

RatingsDirect®

Summary:

Bloomington, Minnesota; Appropriations; General Obligation

Primary Credit Analyst:

Blake E Yocom, Chicago (1) 312-233-7056; blake.yocom@spglobal.com

Secondary Contact:

Caroline E West, Chicago (1) 312-233-7047; caroline.west@spglobal.com

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Credit Profile

US\$12.365 mil GO storm wtr util bnds ser 2018D due 02/01/2034		
<i>Long Term Rating</i>	AAA/Stable	New
US\$5.755 mil GO perm imp revolving fd bnds of 2018 ser 52 due 02/01/2029		
<i>Long Term Rating</i>	AAA/Stable	New
Bloomington GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' long-term rating to Bloomington, Minn.'s general obligation (GO) permanent improvement revolving fund bonds series 52 and series 2018D GO storm water utility bonds (green bonds). At the same time, we affirmed our 'AAA' rating on the city's outstanding GO bonds and our 'AA+' long-term rating on the Housing and Redevelopment Authority (HRA) in and for the city of Bloomington's series 2018C taxable lease revenue bonds. The outlook is stable.

The city's full faith and credit unlimited ad valorem tax GO pledge secures the series 52 and 2018D and its outstanding GO bonds. The city also pledges special assessments against benefited properties to the series 52 bonds and net storm water revenues and special assessments against benefited properties to the series 2018D bonds. Many of the city's rated GO bonds outstanding are also secured by additional revenue pledges, but we rate all of the bonds based on the city's GO pledge.

Series 52 bond proceeds will be used to finance various improvements in the city, including paving, surfacing, curb, and gutter improvements as described in its 2018 pavement management program and water main improvements. Series 2018D bond proceeds will be used to finance the storm water conveyance system, including underground storm water storage basins.

The previously rated 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. The lease payments are subject to annual appropriation by the city council. The intended payment source for the lease payments includes developer payments. We rate the series 2018C bonds one notch below the city's general creditworthiness as reflected in the unlimited-tax GO rating.

Bloomington is an exceptionally strong and stable credit. Management is proactive and has a long track record of producing balanced budgets and surplus results. Additionally, its debt and liability profile is strong, which is somewhat unusual for Minnesota municipalities. Multiple credit factors would have to substantially weaken to pressure the rating,

which is unlikely, in our view.

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, on RatingsDirect), 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.

The 'AAA' GO rating reflects our view of the city's:

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with strong financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 42% of operating expenditures;
- Very strong liquidity, with total government available cash at 136.6% of total governmental fund expenditures and 14.3x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges at 9.6% of expenditures and net direct debt that is 71.6% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 85.1% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Very strong economy

We consider Bloomington's economy very strong. The city, with an estimated population of 87,276, is a suburb of the Twin Cities wholly within Hennepin County, 13 miles south of Minneapolis and 17 miles southwest of St. Paul. It is in the Minneapolis-St. Paul-Bloomington MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 128% of the national level and per capita market value of \$159,578. Overall, market value grew by 6.4% over the past year to \$13.9 billion in 2018. The county unemployment rate was 3.0% in 2017.

Leading employers in the city include HealthPartners (3,800 employees), the local school district (1,948), Seagate Technology (1,522), Donaldson Co. (auto equipment company headquarters, 1,020), Pearson Education (1,013), and Toro Co. (lawn equipment, 996). The city is adjacent to the airport and home to the Mall of America, its largest taxpayer. Approximately 13,000 people are employed at businesses in the mall. Management anticipates another increase in tax capacity and economic market value in 2019.

Very strong management

We view the city's management as very strong, with strong financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

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. The city 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% to 40% of the following year's budgeted revenue or expenditures, a level chosen for cash-flow purposes.

Strong budgetary performance

Bloomington's budgetary performance is strong, in our opinion. The city had operating surpluses of 3.1% of expenditures in the general fund and 3.1% across all governmental funds in fiscal 2017.

Our calculations include data adjustments for capital outlay, debt service, and other expenditures supported by bond proceeds. In May 2017, management accurately projected a \$2.1 million surplus for fiscal 2017. For fiscal 2018, the city's adopted general fund budget is break-even and as of October 2018, it estimates a \$675,000 surplus, which we view as likely. It anticipates no major changes in total governmental fund performance. The fiscal 2019 budget will be balanced at approximately \$75 million and is mostly status quo. Given historical trends and these projections, we anticipate it will maintain strong budgetary performance.

Property taxes accounted for 64% of general fund revenues in fiscal 2017, followed by lodging and admissions tax at 14% and business licenses and permits at 8%.

Very strong budgetary flexibility

Bloomington's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 42% of operating expenditures, or \$29.1 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 41% of expenditures in 2016 and 43% in 2015.

Management anticipates maintaining or increasing its reserves in fiscal years 2018 and 2019, and we anticipate the city's budgetary flexibility will remain very strong.

Very strong liquidity

In our opinion, Bloomington's liquidity is very strong, with total government available cash at 136.6% of total governmental fund expenditures and 14.3x governmental debt service in 2017. In our view, the city has strong access to external liquidity if necessary.

At fiscal year-end 2017, the city had nearly \$153 million in liquidity. Our calculations do not include the small portion of cash, cash equivalents, and investments that were unspent bond proceeds. We anticipate the city will maintain very strong liquidity in fiscal years 2018 and 2019. It has issued GO bonds regularly during the past several years. At fiscal year-end 2017, its investments primarily were associated with money-market funds, Federal Home Loan Bank, municipal bonds, and Federal Home Loan Mortgage Corp. Management reports no contingent liquidity risks from

financial instruments with payment provisions that change on the occurrence of certain events.

Strong debt and contingent liability profile

In our view, Bloomington's debt and contingent liability profile is strong. Total governmental fund debt service is 9.6% of total governmental fund expenditures, and net direct debt is 71.6% of total governmental fund revenue. Overall net debt is low at 2.2% of market value, and approximately 85.1% of the direct debt is scheduled to be repaid within 10 years, which are, in our view, positive credit factors.

Although the city has additional debt plans in 2019, we expect the debt and contingent liability profile to remain at least strong. We also expect the series 2018 green bonds to be fully self-supporting.

The previously rated series 2018C bond proceeds were used to acquire a hotel site at a major intersection for redevelopment purposes. The HRA entered into a contract for private redevelopment with a private LLC pursuant to which the authority acquired the site from the private developer. It will then sell the site back to the developer for redevelopment. Bond proceeds also funded a debt service reserve (DSR). The DSR is funded at maximum annual interest. The debt schedule includes biannual interest payments on Feb. 1 and Aug. 1 in years 2019-2023 with a balloon payment on Aug. 1, 2023. The HRA and the city anticipate paying the balloon payment in advance of the maturity date with developer proceeds once the parties have agreed to a plan of redevelopment. In our view, the risk of non-appropriation is remote given the underlying asset, the city's very strong liquidity, and ample timing to consider other options for the balloon payment should the planned repayment source fall through, all of which is supported by very strong management that is committed to maintaining credit quality.

Bloomington's combined required pension and actual other postemployment benefit (OPEB) contributions totaled 5.9% of total governmental fund expenditures in 2017. The city made 100% of its annual required pension contribution in 2017.

The city participates in two cost-sharing multiple-employer pension plans, including the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF), which are administered by the Public Employees Retirement Assn. of Minnesota (PERA). Required pension contributions to these plans are determined by state statute. Statutory contributions rates have generally not kept pace with actuarially determined contribution (ADC) rates, indicating the potential for future payment acceleration. The state recently passed pension legislation that will marginally increase contributions (for PEPFF only), reduce the investment rate of return to 7.5% (from 8%), and reduce some employee benefits (primarily cost-of-living adjustments). While we view these as positive changes for future plan funding levels, the lack of an actuarial funding policy remains a weakness in these plans. For more information about the reforms included in the 2018 omnibus retirement bill and the potential for future cost increases, see our bulletin titled, "Minnesota's New Pension Bill Is A Positive Step Toward Sustainable Funding" (published June 7, 2018, on RatingsDirect).

The GERF and PEPFF were 75.9% and 85.4% funded, respectively, in fiscal 2017. The city's proportionate share of the net pension liability for these plans totaled \$51 million. We consider historical plan funding levels somewhat weak, and we believe that the history of pension contributions below the ADC increases the risk of payment acceleration. Additionally, in our view, the plan's investment portfolio is exposed to significant market risk, with only 22% of its investments allocated to fixed income and cash, which increases the risk for volatility in plan funding levels. Despite

these weaknesses, we believe the city has sufficient taxing and operational flexibility to manage future increases in pension contributions. However, in the future, if pension contributions absorb a larger share of the city's budget, our view of its debt and contingent liability profile could weaken.

Strong institutional framework

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

Outlook

The stable outlook reflects our view of Bloomington's consistent financial performance and economy, which is supported by very strong management. We do not anticipate changing the rating within the next two years because we believe the city will maintain very strong budgetary flexibility and liquidity and continue to benefit from its participation in the Minneapolis-St. Paul-Bloomington MSA's broad and diverse economy.

Downside scenario

Significant weakening of the city's budgetary performance and debt and contingent liability profile could put pressure on the rating. However, we view this as unlikely, given its history of stable results and management's actions to ensure financial stability, as evidenced by consistent general fund surpluses. Furthermore, the city has a debt policy that limits direct debt, and its overall debt remains low as a percentage of market value.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of October 26, 2018)

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 perm imp revolving fd 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

Ratings Detail (As Of October 26, 2018) (cont.)

Bloomington GO perm imp revolving fd rfdg bnds ser 2013A dtd 11/15/2013 due 02/01/2015-2027 2029-2030

Long Term Rating AAA/Stable Affirmed

Bloomington GO perm imp revolving fd & rfdg bnds of 2014 ser 48 due 02/01/2025

Long Term Rating AAA/Stable Affirmed

Bloomington GO perm imp revolv fnd bnds ser 46 dtd 06/15/2012 due 02/01/2014-2023

Long Term Rating AAA/Stable Affirmed

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 GO tax increment bnds

Long Term Rating AAA/Stable Affirmed

Bloomington Hsg & Redev Auth, Minnesota

Bloomington, Minnesota

Bloomington Hsg & Redev Auth (Bloomington) taxable lse rev bnds (Bloomington) ser 2018C due 08/01/2023

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

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