

RatingsDirect®

Summary:

Bloomington, Minnesota; Sales Tax

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Credit Profile

US\$34.865 mil taxable sales tax rev bonds ser 2024B due 02/01/2045

Long Term Rating

AA/Stable

New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to the City of Bloomington, Minn.'s anticipated \$34,865,000 series 2024B taxable sales tax revenue bonds.
- The outlook is stable.

Security

The series 2024B 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.

Proceeds of the series 2024B bonds will finance infrastructure repairs and renovation of the Bloomington Ice Garden, finance establishment of a debt service reserve (DSR) fund for the bonds, and pay the costs of issuance. The DSR will be funded at the standard three-pronged test (lowest of maximum annual debt service [MADS], 10% of principal, or 125% of average annual debt service).

We rate the bonds under our priority-lien tax revenue debt criteria, titled "Priority-Lien Tax Revenue Debt" (published 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 overview

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 pandemic, paired with our expectation of moderate-to-low volatility of future sales and use tax collections, supports the likelihood of strong MADS coverage for the bonds and future parity debt. In addition to the 2024B bonds, voters authorized \$120 million of projects to be funded with senior- and subordinate-lien sales and use tax debt. Our expectation is that coverage on all parity senior-lien debt will remain strong given the 1.6x additional bonds test (ABT) based on historical sales and use tax revenue. The city has a history of strong financial performance, supporting very strong reserves and overall liquidity. Therefore, the priority-lien rating on the bonds is not limited by the city's general creditworthiness (AAA/Stable).

Key credit considerations include:

- Bloomington's key role in the broad and diverse 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 sizable retail, entertainment, and lodging components;

- A 1.6x ABT requiring maintenance of strong MADS coverage across all parity senior-lien bonds, and debt service that is funded before the release of excess sales and use tax revenue;
- Projections for 2024 annual sales and use tax receipts that provide very strong current MADS coverage of 4.29x, tempered by our expectation that the city will likely bond down close to the ABT;
- Our opinion that pledged sales and use tax revenue is subject to somewhat greater 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 consider Bloomington's environmental, social, and governance factors neutral in our credit analysis. The city's cyber-security and cyber-incident response procedures align with those of peers.

Outlook

The stable outlook reflects our expectation that Bloomington's sales and use tax revenue will provide 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, weakening coverage to levels we no longer considered strong, or if our GO rating on Bloomington deteriorates by more than three notches.

Upside scenario

We could raise the rating if our assessment of the city's sales and use tax revenue volatility were to improve, or if Bloomington were to maintain extraordinarily strong coverage and stable economic fundamentals.

Credit Opinion

Economic fundamentals: Strong-to-very strong

Bloomington is an anchor of the broad and diverse Minneapolis-St. Paul-Bloomington MSA, highlighted by its optimal location near major transportation routes and the Minneapolis-St. Paul International Airport. The MSA has a population of nearly 3.7 million and a strong and growing employment base. The city had an estimated population of about 90,000 in 2023, representing a 3.1% increase over the previous five years. The local unemployment rate was very low at 2.5% as of December 2023, compared with 2.8% for the state and 3.6% for the U.S. The city's per-capita retail sales were 276% of that of the U.S in 2023.

Bloomington is home to the Mall of America, a critical generator of the local tourism and hospitality industries. With a

sizable retail and lodging component, the city's economic base exhibited greater vulnerability to the social-distancing measures that came about in 2020 because of the COVID-19 pandemic. As a result, local dining, shopping, accommodations, and entertainment businesses saw record sales decreases in 2020. Since then, local businesses have followed a steady recovery, as indicated by the city's recent lodging and admissions tax collections, which are near to (lodging tax) or exceeding (admissions tax) pre-pandemic levels. However, management does not expect local business travel or lodging tax revenue to fully recover to pre-pandemic levels as business trends toward more virtual meetings in lieu of in-person events.

Based on these factors, the assessment of Bloomington's economic fundamentals reflects our opinion that the city's economic base is more susceptible relative that of the nation to cyclical and seasonality with anticipated fluctuations should there be economic downturns or public health emergencies. Nevertheless, we anticipate the city's central role to the regional economy, supporting several high-technology manufacturing business expansions, continued commercial and hospitality development, and steady demand for multifamily housing, will support overall stable economic fundamentals.

Volatility: Moderate-to-low

We assess the volatility of revenue to determine the likelihood of the availability of revenue during different economic cycles. We have two levels of volatility assessment: macro and micro.

On a macro level, we consider sales tax revenue to have a low historical volatility assessment given that the demand for goods and services being taxed is expected to remain relatively stable through various economic cycles.

On a micro level, we believe Bloomington's sales and use tax revenue exhibits somewhat greater volatility compared with sales and use taxes nationally. As reported by the Minnesota Department of Revenue, the city's historical taxable sales that will be subject to the new 0.5% local tax have demonstrated more volatility than the nationwide datasets. Over the past 10 years, Bloomington has had four declines in annual taxable sales: 1.0% in 2017, 1.9% in 2018, 1.1% in 2019, and a significant 35.6% decline in 2020 spurred by the pandemic. In comparison, S&P Global Market Intelligence data shows national local government sales tax receipts have increased year over year. Bloomington's local taxable sales have largely recovered since 2020, with year-over-year increases of 25% and 16% in 2021 and 2022, respectively. Nevertheless, the revenue volatility assessment reflects our view that economic downturns or public health emergencies could have similar dampening effects on future sales tax revenue.

Coverage and liquidity: Strong-to-very strong

City officials estimate annual sales and use tax collections of about \$12.5 million based on annualization of the lowest month of collections year-to-date through 2024. Assuming \$12.5 million of annual revenue, and MADS of about \$2.92 million in 2032, estimated MADS coverage is 4.29x, which we consider very strong.

State law allows the city to use the 0.5% sales and use tax revenue only for the purposes approved by voters in the November 2023 referendum, including debt service on the series 2024B bonds, in addition to \$100 million of future financing for reconstruction of a new Community Health and Wellness Center, and \$20 million of future financing for construction and restoration of the Nine Mile Creek Corridor Renewal project. Our coverage and liquidity assessment positively reflects this closed loop and statutory restrictions governing the 0.5% sales and use tax, as pledged revenue

is legally restricted to debt service and related project costs, prohibiting use of pledged revenue for city general operations or other purposes. City officials anticipate the \$100 million authorization will be issued in a combined senior- and subordinate-lien sales tax and use tax bond in summer 2025. The remaining \$20 million authorization will likely be issued as a subordinate-lien sales and use tax bond, depending on future sales and use tax revenue performance, in summer 2026.

Considering these future debt plans, we base our coverage assessment for the senior-lien bonds on the ABT. All parity senior-lien sales and use tax bonds will benefit from a 1.6x ABT, with a 1.0x ABT to issue subordinate-lien sales and use tax debt. Based on the 1.6x ABT, our expectation is that coverage on all senior-lien debt will remain at least strong.

Liquidity is provided to the bonds through a bond-funded DSR funded at the lesser of the three-prong test. The city will also establish a surplus reserve fund to which any sales and use tax revenues in excess of what is necessary to pay debt service on the bonds or additional bonds, after maintaining funding required for the DSR, may be used for the payment of authorized project costs or debt service. We do not view the surplus reserve as providing much additional strength given it would only be available after debt service and DSR requirements are met; however, given our assessment of coverage as strong-to-very strong coverage and volatility as moderate-to-low, we do not apply any downward adjustment to the coverage score that would indicate potential liquidity pressures.

Obligor linkage: Close

We consider there to be a close relationship between the security pledge and the OC. The Minnesota Department of Revenue collects the 0.5% sales and use tax and remits the revenue to the city monthly. Because the city has control of the bulk of the pledged revenue before sending it to the revenue fund for debt service payments, we believe that there is some exposure to operating risk from the city under a stress scenario. In addition, it does not benefit from a limited scope of operations or extraordinary expenditure flexibility.

Rating linkage to the City of Bloomington

We assess Bloomington's general operations because we view overall creditworthiness as a key determinant of an obligor's ability to pay its obligations, including bonds secured by a special tax. In our view, Bloomington's steadily growing economy benefits from its optimal location near major transportation routes including light commuter rail, Interstate Highway 35W, and the Minneapolis-St. Paul International Airport. The city has a long track record of positive operating results supported by growth from property tax revenue, with minimal reliance on state funding, supporting a well-managed reserve position. Its healthy financial position is bolstered by forward-looking financial management practices, with robust long-term planning and comprehensive financial policies. The city's current debt obligations are relatively low; however, we expect debt levels will increase in the medium term based on the city's plans to issue up to \$300 million of new debt through 2026, a significant portion of which would be secured by dedicated tax-increment and sales and use tax revenue that is not otherwise available to finance general city operations.

Bloomington, Minnesota--key credit factors

	Metric
Economic data	
Economy	Strong - very strong

Bloomington, Minnesota--key credit factors (cont.)

	Metric
EBI level per capita % of U.S.	122
Population (obligor)	90,017
Broad and diverse MSA	Yes
Population (MSA)	3,708,684
Financial data	
Revenue volatility	Moderate - low
Coverage and liquidity	Strong - very strong
Baseline coverage assessment	ABT
MADS coverage (x)	4.29
MADS year	2032
Annual debt service coverage (x)	-
3-year pledged revenue change (%)	-
Bond provisions	
ABT (x)	1.60
ABT type	MADS
ABT period	Historical
DSRF type	Lowest of 3-pronged test
Obligor relationship	
Obligor linkage	Close

PL rating limit (number of notches above OC) 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.

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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