Bloomington, Minnesota

New Issue Report

Ratings

Long Term Issuer Default Rating	AAA

New Issues

$12,365,000 General Obligation Storm Water Utility Bonds (Green Bonds), Series 2018D	AAA
$5,755,000 General Obligation Permanent Improvement Revolving Fund Bonds of 2018, Series 52	AAA

Outstanding Debt

Details on Page 3

Rating Outlook

Stable

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New Issue Summary

Sale Date: On Nov. 5, 2018

Series General Obligation (GO) Storm Water Utility Bonds (Green Bonds), Series 2018D, and GO Permanent Improvement Revolving Fund Bonds of 2018, Series 52.

Purpose: Proceeds will be used to fund a portion of the city's pavement management program, including road paving and resurfacing, curb and gutter improvements and transit infrastructure improvements related to hotel and housing development.

Security: The bonds are GOs of the city for which Bloomington pledges its full faith and credit. In addition, the city is pledging special assessments against benefited properties for repayment of a portion of the bonds.

Analytical Conclusion

The city's 'AAA' GO bond rating and Issuer Default Rating (IDR) reflect a wealthy and growing local economy anchored by the Mall of America (MOA), which has driven a strong tax base and revenue growth in recent years. The city also benefits from sophisticated financial planning and a track record of 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). In addition to the MOA, the city is home to large corporate entities including The Toro Company, HealthPartners, and Seagate Technology. The city's economy has been expanding, primarily driven by ongoing commercial development. Median household income is approximately 120% of the U.S. average.

Key Rating Drivers

Revenue Framework: 'aaa'
Revenue growth over the past decade has exceeded U.S. GDP, in part due to policy actions taken by management. Fitch Ratings expects revenues to expand at a rate in line with U.S. GDP absent policy action in the near term, as a result of the city's low unemployment, strong ongoing economic development and modestly growing population. The city's independent ability to raise revenues is strong, although it is vulnerable to the potential for the state to enact temporary tax levy caps, as it has on occasion.

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

Operating Performance: 'aaa'
Strong revenue-raising ability and solid control over expenditures provide the city significant financial resilience with which to manage through moderate economic downturns. The city's low revenue volatility and ample reserve levels support financial operations and ensure a high degree of fiscal flexibility.

Rating History (IDR)

Rating	Action	Outlook/ Watch	Date
AAA	Affirmed	Stable	10/25/18
AAA	Affirmed	Stable	10/26/06
AAA	Assigned	—	10/15/04

Related Research

Fitch Rates Bloomington, MN's $18.1MM GOs 'AAA'; Outlook Stable (October 2018)

Related Criteria

U.S. Public Finance Tax-Supported Rating Criteria (April 2018)

Rating Sensitivities

Impact of Revenue Growth: The rating is sensitive to the city's ability to adjust and maintain financial flexibility should long-term revenue growth trends slow significantly.

Revenue Raising Ability: The rating considers the city's independent revenue-raising ability, which Fitch views as strong. There could be negative pressure on the rating if the state were to enact a longer-term or more stringent property tax limitation.

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. 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 including new hotel construction complementing the mall's existing sales performance. MOA makes up approximately 13% of the city's total assessed value. The city does not receive sales tax revenue from MOA, but the mall is the city's largest employer, supplying approximately 13,000 jobs. Approximately 10,000 persons are employed in the city's hotel industry and several new hotels are in development.

Revenue Framework

Property taxes account for approximately 64% of audited general fund revenues. The remaining 36% of revenues are from lodging and admission taxes, business licenses, intergovernmental aid and other local sources.

The rate of revenue growth has exceeded that of U.S. GDP over the past decade. However, a large portion of this growth has been due to policy actions taken by management as the city's taxable values shrank between 2009 and 2013 because of the property market correction and nationwide recession. Management estimates that assessed values will rise by 4% annually through 2021 based on projected growth in commercial properties and housing price appreciation. Fitch expects the city to generate solid tax revenue growth over the near term as MOA expansion plans and the Bloomington Central Station projects move toward completion. Both sets of projects include new hotel and retail space and significant residential development. Fitch expects that the pace of revenue growth will moderate within the next two to three years but remain above the U.S. Consumer Price Index (CPI).

The city's independent legal authority to raise 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. The levy limitations have never applied to taxes raised 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, at which time the caps were repealed.

Expenditure Framework

Public safety services account for approximately 43% of general fund expenditures, followed by community service (20%) and public works (16%).

Outstanding Debt

Bloomington General Obligation Capital Improvement Plan Bonds	AAA
Bloomington General Obligation Tax Increment Bonds (Taxable)	AAA
Bloomington General Obligation Tax Increment Refunding Bonds (Taxable)	AAA
Bloomington General Obligation Arts Center Refunding Bonds	AAA
Bloomington General Obligation Permanent Improvement Revolving Fund & Refunding Bonds	AAA
Bloomington General Obligation Permanent Improvement Revolving Fund Bonds of 2010 (Build America Bonds - Direct Pay)	AAA
Bloomington General Obligation Permanent Improvement Revolving Fund Refunding Bonds	AAA
Bloomington Port Authority (Lennar Apartments Parking Ramp) General Obligation Tax Increment Bonds (Taxable)	AAA

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 benefit costs will likely rise at a higher rate.

Total carrying costs for debt, pensions and OPEB were moderate, at 15% of governmental fund spending in fiscal 2017. 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 plan. During the last recession, the city reduced its capital spending schedule to offset planned increases in annual firefighter pension contributions. For the two cost-sharing, multi-employer pension plans in which the city participates (see below), annual pension contributions are made at a statutory rate that is less than the actuarial rate.

The city has managed labor costs through attrition and holding vacant positions open. During the worst part of the last downturn, the city kept about 10% of its positions unfilled to reduce expenditures. The city has since refilled most of the vacant jobs. With a workforce equal to 589 FTE positions, the city retains significant ability to control spending by adjusting headcount.

Approximately one-third of the city's workforce participates in one of five labor unions serving primarily public safety, park maintenance and general government technical employees. Typically, labor contracts are settled for a two- to three-year period with salary increases slightly above the rate of inflation. The most recent labor contracts settled for a two-year period with pay increases in the 3% range. 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 there is no requirement to impose the results of arbitration on non-union employees, Fitch does not believe arbitration rules have a significant impact on overall expenditure flexibility. The current labor contracts expire in December 2019.

Long-Term Liability Burden

Bloomington's long-term liability burden is low compared to its economic resource base at about 7% of per capita personal income. The largest portion of the long-term liability (57%) consists of overlapping debt issued by Hennepin County, Bloomington Public Schools and several smaller taxing jurisdictions. Hennepin County and the city each have modest debt plans. Principal amortization is rapid, with approximately 81% 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 multiple-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 volunteer 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 for the Relief plan for its volunteer firefighters in most years.

The city reports ratios of assets to liabilities of 76% and 85%, respectively, for its portion of the GERF and PEPFF plans, using a 7.5% discount rate in its most recent financial statements. Using Fitch's slightly more conservative 6% discount rate assumption would lower these ratios to 63% and 71%, respectively, for the GERF and PEPFF. The impact of statewide pension reforms adopted in 2018 is not yet reflected in the reported data, but recent reforms are likely to modestly improve the sustainability of the plans over time if the plans' assumptions are met. The Relief plan for volunteer firefighters had a ratio of assets to liabilities of 121% as of

December 31, 2017 based on a 6% discount rate, matching Fitch's adjusted discount rate assumption.

Operating Performance

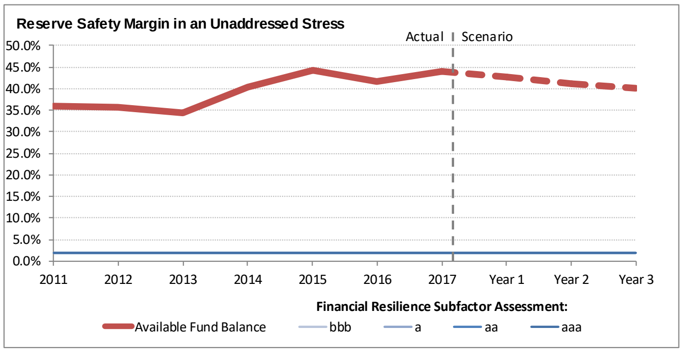
Fitch believes that Bloomington is well-positioned to face the challenges associated with a moderate economic downturn. For details, see Scenario Analysis, page 5.

The city has built up a large available general fund balance. Year-to-date results suggest 2018 will end with a modest increase to the general fund balance of approximately $500,000, driven by positive revenue receipts and below-budget spending of appropriations. 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 that is evidenced by a minimum annual city charter-required contingency appropriation of 2.5% of current year spending.

In addition, the city's internal service fund balances are presently well in excess of potential liabilities. A portion of these balances may be transferred to the general fund to support operations as needed, providing a measure of added financial flexibility. The 2017 and 2018 budgets each included tax levy increases of between 4% and 6%. The draft 2019 budget includes a 6.5% year-over-year increase to the property tax levy (equal to $3.8 million) and a 3.3% rise in general fund appropriations driven by contractual salary increases and higher health premiums.

Bloomington (MN)

Scenario Analysis



Analyst Interpretation of Scenario Results:

Fitch believes that Bloomington is well-positioned to face the challenges associated with a moderate economic downturn. Fitch's scenario analysis incorporates expectations for a low (1%) decline in revenues associated with a moderate economic downturn, based on the city's modest historic revenue volatility. The city's reserves, significant independent 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 associated with a normal economic downturn.

Scenario Parameters:	Year 1	Year 2	Year 3
GDP Assumption (% Change)	(1.0%)	0.5%	2.0%
Expenditure Assumption (% Change)	2.0%	2.0%	2.0%
Revenue Output (% Change)	(1.0%)	1.1%	3.2%
Inherent Budget Flexibility	Superior		

Revenues, Expenditures, and Fund Balance	Actuals							Scenario Output		
	2011	2012	2013	2014	2015	2016	2017	Year 1	Year 2	Year 3
Total Revenues	53,504	55,981	58,158	61,730	63,674	66,230	68,413	67,729	68,472	70,653
% Change in Revenues	-	4.6%	3.9%	6.1%	3.1%	4.0%	3.3%	(1.0%)	1.1%	3.2%
Total Expenditures	53,065	54,593	59,110	60,376	62,360	67,242	68,637	70,010	71,410	72,838
% Change in Expenditures	-	2.9%	8.3%	2.1%	3.3%	7.8%	2.1%	2.0%	2.0%	2.0%
Transfers In and Other Sources	2,652	2,637	2,744	2,869	2,846	3,615	3,918	2,816	2,847	2,938
Transfers Out and Other Uses	2,536	3,339	1,569	495	843	1,753	1,561	860	877	894
Net Transfers	116	(702)	1,175	2,374	2,003	1,862	2,357	1,957	1,970	2,043
Bond Proceeds and Other One-Time Uses	-	-	-	-	-	-	-	-	-	-
Net Operating Surplus(+)/Deficit(-) After Transfers	555	686	223	3,728	3,316	850	2,133	(324)	(967)	(142)
Net Operating Surplus(+)/Deficit(-) (% of Expend. and Transfers Out)	1.0%	1.2%	0.4%	6.1%	5.2%	1.2%	3.0%	(0.5%)	(1.3%)	(0.2%)
Unrestricted/Unreserved Fund Balance (General Fund)	20,005	20,692	20,915	24,639	27,960	28,805	30,943	30,619	29,651	29,509
Other Available Funds (GF + Non-GF)	-	-	-	-	-	-	-	-	-	-
Combined Available Funds Balance (GF + Other Available Funds)	20,005	20,692	20,915	24,639	27,960	28,805	30,943	30,619	29,651	29,509
Combined Available Fund Bal. (% of Expend. and Transfers Out)	36.0%	35.7%	34.5%	40.5%	44.2%	41.8%	44.1%	42.8%	41.0%	40.0%

Reserve Safety Margins	Inherent Budget Flexibility				
	Minimal	Limited	Midrange	High	Superior
Reserve Safety Margin (aaa)	16.0%	8.0%	5.0%	3.0%	2.0%
Reserve Safety Margin (aa)	12.0%	6.0%	4.0%	2.5%	2.0%
Reserve Safety Margin (a)	8.0%	4.0%	2.5%	2.0%	2.0%
Reserve Safety Margin (bbb)	3.0%	2.0%	2.0%	2.0%	2.0%

Notes: Scenario analysis represents an unaddressed stress on issuer finances. Fitch's downturn scenario assumes a -1.0% GDP decline in the first year, followed by 0.5% and 2.0% GDP growth in Years 2 and 3, respectively. Expenditures are assumed to grow at a 2.0% rate of inflation. Inherent budget flexibility is the analyst's assessment of the issuer's ability to deal with fiscal stress through tax and spending policy choices, and determines the multiples used to calculate the reserve safety margin. For further details, please see Fitch's US Tax-Supported Rating Criteria.

The ratings above were solicited and assigned or maintained at the request of the rated entity/Issuer or a related third party. Any exceptions follow below.