Revenues	68.5%	66.4%	60.7%	63.7%	72.9%
Debt/Pensions					
Net Direct Debt (\$000)	\$72,400	\$69,245	\$68,680	\$75,345	\$77,099
3-Year Average of Moody's ANPL (\$000)	\$209,305	\$226,069	\$233,111	\$242,725	\$280,731
Net Direct Debt / Full Value (%)	0.6%	0.5%	0.5%	0.5%	0.5%
Net Direct Debt / Operating Revenues (x)	0.9x	0.9x	0.8x	0.9x	0.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	1.7%	1.7%	1.7%	1.7%	1.9%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	2.7x	2.9x	2.8x	2.8x	3.2x

Sources: US Census Bureau, audited financial statements, Moody's Investors Service

Profile

Bloomington is the [State of Minnesota's](#) (Aa1 positive) fourth most populous city and third largest city when ranked by tax base size. The city is located in [Hennepin County](#) (Aaa stable) approximately 10 miles south of [Minneapolis](#) (Aa1 stable). Bloomington serves more than 85,000 residents and provides primary services including police, fire, public works and parks.

Detailed credit considerations

Economy and tax base: large tax base in Twin Cities area; taxpayer concentration in Mall of America

We expect Bloomington's large tax base to remain a credit strength over the long-term. The city's large retail and hospitality sectors were significantly disrupted during the coronavirus pandemic though the city's economy as a whole is on the rebound. Going forward, Bloomington will remain an integral role in the Twin Cities ([Minneapolis](#), Aa1 stable; [St. Paul](#), Aa1 stable) regional economy. The city's sizable \$15 billion tax base has shown solid growth for the last nine consecutive years and is equally split between residential properties (50%) and commercial/industrial, railroad and public utilities (50%). The tax base is somewhat concentrated with the Mall of America (MOA) serving as the city's largest taxpayer (10% of net tax capacity). In addition to the retail industry, approximately 10,000 people are typically employed by Bloomington's hospitality industry, which includes several hotels and restaurants in the city. Management notes that there are several large development projects currently underway including several new apartment buildings and some industrial developments.

Financial operations and reserves: consistently well managed financial operations with strong reserves

Financial reserves will remain strong given the city's proactive management team, strong revenue raising flexibility and material federal funding related to the pandemic. The city adopted a balanced budget for 2021. Management expects to end the year with another surplus because expenditures are tracking under budget and revenues currently over budget. The city closed fiscal 2020 with a \$2.5 million increase in general fund reserves, which was well above prior expectations of a \$6 million decline in general fund reserves. The city's economically sensitive revenues declined notably during 2020 because of the coronavirus pandemic. Lodging and admission tax

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revenues, for example, ended up about \$7 million under budget. Favorably, the city received about \$6.8 million in funding related to the pandemic, which largely offset the negative variances. The city is also slated to receive a total of \$11.4 million from the American Rescue Plan Act (ARPA) and expects to use the funds for infrastructure projects and to cover continued revenue loss.

The city has an established a history of outperforming its budget and consistently generating balanced to surplus operations. Property taxes are the city's largest revenue source, typically generating about 60% of revenue across the general fund and the debt service fund. The Mall of America generates about \$5 million in annual property revenue for the city. Triple 5, the owner of the Mall of America property, was late on property taxes payments on a number of their properties within the city during 2020 but is now reportedly current on all payments to the city. The city's second and third largest sources of operating revenue are lodging and admissions taxes, and licenses and permits, respectively, which typically account for about 20% of revenue. License and permit revenue performed well during the pandemic though lodging and admission taxes dipped notably.

Liquidity

Fiscal 2020 closed with a net cash balance of about \$64 million, equal to a strong 73% of revenue across the general fund and debt service fund.

Debt and pensions: modest debt burden; elevated pension burden

The city's debt leverage is modest though the pension burden will likely remain elevated for the Aaa rating because of the exposure to the state wide cost sharing pension plans. The city's net direct debt burden is equal to 0.5% of full value and 0.9x operating revenue. The city plans to continue issuing \$5 million to \$7 million for annual improvements, per its 10 year capital plan, and also plans to issue about \$11 million in 2022 for a new fire station. The city's draft 10-year capital plan from 2022 through 2031 includes about \$134 million in charter bonds and \$83 million in capital improvement bonds.

The city's adjusted net pension liability (ANPL), based on a 2.7% discount rate, totals \$310 million while the three year average totals \$248 million, equal to 3.0% of full value and 2.1x operating revenue. The city's total fixed costs, inclusive of debt service, pension contributions and other post-employment benefit (OPEB) costs typically hover around 20% of revenue.

Legal security

The general obligation unlimited tax (GOULT) bonds are supported by the city's full faith and credit pledge and the authority to levy a dedicated property tax unlimited as to rate and amount. The bonds are additionally secured by statute.

Debt structure

All of the city's debt is fixed rate and amortizes over the long term, with nearly 90% of outstanding principal retired within 10 years.

Debt-related derivatives

The city is not a party to any derivative agreements.

Pensions and OPEB

The city participates in two multiple-employer cost-sharing plans, the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF). Minnesota statutes establish local government retirement contributions as a share of annual payroll. The state of Minnesota approved legislation in 2018 that modified benefits and modestly increased contributions for some pension plans. Employer contributions from cities to the police and fire plan, for example, increased to 17.7% in 2020 from the previous rate of 16.2%. The total employer contributions to the Police and Fire plan from all participating governments were equal to about 120% of tread water in 2020.

OPEB obligations do not represent a material credit risk for the city. The city does not offer explicit OPEB benefits, but allows retired employees to stay on its healthcare plan, creating an implicit rate subsidy. Both the city's reported net OPEB liability and our adjusted net OPEB liability for the city, based on the use of a different discount rate, total less than \$10 million.

ESG considerations

Environmental

Environmental considerations are not material to the city's credit profile. According to data from Moody's affiliate Four Twenty Seven, Hennepin County's environmental hazard scores range from no risk to medium risk for the five environmental factors considered including extreme rainfall, water stress, heat stress, sea level rise and exposure to hurricanes and typhoons.

Social

Social considerations are a factor in the city's credit profile. The median age of city residents (42) is above both the state (38) and national (38) medians. The city's population has been stable in recent years, hovering around 85,000 residents. As of August 2021, the city's unemployment rate (3.8%) was on par with the state's rate (3.8%) and below the national rate (5.3%). The city's median family income is strong at 123% of the national figure.

Governance

City management adheres to a fund balance policy of maintaining reserves between 35% and 40% of budgeted general fund expenditures. The city also follows 10 to 15 year financial forecasts across the various operating funds and capital projects. The governing body, the City Council, consists of six council members and the Mayor. Four of the council members are elected by district and two of the council members and the Mayor are elected at large. The Mayor and three council members serve four-year terms, and the remaining members serve two-year terms, resulting in a return to overlapping four-year terms.

Minnesota cities have an institutional framework score of "Aa," which is strong. The sector has one or more major revenue sources that are not subject to any caps. Revenue tend to be predictable, as cities rely primarily on property taxes and state Local Government Aid (LGA), which is distributed based on demographic and tax base factors. Revenue-raising flexibility is moderate as cities generally benefit from unlimited levying authority, except during years in which the state has imposed limits. Levy limits are not currently in place for cities. Across the sector, fixed and mandated costs are relatively high. Expenditures mostly consist of personnel costs, which are highly predictable.

Rating methodology and scorecard factors

The [US Local Government General Obligation Debt](#) methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Bloomington (City of) MN		
Scorecard Factors and Subfactors	Measure	Score
Economy/Tax Base (30%) ^[1]		
Tax Base Size: Full Value (in 000s)	\$15,441,183	Aaa
Full Value Per Capita	\$180,954	Aaa
Median Family Income (% of US Median)	123.4%	Aa
Notching Adjustments: ^[2]		
Economic Concentration		Down
Finances (30%)		
Fund Balance as a % of Revenues	66.5%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	13.8%	Aa
Cash Balance as a % of Revenues	72.9%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	20.3%	Aa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures (x)	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.5%	Aaa
Net Direct Debt / Operating Revenues (x)	0.9x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.8%	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	3.2x	A
Notching Adjustments: ^[2]		
Unusually Strong or Weak Security Features		Up
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the [GO Methodology Scorecard Inputs](#) publication.

Sources: US Census Bureau, audited financial statements, Moody's Investors Service

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