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New Issue

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Bloomington, MN

New Issue - Moody's Assigns Aaa to Bloomington, MN's Series 2016 GO Bonds

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to the City of Bloomington, MN's $6.5 million General Obligation Permanent Improvement Revolving Fund Bonds 2016, Series 50; $2.1 million Taxable General Obligation Tax Increment Bonds, Series 2016A; $1.8 million General Obligation Arts Center Refunding Bonds, Series 2016B; and $3.9 million General Obligation Permanent Improvement Revolving Fund Refunding Bonds, Series 2016C. Moody's maintains a Aaa rating on Bloomington's outstanding general obligation unlimited tax (GOULT) debt. Bloomington has $66.4 million of GOULT debt, including the current series.

The Aaa rating reflects the city's large but concentrated tax base that plays an integral role in the Twin Cities regional economy; strong resident income indices; consistently well-managed financial operations; healthy operating reserves; modest debt burden; and somewhat elevated pension obligations.

Credit Strengths

» Favorably situated in the Twin Cities metropolitan area; strong resident income levels

» Stable financial operations and healthy reserves

» Modest debt burden

Credit Challenges

» Concentrated tax base

» Somewhat elevated pension obligations

Rating Outlook

Outlooks are typically not assigned to local government issuers with this amount of debt.

Factors that Could Lead to a Downgrade

» Weakening of tax base valuation and resident income indices

» Declines in fund balances and liquidity

» Increases in debt and pension burden

Key Indicators

Exhibit 1

Bloomington (City of) MN	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 10,119,180	$ 9,915,099	$ 10,073,586	$ 10,372,315	$ 11,461,897
Full Value Per Capita	$ 121,974	$ 118,519	$ 119,283	$ 121,832	$ 132,607
Median Family Income (% of US Median)	122.5%	122.2%	121.6%	123.8%	123.8%
Finances					
Operating Revenue ($000)	$ 61,426	$ 64,732	$ 69,043	$ 72,778	$ 75,771
Fund Balance as a % of Revenues	53.3%	58.5%	62.9%	57.0%	60.9%
Cash Balance as a % of Revenues	64.2%	69.5%	70.7%	58.3%	60.7%
Debt/Pensions					
Net Direct Debt ($000)	$ 77,185	$ 79,005	$ 73,160	$ 62,415	$ 59,300
Net Direct Debt / Operating Revenues (x)	1.3x	1.2x	1.1x	0.9x	0.8x
Net Direct Debt / Full Value (%)	0.8%	0.8%	0.7%	0.6%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	2.3x	2.3x	2.4x	2.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	1.5%	1.5%	1.7%	1.5%

The table above reflects data through the close of fiscal 2015.
Source: Moody's Investors Service; Audited Financial Statements; US Census Data

Detailed Rating Considerations

Economy and Tax Base: Substantial Tax Base in Twin Cities Metro Area; Some Taxpayer Concentration in Mall of America

We expect Bloomington's large tax base will to continue to strengthen due to ongoing residential and commercial development. The city is located in Hennepin County (Aaa stable) and is the third largest city in the Twin Cities metropolitan area with a sizeable tax base of $12.3 billion. The city has seen valuation growth averaging 4.0% per year over the last five years. Most recently, valuations ticked up by a 7.5% in 2016 due to residential development.

Retail and the hospitality industries are key components of Bloomington's economy. The city's tax base is concentrated with the Mall of America (MOA) representing 11.9% of assessed valuation. MOA the largest mall in the nation and the second largest mall in North America. The occupancy rate at the mall remains high, at approximately 95% per MOA press reports. The city works closely with the MOA and reviews valuations annually, mitigating the effects of unexpected or significant tax appeals. In addition to the retail industry, approximately 10,000 people are employed by Bloomington's hospitality industry, including hotels and restaurants. The city's unemployment rate for August 2016 was 3.5%, lower to that of the state (3.8%) and the nation (5.0%). Resident income levels exceed national medians, with median family incomes at 123.8%.

Financial Operations and Reserves: Consistently Well-Managed Financial Operations with Strong Reserve Levels

We expect the city will maintain stable financial operations supported by healthy reserves and conservative management. In fiscal 2015, the city ended with an operating fund (General Fund and Debt Service Fund) surplus of $3.8 million, with operating fund reserves totaling a healthy $46.1 million, or 60.9% of revenues. For fiscal 2016, year to date results show a $457,000 surplus in the General Fund due to conservative budgeting and higher than anticipated revenues. The city has budgeted for balanced operations for fiscal 2017.

The majority of the city's revenues are derived from property taxes which comprised 56.5% of operating fund revenues in 2015. The city's second and third largest operating revenues are lodging & admissions tax, and licenses & permits, respectively, which comprised a combined 19.2% of revenues. While these revenues are sensitive to economic cycles, the revenues have performed better than budgeted in the past several years.

LIQUIDITY

The city concluded fiscal year 2015 with a net cash balance across operating funds of $46 million, or a healthy 60.7% of revenues.

Debt and Pensions: Modest Debt Burden But Above Average Pension Burden

The city's modest debt burden will likely remain manageable despite future planned issuances due to relatively rapid amortization. Principal amortization is relatively rapid, with 87% of all debt repaid in ten years. Inclusive of the transaction, the city's direct debt burden of 0.5% of full value is lower than the state and national medians. Debt service as a percentage of operating revenues was moderate at 12.5% of revenues, while combined fixed costs, (pension contributions, OPEB and debt service) made up a slightly elevated 20.6% of 2015 revenues. The city anticipates issuing approximately $12 million of GO debt in 2017 to finance various infrastructure projects.

The current series of debt are secured by the city's pledge to levy a property tax that is unlimited by rate or amount. The Series 2016 50 bonds and Series 2016C bonds are expected to be repaid with special assessment revenues from benefiting properties. The Series 2016A bonds are expected to be repaid with tax increment revenues from the Housing and Redevelopment Authority and the Penn and American Redevelopment Area, along with receipts from the HRA Bloomington special benefits tax levy.

DEBT STRUCTURE

All of the city's debt is fixed rate and amortizes over the long term.

DEBT-RELATED DERIVATIVES

The city is not a party to any derivative agreements.

PENSIONS AND OPEB

Bloomington has an above average employee pension burden, relative to operating revenue, based on unfunded liabilities for its participation in two multiple-employer cost-sharing plans administered by the state, the General Employees Retirement Fund (GERF) and Public Employees Police and Fire Fund (PEPFF), and one single employer plan, the Bloomington Fire Relief Association. In Fiscal 2015 the city's pension combined contributions to the three retirement plans was $6.1 million equal to a moderate 8.1% of operating revenues. For fiscal 2015, Moody's three year average Moody's adjusted net pension liability (ANPL) for the district was $172 million, or 2.3 times operating revenues and 1.5% of full value. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported contribution information, but to improve comparability with other rated entities. We determined the city's share of liability for the cost-sharing plans administered under GERF and PERA in proportion to its contributions to the plan.

As of January 1, 2015, the most recent actuarial valuation date, the city's unfunded actuarial accrued liability (UAAL) for OPEB was $9.7 million, or 12.8% of operating revenues. At $312,000 in fiscal 2015, the city's OPEB contributions represent a modest 0.4% of operating revenues.

Management and Governance: Strong Institutional Framework with Conservative Budgeting Practices

Minnesota cities have an institutional framework score of "Aa," or strong. Revenues are moderately predictable as cities rely primarily on property taxes. Some cities also rely on State Local Government Aid (LGA), which is distributed based on demographic and tax base factors. 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 in place for the 2016-2017 biennium. Expenditures mostly consist of personnel costs, which are highly predictable. Cities typically maintain low fixed costs and have a moderate ability to reduce expenditures. Management utilizes a conservative budgeting approach which has led to the maintenance of healthy reserve levels.

Legal Security

The Series 50 bonds, 2016A, 2016B, and 2016C bonds are all secured by the city's general obligation unlimited tax pledge to levy a dedicated property tax that is not limited by rate or amount.

Use of Proceeds

Proceeds of the Series 50 bonds will finance various improvement projects within the city. Proceeds of the 2016A bonds will finance land acquisition for an affordable apartment complex. Proceeds of the 2016B bonds will refund certain outstanding maturities of the city's General Obligation Arts Center Refunding bonds, Series 2007A. Proceeds of the 2016C bonds will refund certain outstanding maturities of the city's General Obligation Permanent Improvement Revolving Fund bonds, of 2007, Series 41, and General Obligation Permanent Improvement Revolving Fund bonds of 2008, Series 42.

Obligor Profile

Bloomington is the third largest city in the State of Minnesota (Aa1 stable) and is located ten miles south of Minneapolis (Aa1 stable). The city's population is 86,435 as of 2015 estimates.

Methodology

The principal methodology used in these ratings was US Local Government General Obligation Debt published in January 2014. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Bloomington (City of) MN

Issue	Rating
General Obligation Arts Center Refunding Bonds, Series 2016B	Aaa
Rating Type	Underlying LT
Sale Amount	$1,755,000
Expected Sale Date	11/07/2016
Rating Description	General Obligation
General Obligation Permanent Improvement Revolving Fund Bonds of 2016, Series 50	Aaa
Rating Type	Underlying LT
Sale Amount	$6,480,000
Expected Sale Date	11/07/2016
Rating Description	General Obligation
General Obligation Permanent Improvement Revolving Fund Refunding Bonds, Series 2016C	Aaa
Rating Type	Underlying LT
Sale Amount	$3,880,000
Expected Sale Date	11/07/2016
Rating Description	General Obligation
Taxable General Obligation Tax Increment Bonds, Series 2016A	Aaa
Rating Type	Underlying LT
Sale Amount	$2,055,000
Expected Sale Date	11/07/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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