

RatingsDirect®

Summary:

Bloomington, Minnesota; Appropriations; General Obligation

Primary Credit Analyst:

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

Secondary Contact:

Andrew Bredeson, Centennial + 1 (303) 721 4825; andrew.bredeson@spglobal.com

Table Of Contents

Rating Action

Stable Outlook

Credit Opinion

Related Research

Summary:

Bloomington, Minnesota; Appropriations; General Obligation

Credit Profile

US\$12.835 mil GO cap imp plan bnds ser 2022A due 02/01/2043

Long Term Rating AAA/Stable New

Bloomington GO

Long Term Rating AAA/Stable Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to the City of Bloomington, Minn.'s approximate \$12.8 million series 2022A general obligation (GO) capital improvement plan bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating on the city's outstanding GO bonds and its 'AA+' long-term rating on the Bloomington Housing and Redevelopment Authority's (HRA) series 2018C taxable lease revenue bonds. The outlook on all ratings is stable.

The city's full faith and credit unlimited ad valorem tax GO pledge secures the bonds. Bond proceeds will finance capital improvements to fire stations and construction of a new equipment maintenance garage.

The series 2018C bonds are special, limited obligations of the HRA payable from lease payments under a lease-purchase agreement between the HRA and the city. We rate the series 2018C bonds one notch below the city's general creditworthiness as reflected in the unlimited-tax GO rating due to risk of non-appropriation.

Credit overview

Bloomington's key credit strengths include the city's very strong economy and proactive management, contributing to consistently very strong reserves and liquidity. Based on unaudited results for fiscal 2021, the city projects a sizable \$4.1 million (5.5%) general fund surplus largely driven by better-than-budgeted lodging and admissions tax collections. Despite the economic impacts from the COVID-19 pandemic, Bloomington has seen considerable year-over-year tax base growth. The city is home to the Mall of America, a critical driver of the local tourism and hospitality industries. The mall has remained current with all property tax payments and city officials are in regular conversations with mall management regarding operations, the mall's valuation, and mall owners' plans for a new waterpark. 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 years 2020 and 2021, which will continue to strengthen available reserves well above the city's formal 35% minimum fund balance policy; and
- Strong debt and contingent liability position that we expect will remain affordable while considering future debt plans.

Environmental, social, and governance

The rating incorporates our view of Bloomington's environmental, social, and governance (ESG) risks relative to the city's economy, management, financial measures, and debt and liability profile, which we view as in line with the sector. However, we note that Bloomington's pandemic-induced 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. In our view, Bloomington's maintenance of sizable reserves and very strong financial planning practices will continue to offset lower revenues, primarily from lodging and admissions taxes, throughout the economic recovery.

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.

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 forward-looking budget adjustments 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 is expected to remain low as a percent of market value.

Credit Opinion

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

Bloomington is adjacent to the airport and home to the Mall of America, its largest taxpayer (8.5% of tax capacity). In 2021, the mall's taxable valuation declined due to the pandemic and ensuing recession; however, 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, a growing industrial sector, and an increase in the mall's valuation. The tax base is 46% commercial/industrial, railroad, and public utilities, followed by residential homesteads at 39% and residential nonhomesteads at 15%.

The Mall of America is proceeding with plans to construct an indoor waterpark that would be connected to the mall in the city's South Loop district. Under the current financing structure, the private developer will finance the majority of the \$422 million project. There would be no formal pledge to support debt issuance to finance the waterpark facility from Bloomington; the city will not be the issuer or the borrower of any potential debt to finance the waterpark itself. The city council recently approved a financing plan, including approximately \$30 million of tax increment cash and \$70 million in bonding, to pay for infrastructure improvements ancillary to the waterpark, including a 1,720-stall parking structure, in the South Loop.

In our view, the consistently strong demand for housing, paired with Bloomington's strategic location near transportation routes and the airport in the Twin Cities MSA, will continue to support the city's very strong economy over upcoming years.

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 five-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, Bloomington is taking active steps to enhance its cybersecurity and maintains cyber insurance coverage.

Plan to offset economically sensitive revenue declines expected to support maintenance of very strong reserves and liquidity

The fiscal 2022 adopted general fund budget of \$84.3 million is breakeven, with a total levy increase of \$1.8 million (2.8%), including a \$708,000 (1.2%) levy increase in the general fund. The budget reflects largely status quo operations in the general fund with an additional \$1.5 million of new spending for police and fire department initiatives.

For fiscal 2021, Bloomington's adopted general fund budget of \$79.4 million was also breakeven. Based on unaudited year-end results, management projects a net general fund surplus of \$4.1 million (5.5%) driven by expenditure savings and better-than-budgeted revenues. Of note are the city's significantly higher lodging and admissions tax revenues, which are projected to exceed budget by a total of \$1.5 million (132%).

The 2021 and 2022 budgets include 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 to be used on nonrecurring capital-focused expenditures and other eligible cost reimbursements through 2024.

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.

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

The city has approximately \$91.2 million in total direct debt outstanding including the series 2022A bonds. 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, which we view as positive credit factors.

Bloomington plans to issue approximately \$88.5 million of new debt through 2023, \$70 million of which will finance South Loop infrastructure improvements ancillary to the planned waterpark at the Mall of America. Officials indicate this \$70 million issuance could be in the form of a tax incremental financing revenue bond or a GO bond payable from tax increment. Bloomington's medium-term debt plans are larger than the city's routine capital issuance, and we expect the debt and contingent liability profile could marginally weaken, but likely remain strong.

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, GERP 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. Nevertheless, 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. We also believe Bloomington 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.	130			
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	13,927,317
Ten largest taxpayers % of taxable value	20.4			
Strong 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		192	171	157
Total government cash % of governmental fund debt service		2272	2147	1906
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	72			
Overall net debt % of market value	2.0			
Direct debt 10-year amortization (%)	80			
Required pension contribution % of governmental fund expenditures		7.3		

Bloomington, Minn.--Key Credit Metrics (cont.)

	Most recent	Historical information		
		2020	2019	2018
OPEB actual contribution % of governmental fund expenditures		0.6		

Strong institutional framework

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

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- Credit Conditions: U.S. Regions' Economies Perk Up As The Pandemic's Impact Ebbs, April 16, 2021
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 2021 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of March 21, 2022)

Bloomington go charter bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bloomington go wtr util bnds ser 2017B due 02/01/2027		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bloomington taxable GO hsg imp bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bloomington taxable GO tax increment rfdg bonds ser 2011B due 02/01/2014-2032		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bloomington GO arts cent rfdg bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bloomington GO charter bnds		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bloomington GO perm imp revolving fd bnds of 2011 ser 45 due 02/01/2013-2031		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bloomington GO perm imp revolving fd bnds ser 2021-55 due 02/01/2032		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bloomington GO perm imp revolving fd rfdg bnds ser 2013A dtd 11/15/2013 due 02/01/2015-2027 2029-2030		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bloomington GO perm imp revolving fd & rfdg bnds of 2014 ser 48 due 02/01/2025		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Bloomington GO perm imp revolv fnd bnds ser 46 dtd 06/15/2012 due 02/01/2014-2023		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Ratings Detail (As Of March 21, 2022) (cont.)

Bloomington GO perm imp revolv fnd rfdg bnds ser 2012A dtd 06/15/2012 due 02/01/2015-2025

Long Term Rating AAA/Stable Affirmed

Bloomington Hsg & Redev Auth, Minnesota

Bloomington, Minnesota

Bloomington Hsg & Redev Auth (Bloomington) taxable lse rev bnds

Long Term Rating AA+/Stable Affirmed

Bloomington Port Auth, Minnesota

Bloomington, Minnesota

Bloomington Port Auth (Bloomington) taxable GO tax increment bnds (Bloomington) (Lennar Apartments Parking Ramp) ser 2015 due 02/1/2035

Long Term Rating AAA/Stable Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2022 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.