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Ratings

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Summary:

Bloomington, Minnesota; General Obligation

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US$13.95 mil GO perm imp revolving fd bnds of 2022 ser 56 dtd 09/08/2022 due 02/01/2034		
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 approximate $14 million series 2022-56 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. In addition, Bloomington will pledge special assessments for repayment of the bonds, but the rating is based on the city's GO pledge. Bond proceeds will finance the city's 2022 and 2023 pavement management programs.

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's key credit strengths include a very strong economy and proactive management, contributing to consistently very strong reserves and liquidity. Despite the economic impacts from the COVID-19 pandemic, Bloomington has seen considerable year-over-year tax base growth and has maintained strong budgetary performance, while reporting consecutive operating surpluses in the past three years. 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 and strong institutional framework;
- Positive budget results over the past three years, which strengthened available reserves well above the city's formal

35% minimum fund balance policy; and

- Strong debt and contingent liability profile 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.

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 we expect its overall debt will 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 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, an expanding 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 about $70 million in bonding, to pay for infrastructure improvements ancillary to the waterpark, including a 1,720-stall parking structure, in the South Loop. However, city officials indicate plans to issue the $70 million of tax increment revenue bonds are being reconsidered, and that the city may use tax increment cash in lieu of bonding.

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 in 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 cyber security and has cyber insurance coverage.

Plan to offset economically sensitive revenue declines should support 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. Based on year-to-date positive budget variances, management expects the city will achieve at least a breakeven operating result by fiscal year-end (Dec. 31, 2022).

For fiscal 2021, the city reported a net general fund surplus of $3.5 million (4.6%) fueled by expenditure savings and better-than-budgeted revenues. Of note are the city's significantly higher lodging and admissions tax revenues, which exceeded budget by nearly $1.6 million (133%).

The 2021 and 2022 budgets included 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 to make this annual transfer through 2025. The city also received $11.4 million under the American Rescue Plan Act to be used on nonrecurring capital-focused expenditures and other eligible cost reimbursements through 2024.

The fiscal 2021 surplus strengthened general fund reserves to $40.4 million (53.3%), which we consider very strong and which is 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 2021, Bloomington had about $234 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 expect 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 $104 million in total direct debt outstanding including the series 2022-56 bonds. Although it has plans to issue debt annually, Bloomington amortizes debt very rapidly and overall net debt is low as a percent of market value, which we view as positive credit factors.

Bloomington plans to issue new GO debt of about $5 million in 2024 for park improvement projects. The city also tentatively plans to issue about $70 million of tax increment revenue debt in 2022 or 2023 to finance South Loop infrastructure improvements ancillary to the planned waterpark at the Mall of America. However, due to current market conditions, the city is reconsidering whether the $70 million of project costs will be debt- or cash-financed. Given Bloomington's tentative medium-term debt plans are larger than the city's routine capital issuance, 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): 87.0% funded (as of June 30, 2021), with a city proportionate share of the plan's net pension liability of $22.2 million.
- Minnesota Police and Fire Fund (PEPFF): 93.7% funded (June 30, 2021), with a proportionate share of the net pension liability of $9.4 million.
- Bloomington Fire Department Relief Association Plan: 131.6% funded (as of Dec. 31, 2021), with a net pension asset of $55.7 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, 2020), with a net OPEB liability of $11.5 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 assumption, 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, Minnesota -- Key Credit Metrics				
	Most recent	**Historical information**		
		2021	**2020**	**2019**
Very strong economy				
Projected per capita EBI % of U.S.	127			
Market value per capita ($)	182,939			
Population		88,945	88,891	89,234
County unemployment rate(%)		3.4		
Market value ($000)	16,271,552	15,441,183	14,721,565	14,094,237
Ten largest taxpayers % of taxable value	20.4			
Strong budgetary performance				
Operating fund result % of expenditures		4.6	3.4	2.5
Total governmental fund result % of expenditures		2.1	1.8	4.8
Very strong budgetary flexibility				
Available reserves % of operating expenditures		53.3	50.6	46.1
Total available reserves ($000)		40,441	37,780	34,687
Very strong liquidity				
Total government cash % of governmental fund expenditures		213	192	171
Total government cash % of governmental fund debt service		2492	2272	2147
Very strong management				
Financial Management Assessment	Strong			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		8.6	8.4	8.0
Net direct debt % of governmental fund revenue	84			
Overall net debt % of market value	2.0			
Direct debt 10-year amortization (%)	80			
Required pension contribution % of governmental fund expenditures		6.1		
OPEB actual contribution % of governmental fund expenditures		0.4		
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

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