Research Update:

Bloomington, MN Series 2025A Sales Tax Revenue Bonds Assigned 'AA' Rating; Outlook Stable

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Overview

- S&P Global Ratings assigned its 'AA' rating to Bloomington, Minn.'s anticipated $65 million series 2025A sales tax revenue bonds.
- At the same time, S&P Global Ratings affirmed its 'AA' rating on Bloomington's series 2024B sales tax revenue bonds.
- The outlook is stable.

Rationale

Security

The bonds are secured by Bloomington's new 0.5% sales-and-use tax, approved by voters in November 2023. The tax took effect on April 1, 2024, and is authorized for up to 20 years or until funding the approved obligations is fulfilled, whichever comes first. At the latest, the tax will sunset in 2044, the year prior to the final debt service payment on the series 2025A bonds. Unless the bonds are redeemed early, the city plans to use the debt service reserve (DSR) balance to retire the bonds due in the final year. The first-lien sales tax bonds have additional liquidity support from DSRs cash-funded at issuance to the lesser of three-pronged standard test.

The city will use the bond proceeds to fund construction costs of a new community health and wellness center. The issuance is one of four planned to fund a total of $155 million in project costs authorized to be funded by the city's 0.5% local sales-and-use tax, as approved by voters. There is one additional issuance planned after the series 2024B (previously issued), series 2025A, and series 2025B bonds, a $20 million issuance the city plans to pursue in 2026 for its Nine Mile Creek Corridor project. For more on the series 2025B general obligation (GO) bonds and the city's general creditworthiness, see our report, July 3, 2025 on RatingsDirect.

We rate the sales tax revenue bonds under our criteria, "Priority-Lien Tax Revenue Debt," Oct. 22, 2018, which factors in both the strength and stability of the pledged revenues, as well as the general credit quality of the municipality where taxes are distributed and/or collected (the obligor's creditworthiness [OC]).

Credit highlights

Bloomington's prominent position in the broad and diverse Minneapolis-St. Paul-Bloomington metropolitan statistical area (MSA), which has demonstrated economic growth over the past decade and resiliency in the years following the COVID-19 pandemic, paired with our expectation of moderate-to-low volatility of future sales-and-use tax collections, supports the likelihood of strong maximum annual debt service (MADS) coverage for the bonds and future parity debt.

The first 12 months of collections (through March 2025) saw roughly $15 million in pledged sales-and-use tax revenue generated. This would equate to MADS coverage of about 1.9x, inclusive of the series 2025A bonds. If the additional $20 million in planned bonds are issued as first-lien sales tax revenue bonds, we estimate MADS coverage would be around 1.6x, based again on the $15 million in pledged revenue.

We consider the city's economic fundamentals and pledged revenue as exposed to somewhat heightened volatility and cyclicality risk given its economy and sales tax base is anchored by the Mall of America, a major hub for retail, hospitality, and related activity. While the mall and surrounding area produce extremely strong per capita retail sales, historic data show sales taxes generated in Bloomington declined in three of the 10 years from 2013 through 2022, compared to just one annual decline for statewide and zero for nationwide sales taxes. Despite this, and along with our expectations for slowing U.S. economic growth (see "Economic Outlook U.S. Q3 2025: Policy Uncertainty Limits Growth," June 24, 2025), we expect coverage to be strong-to-very strong, given the strength of current estimated coverage and the city's conservative revenue projections.

The city's general creditworthiness (AAA/Stable) does not constrain the rating on its priority-lien debt.

Key credit considerations include:

- Bloomington's key role in the broad and diverse Minneapolis-St. Paul-Bloomington MSA, where it is home to the Mall of America, with an economic base that we view as susceptible to variations during economic downturns given its sizeable retail, entertainment, and lodging components;
- An additional bonds test (AB)T requiring 1.6x MADS coverage for additional senior-lien bonds to be issued, debt service that is funded before the release of excess sales-and-use tax revenue, and pledged revenue that may only be used to support project costs (including debt service) for the projects included in the original sales tax authorization;
- Strong initial collections with the first 12 months of actual pledged revenue equating to about 1.9x MADS coverage, tempered by our expectation that the city may bond down close to the ABT;
- Our opinion that pledged sales-and-use tax revenue is subject to somewhat heightened volatility, such as during economic downturns, relative to sales-and-use taxes nationally, based on the historical trend of local taxable sales; and
- The city's general creditworthiness.

Environmental, social, and governance

We have analyzed the city's environmental, social, and governance factors and consider them credit neutral.

Outlook

The stable outlook reflects our expectation that Bloomington's sales-and-use tax revenue will provide strong-to-very strong coverage for all parity senior-lien bonds, given the 1.60x ABT, moderate-to-low revenue volatility, and strong-to-very strong economic fundamentals of the city. The city's strong general creditworthiness and its participation in the broad and diverse MSA lend additional rating stability.

Downside scenario

We could lower the rating if pledged revenue were to decline significantly as the city issues additional debt, weakening coverage to levels we no longer considered at least strong.

Upside scenario

We could raise the rating if pledged revenue grows and we expect coverage to be maintained at very strong levels as the city's specific plans for issuing its remaining $20 million in bonds supported by the pledged sales tax become clearer.

Bloomington, Minnesota-- Key credit metrics

	Metric
Economic data	
Economy	Strong - very strong
EBI level per capita % of U.S.	122
Statewide revenue base	No
Population (obligor)	90,017
Population (MSA)	3,708,684
Financial data	
Revenue volatility	Moderate - low
Coverage and liquidity	Strong - very strong
Baseline coverage assessment	ABT
MADS coverage (x)	1.90
MADS year	2031
Annual debt service coverage (x)	N/A
2-year pledged revenue change (%)	N/A
Bond provisions	
ABT (x)	1.60x
ABT type	MADS
ABT period	Historical
DSRF type	Lowest of three-pronged test
Obligor relationship	
Obligor linkage	Close

Bloomington, Minnesota-- Key credit metrics

	Metric
Economic data	
PL rating limit (number of notches above OC)	1

Data points and ratios may reflect analytical adjustments. EBI--Effective buying income. MSA--Metropolitan statistical area. MADS-Maximum annual debt service. ABT--Additional bonds test. DSRF--Debt service reserve fund. PL--Priority lien. OC--Obligor creditworthiness.N/A--Not available. 3-pronged test--MADS, 10% of principal, or 125% of average annual debt service.

Ratings List	
New Issue Ratings	
US$65.0 mil sales tax rev bnds ser 2025A dtd 08/13/2025 due 02/01/2045	
Long Term Rating	AA/Stable
Ratings Affirmed	
Local Government	
Bloomington, MN Sales Tax Revenues	AA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.