FitchRatings

Fitch Rates Bloomington, MN $14.2MM GOs 'AAA'; Outlook Stable

Fitch Ratings-New York-28 October 2016: Fitch Ratings has assigned a 'AAA' rating to the following Bloomington, MN general obligation (GO) bonds:

--$6.5 million GO permanent improvement revolving fund bonds of 2016, series 50;
--$2 million taxable GO tax increment bonds, series 2016A;
--$1.8 million GO arts center refunding bonds, series 2106B;
--$3.9 million GO permanent improvement revolving fund refunding bonds, series 2016C.

In addition, Fitch affirms the following ratings at 'AAA':

--Issuer Default Rating (IDR);
--$55 million outstanding GO debt;
--$7.1 million GO tax increment bonds (taxable) series 2015 issued by Bloomington Port Authority.

The Rating Outlook is Stable.

The bonds are being sold via competition on Nov. 7. The bond proceeds will fund various capital projects within the city and refund various outstanding GO bonds for budgetary savings.

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.

KEY RATING DRIVERS

The city's 'AAA' GO rating and IDR reflect the city's wealthy and growing local economy anchored by the Mall of America (MOA) which has driven strong revenue growth over the past decade. The city also benefits from sophisticated financial planning and strong operating performance. The long-term liability is low relative to its resource base and includes a well-funded pension plan.

Economic Resource Base
The City of Bloomington is located in Hennepin County (rated 'AAA') and in addition to MOA is home to large corporate entities including Toro Company, Thermos King/Ingersoll Rand Corporation, and Polar Semiconductor, Inc. The city's local economy has been expanding, primarily driven by ongoing commercial development. The population of 87,224 in 2015 reflects 5.2% growth since the 2010 Census. Median household income is approximately 120% of the U.S. average.

Revenue Framework: 'aaa' factor assessment
Revenue growth over the past decade has exceeded that of U.S. GDP. Fitch expects this trend to continue given the city's growing population, low unemployment and significant economic development activity. Fitch views the city's independent legal ability to raise revenues as strong despite the state's enactment of temporary tax levy caps in the past.

Expenditure Framework: 'aa' factor assessment
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: 'aaa' factor assessment
Long-term liabilities are low compared to the economic resource base, future borrowing plans are modest and benefiting from steady increases in the city's population growth.

Operating Performance: 'aaa' factor assessment
Strong revenue-raising ability and solid control over expenditures provide the city significant financial resilience to manage through moderate economic downturns. The city's low revenue volatility and ample reserve levels support strong financial operations.

RATING SENSITIVITIES
Revenue Growth: The city has experienced significant tax base expansion which has driven strong general fund revenue growth in recent years. The rating is sensitive to the city's ability to maintain financial flexibility should revenue growth decline after the current period of significant economic development has concluded or during a broader economic downturn.

Revenue Raising Ability: The rating considers the city's independent legal ability to increase revenue to be strong. There could be negative pressure on the rating if the state were to enact a longer-term or more stringent property tax limitation than has been its historical practice.

CREDIT PROFILE
The city participates in the Twin Cities metropolitan economy, although the city has its own broad economic base that includes a mix of industry, including technology, healthcare and manufacturing. Unemployment is on par with the state average and well below the national average. The city continues to experience growth from the MOA, with substantial expansion projects complementing the mall's continued robust occupancy and sales performance. MOA makes up approximately 12% of the city's total assessed value. The city does not receive sales tax revenue from MOA, but the mall is the largest employer in the city, supplying approximately 13,000 jobs. The city is also reportedly home to more hotel rooms than Minneapolis and St. Paul combined, with more hotels now under construction.

Revenue Framework
Property taxes account for over 60% of budgeted revenues. The remaining 40% of revenues are from lodging and admission taxes, business licenses, intergovernmental aid and other local revenues.

The rate of revenue growth has exceeded that of U.S. GDP over the past decade, driven by continued economic growth in the local economy. The city estimates the growth in assessed value will increase by 12% from 2015 through 2018 based on projected commercial property growth and appreciation in housing prices. Lodging and admission taxes average annual growth reflects the significant ongoing growth in the hotel sector. Fitch expects the trend of strong growth to continue as the MOA expansion plan and the Bloomington Central Station projects come to completion. Both of these projects include additional hotel and retail space and significant residential development. Fitch expects that the level of growth will moderate within the next three to five years but will remain in line with U.S. GDP growth based on historical performance.

The city's independent legal authority to increase property tax revenues is currently unlimited. In the past, Minnesota has enacted statewide limits to the property tax levies of its local governments. These limitations have been temporary in nature, generally expiring after one year. These levy limitations have never applied to taxes levied to pay debt service. There is no guarantee that the state will not enact similar limits in the future, or limits of a more permanent nature. Minnesota has, on occasion, enacted multi-year property tax levy caps; most recently for fiscal years 2009 to 2011. The longest such period of multi-year caps was from 1972 to 1992, when the caps were repealed.

Expenditure Framework
Public safety services account for approximately 40% of budgeted expenditures, followed by community service (20%) and public works (17%).

Fitch expects the natural pace of expenditure growth will likely remain in line with that of revenues. The city typically offers salary increases slightly above the rate of inflation and employee benefits are expected increase at a higher rate.

Total carrying costs for debt, pensions and OPEB are moderate at 13% of government fund expenditures. The city typically pays more than its actuarially determined annual required pension contribution. During the recession the city reduced the capital replacement schedule to offset increases in the fire pension increases.

The city has managed labor costs through attrition and has reduced its general fund-supported workforce by about 4% since 2011. Approximately one third of the city's workforce participates in one of six labor unions. Typically labor contracts are settled for a two to three year period with salary increases slightly above the rate of inflation. Negotiated salary increases are generally applied to all employees including those not under contract. The bargaining units have access to binding arbitration under the Minnesota labor statute, and arbitrators have to consider economic conditions and their impact on municipal finances. Since the results of arbitration would not be required to be imposed on non-union employees, Fitch does not believe they have a significant impact on overall expenditure flexibility.

Long-Term Liability Burden
Bloomington's long-term liability burden its economic resource base is low at about 6% of per capita personal income. The largest portion of the long-term liability is overlapping debt issued by Hennepin County, Bloomington School District and several smaller taxing jurisdictions. Hennepin County and the city each have only modest debt plans. The city's principal amortization is rapid with approximately 90% retired within 10 years.

The city participates in two state-run cost sharing multi-employer (CSME) pension plans -- the Public Employees Retirement Association (PERA) and General Employees Retirement Fund (GERF) -- cover all employees except volunteer firefighters, for whom the city has a single-employer plan, the Bloomington Fire Department Relief Association (Relief). Annual funding of PERA and GERF is calculated on a statutory basis; however, the city has exceeded the annual actuarial required contributions on the Relief plans. Using a slightly more conservative 7% rate of return than the plans' assumed rates Fitch estimates the combined assets-to-liabilities ratio of the two CSME plans at 87% as of June 30, 2015. The fire pension plan's ratio of assets to liability is 111%. The city is planning to increase the pension levy to improve the fire funding assets to 125% of liabilities within five years.

Operating Performance
Fitch believes that the city is well-positioned to face the challenges associated with a moderate economic downturn. Fitch's stress scenario incorporates expectations for a low (1%) decline in revenues associated with a moderate economic downturn, based on modest historical revenue volatility. The city's reserves, significant revenue-raising ability and solid expenditure controls provide management the ability to close potential budget gaps and maintain strong financial flexibility in the event of a revenue shortfall.

The city has built up a large available general fund balance. Year-to-date results suggest 2016 will end with an increase in fund balance primarily driven by positive revenue receipts. Management adheres to conservative budgeting practices that include contingency funding, modest revenue growth projections and long term financial planning. The city has solid expenditure flexibility which is evidenced by the conservative budgeting practices, including a minimum of 2.5% charter-required contingency appropriation. In addition, the city currently has internal service fund balances in excess of potential liabilities which can be transferred to general fund for additional flexibility. The 2016 and 2017 budgets each include tax levy increases of about 6%. The 2017 budget includes a 4% increase in general fund appropriations based on the five year budget projections.

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In addition to the sources of information identified in the applicable criteria specified below, this action was informed by information from Lumesis and InvestorTools.

Applicable Criteria
U.S. Tax-Supported Rating Criteria (pub. 18 Apr 2016) (https://www.fitchratings.com/site/re/879478)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1013994)
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