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CREDIT OPINION
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Bloomington (City of) MN

Update to credit analysis

Summary

Bloomington (Aaa) serves as an integral part of the Twin Cities economy and benefits from a large, growing tax base with above-average resident income. The city also maintains strong operating reserves, supported by proactive management and strong revenue raising flexibility. These strengths are balanced against moderate taxpayer concentration and an elevated pension burden.

Credit strengths

» Growing tax base with above-average resident income

» Very strong financial position

» Modest debt burden

Credit challenges

» Elevated pension burden

» Moderate taxpayer concentration

Rating outlook

Moody's does not typically assign outlooks to local governments with this amount of debt.

Factors that could lead to an upgrade

» Not applicable

Factors that could lead to a downgrade

» Substantial tax base contraction coupled with weakened resident income

» Significant, sustained narrowing of operating reserves

» Materially increased leverage or fixed costs

Key indicators

Exhibit 1
Bloomington (City of) MN

	2017	2018	2019	2020	2021
Economy/Tax Base					
Total Full Value ($000)	$13,088,048	$13,927,317	$14,094,237	$14,721,565	$15,441,183
Population	85,417	85,394	85,332	85,226	85,226
Full Value Per Capita	$153,225	$163,095	$165,169	$172,736	$181,179
Median Family Income (% of US Median)	123.2%	123.7%	123.4%	122.7%	122.7%
Finances					
Operating Revenue ($000)	$79,256	$84,066	$86,390	$87,448	$88,589
Fund Balance ($000)	$52,644	$51,779	$54,120	$58,193	$63,218
Cash Balance ($000)	$52,602	$51,067	$55,046	$63,740	$67,845
Fund Balance as a % of Revenues	66.4%	61.6%	62.6%	66.5%	71.4%
Cash Balance as a % of Revenues	66.4%	60.7%	63.7%	72.9%	76.6%
Debt/Pensions					
Net Direct Debt ($000)	$69,245	$68,680	$75,345	$77,099	$75,789
3-Year Average of Moody's ANPL ($000)	$226,069	$233,111	$242,725	$280,731	$308,242
Net Direct Debt / Full Value (%)	0.5%	0.5%	0.5%	0.5%	0.5%
Net Direct Debt / Operating Revenues (x)	0.9x	0.8x	0.9x	0.9x	0.9x
Moody's - ANPL (3-yr average) to Full Value (%)	1.7%	1.7%	1.7%	1.9%	2.0%
Moody's - ANPL (3-yr average) to Revenues (x)	2.9x	2.8x	2.8x	3.2x	3.5x

Sources: US Census Bureau, Bloomington (City of) MN's financial statements and Moody's Investors Service

Profile

Bloomington is the fourth most populous city in Minnesota (Aaa stable) and third largest city based on net tax capacity. It encompasses 39 square miles in Hennepin County (Aaa stable), approximately ten miles south of Minneapolis (Aa1 stable). It provides a range of services, including public safety, public works, community services, and municipal utilities, to over 85,000 residents.

Detailed credit considerations

Economy and tax base: growing Twin Cities tax base with some taxpayer concentration

Bloomington remains integral to the Twin Cities' regional economy, which will support further growth and diversification of its tax base. The $16.3 billion tax base has averaged strong 4.5% annual growth over the past five years and management expects valuation to exceed $17 billion in 2023 as multifamily development within the city remains strong. There is moderate taxpayer concentration, with the top ten taxpayers comprising just over 17% of net tax capacity.

Bloomington's South Loop District is home to the Mall of America (MOA), an international travel destination which serves as the city's largest taxpayer (8.6% net tax capacity) and employer (13,000 employees). More than half of ongoing development within the city is occurring within the South Loop District, which is transitioning from a suburban commercial area to a walkable urban neighborhood. Sizable industrial expansions are also underway at SICK Product & Competence Centers (industrial sensor production), Verizon (Baa1 stable) and Seagate Technology (computer disk drive production).

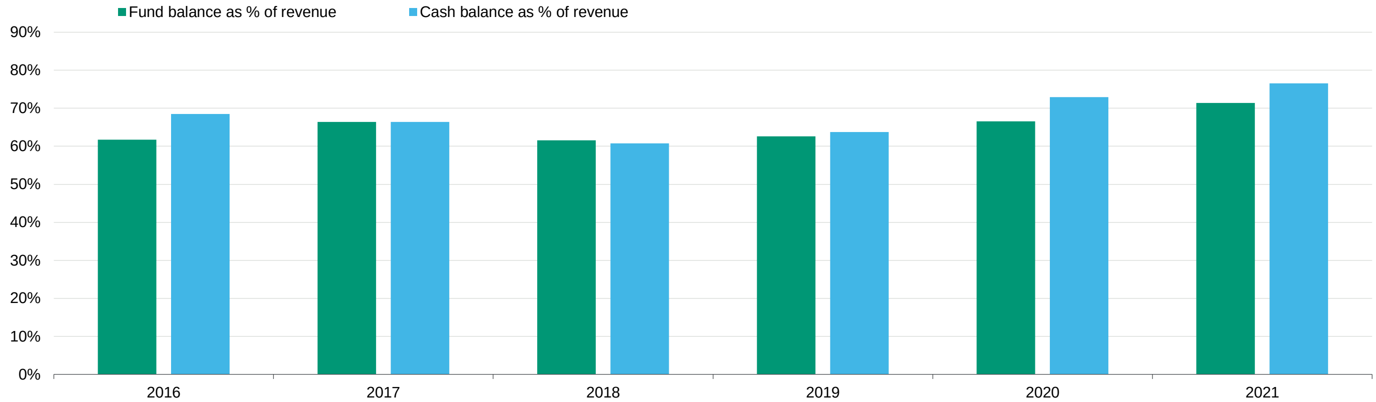
The city has solid demographic characteristics. The population grew a modest 3% over the past decade and median family income is above average at 123% of the nation. As of May 2022, the city's unemployment rate was a low 1.7%, in line with the state (1.6%) and below the nation (3.4%).

Financial operations and reserves: robust operating reserves

The city's consistently robust operating reserves are a credit strength, supported by proactive management and a high degree of revenue raising flexibility. Bloomington closed fiscal 2021 (year-end December 31) with an available operating fund (general and debt service funds) balance of $63 million, or a very strong 71% of operating revenue (see Exhibit 2). The fiscal 2022 budget is balanced, inclusive of a $830,000 contingency. Management reports that operations are tracking to budget as of May. Given the city's history of conservative budget management and positive variances, a surplus is likely by year-end.

Bloomington was allocated about $11.4 million in American Rescue Plan Act (ARPA) funding, which will be used for governmental services, infrastructure investment and combating negative economic impacts from the pandemic.

Exhibit 2
Robust operating reserves



Sources: Bloomington (City of) MN's financial statements and Moody's Investors Service

Property taxes are the city's largest revenue source (65% of operating revenue), followed by lodging and admissions taxes (7%) and licenses & permits (7%). Bloomington currently imposes and collects a 7% lodging tax, with 3% given to the Bloomington Convention and Visitors Bureau and 2% allocated to the South Loop Capital Improvement Fund. The city records its 2% share of the lodging taxes in its general fund. Bloomington also imposes a 3% entertainment and admissions tax. Lodging and admissions tax revenue fell a substantial 68% in fiscal 2020 as a result of the coronavirus pandemic, but grew over 90% in fiscal 2021 as the hospitality industry began to recover. While these revenues are currently coming in over budget, management continues to budget for only 85% of fiscal 2019 collections and does not anticipate full recovery until 2025.

City management adheres to a fund balance policy of maintaining reserves between 35% and 40% of budgeted general fund expenditures.

Liquidity

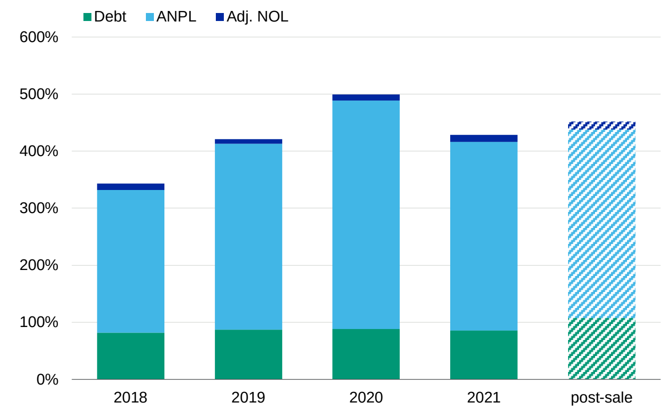
The city closed fiscal 2021 with a net cash position of $67.8 million, or a strong 77% of operating revenue.

Debt, pensions and OPEB: modest debt burden but elevated pension burden

The city's leverage is above-average because of unfunded pension liabilities, however fixed costs will remain manageable given a relatively level debt service schedule over the medium-term. Bloomington is in the process of issuing $14 million in general obligation unlimited tax (GOULT) bonds for its 2022 and 2023 pavement management programs, which will bring its debt burden to 0.6% of full value and 1.1x operating revenue. When incorporating the city's pension and other post-employment benefit (OPEB) liabilities, total leverage is equal to 451% of operating revenue (see Exhibit 3), which is high compared to similarly rated credits. Typically the city issues between $5 million and $7 million for annual improvements per its 10-year capital plan, but has accelerated its borrowing for 2023 to hedge against rising interest rates. Management reports plans to issue $5 million in 2024 for park improvements.

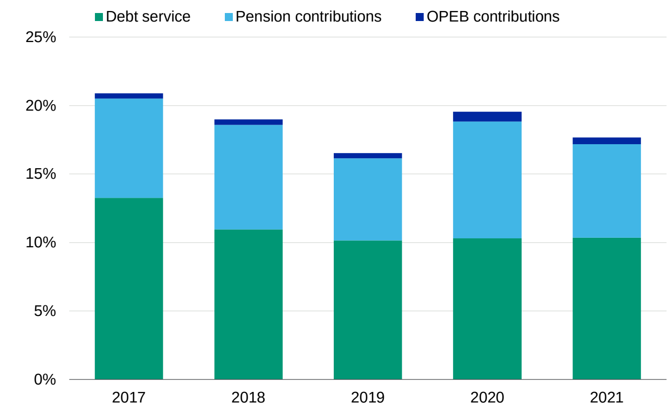
Fixed costs, inclusive of debt service and retirement contributions, were 18% of revenue and consist primarily of debt service (see Exhibit 4). Though ultimately secured by its GO pledge, a large portion of the city's debt is supported by other revenues, including special assessments and utility revenues, reducing the debt service burden on the tax base.

Exhibit 3
High leverage consisting largely of unfunded pension liabilities
Leverage as % of revenue



Sources: Bloomington (City of) MN's financial statements and Moody's Investors Service

Exhibit 4
Debt service makes up more than half of total fixed costs
Fixed costs as % of revenue



Sources: Bloomington (City of) MN's financial statements and Moody's Investors Service

Legal security
Outstanding GOULT bonds are backed by the city's full faith and credit pledge and the authority to levy a dedicated property tax unlimited as to rate and amount. The GOULT bonds are additionally secured by statute.

The city has pledged special assessments against benefited properties for repayment of a portion of its outstanding GOULT improvement bonds.

Debt structure
All of the city's debt is fixed rate. Principal amortization is average with 79% retired within 10 years.

Debt-related derivatives
The city has no exposure to any debt-related derivatives.

Pensions and OPEB
The city participates in two multiple-employer cost-sharing plans, the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF). Minnesota statutes establish local government retirement contributions as a share of annual payroll. The state of Minnesota approved legislation in 2018 that modified benefits and modestly increased contributions for some pension plans. Employer contributions from cities to the police and fire plan, for example, increased to 17.7% in 2020 from the previous rate of 17%. The total employer contributions from all participating governments to both PEPFF and GERF, in aggregate, met or exceeded 100% of each plan's "tread water" indicator in fiscal 2021. Bloomington also administers a single-employer defined benefit pension plan for eligible retired firefighters.

The city's three-year adjusted net pension liability (ANPL) is $308 million, equivalent to 3.5x operating revenue or 1.9% of full value. Moody's ANPL reflects the use of a market-based discount rate to value pension liabilities rather than the assumed rate of investment return on plan assets. In comparison, the reported net pension liability (NPL), based on the plans' weighted average 6.3% discount rate, was negative $24 million in fiscal 2021, reflecting a net pension asset, though this is due to a sizeable overfunding of the city's single-employer plan. The city's ANPL is much higher than reported pension liabilities because the market interest rates that we use to value pension liabilities are far lower than reported discount rates (see Exhibit 5).

Exhibit 5

Adjusted pension liabilities notably higher than reported pension liabilities because of Moody's adjustments

$ thousands	2019	2020	2021
Net pension liability, reported basis	$15,425	$1,115	-$24,095
Discount rate	6.94%	6.94%	6.32%
Net OPEB liability, reported basis	$8,828	$9,489	$11,451
Adj. net pension liability	$281,487	$350,379	$292,860
Discount rate	3.41%	2.64%	2.83%
Adj. net OPEB liability	$6,756	$9,391	$11,156

Sources: Bloomington (City of) MN's financial statements and Moody's Investors Service

OPEB obligations do not pose a material cost. The OPEB liability reflects an implicit rate subsidy for retirees who pay to remain on the city's health care plan until Medicare eligibility. These liabilities are funded on a pay-as-you-go basis, with contributions of $440,000 in fiscal 2021. The city's reported net OPEB liability at the close of fiscal 2021 was $11.5 million. Moody's adjusted net OPEB liability, which is similar to our adjustments to pension liabilities, is a slightly lower $11.2 million, equivalent to 0.1x operating revenue.

ESG considerations

BLOOMINGTON (CITY OF) MN's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 6
ESG Credit Impact Score

CIS-2
Neutral-to-Low

NEGATIVE IMPACT POSITIVE IMPACT

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

Source: Moody's Investors Service

Bloomington's ESG Credit Impact Score is neutral-to-low (**CIS-2**), reflecting a strong governance profile and neutral to low exposure to environmental and social risks.

Exhibit 7
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-2	**S-2**	**G-1**
Neutral-to-Low	Neutral-to-Low	Positive

Source: Moody's Investors Service

Environmental
Bloomington's overall E issuer profile score is neutral-to-low (**E-2**), reflecting relatively low exposure to environmental risks across all categories, including physical climate risk, carbon transition, natural resources management, waste and pollution. The city has a Sustainability Commission which acts in an advisory capacity for the sustainable use and management of environmental resources that include air, water, energy, land, ecological resources, and waste. In 2018, the city council adopted the Bloomington Energy Action Plan, which includes goals and strategies to reduce greenhouse gas emissions from electricity, natural gas, and ground transportation. The city is working towards a 75% reduction in city-wide energy-related greenhouse gas emissions by 2035 (compared to 2016 levels) and continues to focus on strategies for climate change mitigation.

Social
The S issuer profile score is neutral-to-low (**S-2**), reflecting modest population growth and a diverse labor market. Both labor force participation and educational attainment are slightly stronger than the nation. Health and safety metrics are in line with the nation and residents have easy access to basic services, with a higher proportion of the city's population having health insurance compared to the nation. Median family income exceeds the national average and poverty is below average.

Governance
The G issuer profile score is positive (**G-1**), reflecting strong institutional structure and an established history of prudent budget management, including publicly available monthly financial reports. City management uses a five-year financial forecast and and 10-year capital plan to maintain operating reserves in compliance with its formal fund balance policy. Bloomington's revenue-raising

flexibility is moderate as cities generally benefit from unlimited levying authority, except during years in which the state has imposed limits. Levy limits are not currently in place for cities.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. To view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 8

Bloomington (City of) MN

Rating Factors	Measure	Score
Economy/Tax Base (30%)[1]		
Tax Base Size: Full Value (in 000s)	$16,271,552	Aaa
Full Value Per Capita	$190,922	Aaa
Median Family Income (% of US Median)	122.7%	Aa
Notching Factors:[2]		
Economic Concentration		Down
Finances (30%)		
Fund Balance as a % of Revenues	71.4%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	18.0%	Aa
Cash Balance as a % of Revenues	76.6%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	17.4%	Aa
Management (20%)		
Institutional Framework	Aa	Aa
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	Aa
Debt and Pensions (20%)		
Net Direct Debt / Full Value (%)	0.6%	Aa
Net Direct Debt / Operating Revenues (x)	1.1x	A
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	1.9%	A
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	3.5x	A
Standardized Adjustments[3]: Unusually Strong or Weak Security Features		Up
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.
[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.
[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.
Sources: US Census Bureau, Bloomington (City of) MN's financial statements and Moody's Investors Service

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EMEA	44-20-7772-5454