FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Bloomington, MN's $13.95MM 2022 Series 56 GOs 'AAA'; Outlook Stable

Fri 29 Jul, 2022 - 4:44 PM ET

Fitch Ratings - New York - 29 Jul 2022: Fitch Ratings has assigned a 'AAA' rating to the following City of Bloomington, MN GO bonds:

--$13.95 million GO permanent improvement revolving fund bonds of 2022 series 56.

Fitch has affirmed the following city of Bloomington, MN ratings at 'AAA':

--The city's Issuer Default Rating (IDR);

--$49 million of outstanding GO debt;

--$6 million of GO tax increment bonds issued by the Bloomington Port Authority.

The Rating Outlook is Stable.

The bond proceeds, along with available city funds will finance various improvements within the city including the city's 2022 and 2023 pavement management program. The bonds are expected to be competitively sold on Aug. 8.

SECURITY

The bonds are general obligations of the city, for which the city pledges its full faith and credit and power to levy direct general ad valorem taxes, unlimited as to rate or amount. In addition to the GO pledge, the city will pledge special assessments against benefited properties.

ANALYTICAL CONCLUSION

The city's 'AAA' GO rating and Issuer Default Rating (IDR) reflect a wealthy and growing local economy anchored by the Mall of America (MOA), which has driven strong tax base and revenue growth over the past several years. The city's local economy has some concentration with retail and tourism-linked businesses, including hotels and the MOA. The city also benefits from sophisticated financial planning and a track record of healthy reserves and positive operating performance. The long-term liability burden is low relative to the resource base.

Economic Resource Base

The City of Bloomington is located in Hennepin County (AAA/Stable) and is expansive, covering 38 square miles of land. A population of about 89,298 in 2021 reflected 7.7% growth since the 2010 U.S. Census. Median household income is approximately 120% of the U.S. average. In addition to the MOA, the city is home to large corporate entities including the Toro Company, the Donaldson Company, HealthPartners and Seagate Technology. The city's local economy has some concentration in retail and tourism-linked businesses, including hotels and the MOA, which accounts for 11.8% of 2021 assessed valuation. Unemployment rates have historically approximated the state average and been well below the U.S. average.

KEY RATING DRIVERS

Revenue Framework:

Fitch expects revenues to expand below U.S. GDP but above Fitch's long-term expectations for the rate of inflation absent policy action as a result of good prospects for future economic development and modestly growing population. The city's independent ability to raise revenues is strong although vulnerable to the potential for the state to enact temporary tax levy caps.

Expenditure Framework:

Carrying costs for debt, pension and other post-employment benefits (OPEB) are moderate. Overall flexibility of the city's main spending items is solid.

Long-Term Liability Burden:

Long-term liabilities are low compared with the economic resource base, with debt and pension liabilities equal to about 7% of residents' personal income. Future borrowing plans are modest.

Operating Performance:

Strong revenue-raising ability and solid control over expenditures provide the city significant fiscal capacity with which to manage through moderate economic downturns. The city's low revenue volatility and ample reserves support its superior financial resilience.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Not applicable for a 'AAA' rating.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--A slow economic recovery that pressures the MOA and the city's hotel industry leading to sustained weaker-than-historical economic and tax revenue growth;

--A material shift in the city's borrowing plans that results in a long-term liability burden that exceeds 10% of personal income;

--Enactment by the state of longer term or more stringent property tax limitations than it has occasionally enacted in the past, which could materially constrain the city's control over revenue sources.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CURRENT DEVELOPMENTS

Bloomington ended 2021 (on Dec. 31) with a modest general fund surplus of $3.5 million, increasing unrestricted general fund balance to 53.4% of spending. General fund revenues performed slightly better than budget including lodging and admission taxes and expenditures were below budget by 6%. The audited fiscal results indicate that the city ended with a $42.6 million of general fund balance.

The 2022 budget includes over $1.5 million in new spending for public safety, including adding staff, and is funded with $1.8 million tax levy increase (2.75% increase from 2021) with $707,909 in the general fund. The budget does not include a general fund balance appropriation and includes a 2.5% budgeted contingency for unanticipated expenditures. Based on revenue results through June, the city is seeing a solid recovery in hotel lodging taxes, although collections are expected to remain below pre-pandemic levels through 2024.

The city reports that YTD fiscal results are tracking positive to budget and the city anticipates a surplus by year end. Managements plans to transfer $3 million to fund its ongoing strategic initiatives from positive budgetary variance. The city received $11.4 million in American Rescue Plan Act (ARPA) allocation, which will be used in part ($6 million) for revenue replacement to adjust for lost revenues in lodging and admissions taxes as they continue to recover. The city recently settled labor contracts with moderate salary increases, including the police contact, which will be incorporated into the 2023 preliminary budget.

The city's market values are projected to increase over the next several years including a 2% certified increase for 2022 and an estimated 13% increase for 2023. Commercial property values declined during the pandemic, including a 16% reduction in the MOA's overall property valuation in 2021 but have been offset by steady growth in the residential and industrial sectors within the local tax base. The city does not receive general sales tax revenue from MOA, but the mall is the city's largest employer, supplying approximately 13,000 jobs (or nearly 1% of the total non-farm employment in the Minneapolis-St. Paul-Bloomington MSA. The local economy includes an additional 10,000 persons are employed in the city's hotel industry.

CREDIT PROFILE

Bloomington participates in the Twin Cities metropolitan economy, although the city has its own broad economic base that incorporates a diverse mix of industries including technology, healthcare and manufacturing. City officials report ongoing development activity in the local tax base including new industrial development. In 2020, the city entered into development agreement with SICK, a German technology company for a phased purchase of a 14-acre, 500,000 sf office, production and logistics space. Recent property assessments reflect an improvement in the residential housing market (roughly 16%) driven by new residential developments and housing price appreciation.

Revenue Framework

Property taxes accounted for approximately 68% of audited general fund revenues in 2021. The remaining 32% of revenues are drawn from lodging and admissions taxes, business licenses, other local sources and intergovernmental aid.

The rate of revenue growth net of policy actions has been less than that of U.S. GDP over the past decade, but above U.S. CPI. Fitch expects tax revenue growth to continue this trend based on improved revenue results from the return of shoppers and other visitors to the area in and around the MOA. The city reports significant ongoing development activity near the MOA and the adjacent Bloomington Central Station expansion include notable residential, hotel and retail space components.

The city's independent legal authority to raise property tax revenues is unlimited. In the past, Minnesota has enacted temporary statewide limits to local governments' ability to raise their property tax levies. These limitations have generally expired after one year and have never applied to taxes raised to pay debt service. Minnesota has occasionally enacted multi-year tax levy caps. The longest such period of multi-year caps lasted from 1972 to 1992.

Expenditure Framework

Public safety services account for approximately 43% of audited general fund expenditures, followed by public works (16%), development services (13%) and community service (8%) in 2021.

Fitch expects the natural pace of expenditure growth will likely remain in line with that of revenues. The city typically offers competitive salary increases in order to attract and retain qualified employees in a competitive public sector labor market surrounding the Twin Cities.

Total carrying costs for debt, pensions and OPEB were moderate at roughly 16% of governmental fund spending in fiscal 2021. The city typically pays more than the actuarially-determined annual pension contribution for its firefighters' pension plan, which has resulted in a strong assets-to-liabilities ratio. For the two cost-sharing, multi-employer pension plans in which the city participates, annual pension contributions are made at a statutory rate that is less than the actuarial rate.

Fitch believes the city retains significant ability to control spending by adjusting headcount for savings through attrition and leaving vacant positions open. The city's solid expenditure flexibility is evidenced by an annual city charter-required contingency appropriation equal to a minimum of 2.5% of current-year spending.

Roughly one-third of the workforce participates in one of five labor unions serving primarily public safety and general government employees. Typically, labor contracts are settled for a two- to three-year period with salary increases slightly above inflation. Recent labor contract settlements have resulted in modest pay increases in the 3% range.

Long-Term Liability Burden

Bloomington's long-term liability burden is low compared with its economic resource base at about 7% of personal income. The largest portion of the long-term liability (66%) consists of overlapping debt issued by Hennepin County, Bloomington School District and several smaller taxing jurisdictions. Hennepin County and the city each have modest debt plans. Principal amortization is rapid with approximately 80% retired within 10 years.

Fitch's long-term liability assessment includes the city's share of statewide plan liabilities for general and uniformed employees. The city participates in two state-run cost-sharing multi-employer (CSME) defined benefit pension plans -- the General Employees Retirement Fund (GERF) and Public Employees Police and Fire Fund (PEPFF) -- that cover all city employees except paid, on call firefighters, for whom the city has a single-employer plan: the Bloomington Fire Department Relief Association (Relief). Annual funding of contributions to the GERF and PEPFF plans is calculated on a statutory basis; however, the city has exceeded the annual actuarially determined contributions in recent years. The combined ratio of assets to liabilities for all plans is over 100%, based on a reported 6% discount rate, which matches Fitch's adjusted discount rate assumption Bloomington's OPEB liabilities are minimal.

Operating Performance

The Fitch Analytical Stress Test (FAST) model, which relates historical revenue volatility to U.S. GDP to support Fitch's assessment of operating performance, assumes a moderate economic downturn. The city's reserves, independent revenue-raising ability and solid expenditure controls provide it with the ability to close budget gaps and maintain superior financial flexibility in a normal economic downturn. The city strives to maintain unassigned general fund balance in a range equal to 35% to 40% of budgeted general fund expenditures.

The city has built up a sizable available general fund balance (53.4% of general fund spending at FYE 2021) following a long trend of operating surpluses. Management follows conservative budgeting practices that include contingency funding, modest revenue growth projections and long-term financial planning. The city employs a 10-year capital improvement plan with moderate future borrowing plans.

The bonds are general obligations of the city for which the city pledges its full faith and credit and power to levy direct ad valorem taxes, unlimited as to rate or amount, in addition to the GO pledge.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Bloomington (MN) [General Government]	LT IDR	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable
Bloomington (MN) /General Obligation - Unlimited Tax/1 LT	LT	AAA Rating Outlook Stable	Affirmed	AAA Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

U.S. Public Finance Tax-Supported Rating Criteria (pub. 04 May 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

FAST Econometric API - Fitch Analytical Stress Test Model, v3.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Bloomington (MN)	EU Endorsed, UK Endorsed

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