S&P Global Ratings

RatingsDirect®

Summary:

Bloomington, Minnesota; General Obligation

Primary Credit Analyst:
Emma Drilias, Chicago (1) 312-233-7132; emma.drilias@spglobal.com

Secondary Contact:
Blake E Yocom, Chicago + 1 (312) 233 7056; blake.yocom@spglobal.com

Table Of Contents

Summary:

Bloomington, Minnesota; General Obligation

Credit Profile		
US$5.415 mil GO perm imp revolving fd bnds ser 2021-55 due 02/01/2032		
Long Term Rating	AAA/Stable	New

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the City of Bloomington, Minn.'s $5.415 million series 2021-55 general obligation (GO) permanent improvement revolving fund bonds. The outlook is stable.

The city's full faith and credit unlimited ad valorem tax GO pledge secures the bonds. The city has also pledged special assessments against benefited properties for repayment of a portion of the bonds, but we rate the bonds based on the city's GO pledge.

Bond proceeds will finance projects in the city's 2021 pavement management program.

Bloomington's GO bonds are eligible to be rated above the sovereign because we believe the city can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013), U.S. local governments are considered to have moderate sensitivity to country risk. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. Bloomington's financial flexibility is demonstrated by its very strong budgetary flexibility and liquidity.

Credit overview

Bloomington is home to the Mall of America, a critical driver of the local tourism and hospitality industries. The city outperformed fiscal 2020 expectations to report an operating surplus after originally forecasting a deficit primarily due to delayed property tax payments from the mall. The mall is current with all property tax payments and city officials are in regular conversations with mall management regarding operations, the mall's valuation, and the mall's plans for a waterpark. Bloomington conservatively projects hotel lodging and admissions tax revenue will not be restored to pre-pandemic levels until 2025. Until then, management plans for annual transfers into the general fund from the strategic priorities fund to offset projected revenue declines. Management is very strong and proactive, resulting in the maintenance of very strong reserves and liquidity, which, in our view, mitigate the pressure of lower lodging and admissions revenue. In addition, the city's debt and liability profile is strong, especially when compared with that of Minnesota peers. Multiple credit factors would have to substantially weaken to pressure the rating but we view this as unlikely to occur within the two-year outlook horizon.

The 'AAA' GO rating reflects our view of Bloomington's:

- Very strong economy, highlighted by the city's optimal location near major transportation routes and the Minneapolis-St. Paul International Airport in the broad and diverse Minneapolis-St. Paul-Bloomington metropolitan statistical area (MSA);

- Very strong management, with detailed long-term plans and adherence to comprehensive financial policies;
- Positive budget variance in fiscal 2020, which strengthened reserves well above the city's formal 35% minimum fund balance policy; and
- Strong debt and contingent liability position, especially compared with that of statewide peers, with rapid debt amortization and manageable fixed costs.

Environmental, social, and governance (ESG) factors

Bloomington is home to the Mall of America, resulting in an economy that is partially based on tourism--a sector particularly affected by the COVID-19 pandemic and short-lived, but deep, recession. Although health and safety social risks are moderately abating due to vaccination progress in the U.S., nevertheless, we reflect this social risk in our analysis. In our view, Bloomington's health and safety social risks could linger for a longer period compared with those of peers given the city's reliance on the tourism and hospitality industries. The mall, hotels, and ancillary businesses were affected due to social distancing measures, resulting in lodging and admissions tax revenue loss. However, in our view, the city's maintenance of sizable reserves and very strong financial planning practices offset budgetary disruptions driven by hospitality industry declines. We have also reviewed the city's environmental and governance risks and have determined they are in line with our view of the sector standard.

Stable Outlook

Downside scenario

Significant weakening of the city's budgetary performance could pressure the rating, although we view this as unlikely given management's actions to ensure financial stability throughout the pandemic and economic recovery. In addition, significant weakening of the city's debt and contingent liability profile could pressure the rating but we also view this as unlikely because Bloomington has a debt policy that limits direct debt and its overall debt remains low as a percent of market value.

Credit Opinion

Steady residential and industrial development help offset the pandemic effects on Mall of America and the hospitality industry

Bloomington is adjacent to the airport and home to the Mall of America, its largest taxpayer (11.8% of tax capacity). In 2021, the mall's taxable valuation declined due to the pandemic and recession; however, city officials indicate steady growth in residential valuations led to an overall growth in total net tax capacity in 2021. Management anticipates another increase in tax capacity and economic market value in 2022, reflecting a very strong residential market and growing industrial sector. The tax base is 49.5% commercial/industrial, railroad, and public utilities, followed by residential homesteads at 35.6% and residential nonhomesteads at 14.1%.

Due to the pandemic, Mall of America postponed its proposed indoor waterpark (the bond issuance was initially expected in the first half of 2020), although city officials indicate plans are moving forward as the pandemic moderates.

Management maintains there would be no formal pledge to support debt issuance to finance the waterpark from Bloomington; the city will not be the issuer or the borrower of any potential debt to finance the waterpark itself. However, the city is considering financing options, including tax increment financing cash or bonds to pay for ancillary infrastructure improvements in the South Loop.

Approximately 13,000 people are employed at various businesses in the mall, which closed for about three months beginning in March of 2020. At midyear 2020, the Mall of America was delinquent on its property taxes but has since paid all taxes owed in full. The many hotels around the mall have also been pressured throughout the pandemic and city officials conservatively project the hospitality industry will not recover to pre-pandemic levels until 2025.

County unemployment peaked in May 2020 at 12.3% due to the pandemic and has since dropped to 3.6% as of August 2021. S&P Global Ratings believes the recovery from the pandemic and associated recession will begin to accelerate, but with unemployment likely remaining above pre-pandemic levels until 2023. (See S&P Global Economics' report, "Economic Outlook U.S. Q4 2021: The Rocket Is Leveling Off," published Sept. 23, 2021, on RatingsDirect.)

In our view, the high demand for residential housing, paired with its strategic location near transportation routes and the airport in the Twin Cities MSA, will support Bloomington throughout the economic recovery.

Forward-looking management, with robust long-term planning and comprehensive financial policies

The city uses historical trends and outside sources to help make the revenue and expenditure assumptions in its budget. Management provides the council with a report on budget-to-actual performance at the end of the first quarter and then monthly the rest of the fiscal year. Bloomington has a 10-year financial forecast for its general fund that it updates annually and shares with the council. It also has a 10-year capital improvement plan that includes funding sources and is updated annually. The city has its own investment policy, and its monthly reports to council starting at the end of the first quarter include investment holdings. It has a debt management policy that has guidelines for amortization and debt on a per capita basis. Its reserve policy requires a minimum fund balance in the general fund of 35%-40% of the following year's budgeted revenue or expenditures, a level chosen for cash flow purposes. In addition, the city is taking active steps to enhance its cybersecurity and maintains cyber insurance coverage.

Breakeven fiscal 2021 budget, with a plan to offset economically sensitive revenue declines will support maintenance of very strong reserves and liquidity

For fiscal 2021, the city's adopted general fund budget of $79.4 million was break-even. Revenues and expenditures are tracking favorably compared to budget and officials project a modest operating surplus by fiscal year-end. The budget includes a $1.2 million transfer from the strategic priorities fund to offset lower lodging and admissions tax revenue while the hospitality industry recovers from the impacts of the pandemic. Bloomington plans for an annual transfer to the general fund from the strategic priorities fund to offset lower lodging and admissions tax revenue expected through 2025. The city will also receive a total of $11.4 million of funds under the American Rescue Plan Act, which management anticipates will be used on nonrecurring capital-focused expenditures through 2024. We expect the city will maintain structural balance over the two-year horizon through revenue replacement and expenditure controls.

Bloomington outperformed expectations for fiscal 2020 to report a net surplus of $2.5 million (3.4%) after forecasting a $6.3 million use of reserves in response to anticipated tax revenue declines because of health and safety measures taken in light of the pandemic. Despite an anticipated shortfall, property tax collections exceeded midyear projections, with 99% of property taxes received by fiscal year-end, including receipts from the Mall of America. Lodging and admission taxes were down $6.8 million compared to budget; however, the city received $6.8 million in CARES Act revenue, which offset associated expenditures.

The fiscal 2020 surplus strengthened general fund reserves to a very strong $37.8 million (50.6%), well above the city's minimum reserve policy of 35%. We note management was prudent in building up reserves to very strong levels to offset revenue volatility.

At fiscal year-end 2020, Bloomington had more than $209 million in cash and investments available for liquidity purposes. Management reports no contingent liquidity risks from financial instruments with payment provisions that change on the occurrence of certain events. We anticipate the city will maintain very strong liquidity in fiscal years 2021 and 2022.

Although budgetary performance has generated net positive results in the past three fiscal years, we believe ongoing pressures from the pandemic could pose budgetary challenges in the near term given Bloomington's economically sensitive revenue stream. Property taxes accounted for 70.3% of general fund revenues in fiscal 2020, followed by business licenses and permits at 9.2%, intergovernmental revenue at 6.4%, and lodging and admissions taxes at 4.7%.

Rapid amortization and moderate debt service costs support strong debt and contingent liability profile

The city has approximately $89.5 million in total direct debt outstanding. Although it has plans to issue debt annually, Bloomington amortizes its debt very rapidly and its overall net debt is low as a percent of market value. We expect its debt and contingent liability profile will remain at least strong over the two-year horizon.

Pension and other postemployment benefit liabilities are not medium-term credit pressures, as contributions are a modest share of budget

Bloomington participates in two multiple-employer, defined-benefit pension plans that have seen recent improvements in funded status, although plan statutory contributions have regularly fallen short of actuarial recommendations. Along with certain plan-specific actuarial assumptions and methods, this introduces some long-term risk of funding volatility and cost acceleration. The city also offers a fully funded single-employer pension plan for paid-on-call firefighters and provides health insurance benefits to employees via a single-employer, self-insured other postemployment benefit (OPEB) plan that it funds on a pay-as-you go basis.

The city participates in the following plans:

- Minnesota General Employees Retirement Fund (GERF): 79.1% funded (as of June 30, 2020), with a city proportionate share of the plan's net pension liability of $31.3 million.
- Minnesota Police and Fire Fund (PEPFF): 87.2% funded (June 30, 2020), with a proportionate share of the net pension liability of $16.6 million.
- Bloomington Fire Department Relief Association Plan: 127.8% funded (as of Dec. 31, 2020), with a net pension asset of $46.7 million.
- An implicit rate subsidy arising from retirees staying on the city's health insurance plan while paying active premium rates: 0% funded (as of Dec. 31, 2019), with a net OPEB liability of $9.5 million.

The city's two largest pension plans, GERF and PEPFF, have seen improvements in funded status in recent years, although plan statutory formula contributions have regularly fallen short of actuarial recommendations. Annual contributions are based on a statutory formula that has typically produced contributions lower than the actuarially determined contribution for each plan, and we think that this increases the risk of underfunding over time if the state legislature does not make adjustments to offset future funding shortfalls. Other key risks include a 7.5% investment rate-of-return assumptions, above our 6.0% guidance, and lengthy amortization periods. Regardless, pension costs remain only a modest share of total spending, and we believe they are unlikely to pressure the city's medium-term operational health. In addition, we believe the city has sufficient taxing and operational flexibility to manage future increases in pension contributions.

Strong institutional framework

The institutional framework score for Minnesota cities with a population greater than 2,500 is strong.

Bloomington, Minn. -- Key Credit Metrics				
	Most recent	**Historical information**		
		2020	**2019**	**2018**
Very strong economy				
Projected per capita EBI % of U.S.	128.8			
Market value per capita ($)	173,709			
Population (no.)		88,891	89,234	87,276
County unemployment rate (%)		6.6		
Market value ($000)		15,441,183	14,721,565	14,094,237
Top 10 taxpayers % of taxable value		23.1		
Adequate budgetary performance				
Operating fund result % of expenditures		3.4	2.5	5.2
Total governmental fund result % of expenditures		1.8	4.8	7.3
Very strong budgetary flexibility				
Available reserves % of operating expenditures		50.6	46.1	45.8
Total available reserves ($000)		37,780	34,687	32,600
Very strong liquidity				
Total government cash % of governmental fund expenditures		191.6	171.0	157.3
Total government cash % of governmental fund debt service		2271.6	2147.3	1906.4
Very strong management				
Financial Management Assessment	Strong			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		8.4	8.0	8.3
Net direct debt % of governmental fund revenue	67.2			
Overall net debt % of market value	2.1			
Direct debt 10-year amortization (%)	84.2			
Required pension contribution % of governmental fund expenditures		7.3		
OPEB actual contribution % of governmental fund expenditures		0.6		

Bloomington, Minn. -- Key Credit Metrics (cont.)				
	Most recent	**Historical information**		
		2020	**2019**	**2018**
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020