Fitch Rates Bloomington, MN's GOs 'AAA'; Outlook Stable

Fitch Ratings-New York-22 September 2015: Fitch Ratings has assigned an 'AAA' rating to the following Bloomington, MN (the city) general obligation (GO) bonds:

--$5.81 million GO permanent improvement revolving fund bonds of 2015, series 49.

Fitch has also assigned an 'AAA' rating to the following Port Authority of the city of Bloomington, MN (the port authority) GO bonds:

--$7.3 million taxable GO tax increment bonds (Lennar apartments parking ramp), series 2015.

The bonds are expected to sell via competitive sale on Oct. 5, 2015. Proceeds will be used for various capital improvement projects.

In addition, Fitch has affirmed $54 million of city GO bonds at 'AAA'.

The Rating Outlook is Stable.

SECURITY
The city and port authority bonds are unlimited tax general obligations of the city for which the city pledges its full faith and credit and power to levy direct general ad valorem taxes.

KEY RATING DRIVERS

FINANCIAL STABILITY: The city benefits from strong financial practices reflected by its sophisticated, proactive financial planning, above-average reserves, and consistent financial operations.

THRIVING MALL ANCHORS ECONOMY: The local economy, anchored by the large and healthy Mall of America (MOA), is prosperous with below average unemployment levels and high wealth levels.

MODERATE DEBT LEVELS: Debt levels are affordable and future capital needs are manageable.

RATING SENSITIVITIES

FUNDAMENTAL CHANGES: The rating is sensitive to shifts in fundamental credit characteristics including the city's strong financial management practices. The Stable Outlook reflects Fitch's expectation that such shifts are highly unlikely.

CREDIT PROFILE

Bloomington is located in Hennepin County (GO bonds rated 'AAA', Stable Outlook by Fitch), approximately 11 miles from Minneapolis, and is home to the MOA, the largest shopping center and entertainment complex in the United States.

DIVERSIFIED ECONOMY WITH STRONG SOCIOECONOMIC FUNDAMENTALS

Bloomington had a 2013 population of 86,319 residents. In addition to participating in the expansive Twin Cities metropolitan economy, the city's own economic base is broad and includes a mix of industry, including large technology, healthcare, and manufacturing concerns. Unemployment for June 2015 was a very low 3.9%, equal to the state average and well below the nation's 5.5% average. Wealth indicators and taxable market values per capita are well above average. After several years of declines, taxable value was up 9.7% in the most recent year and is expected to continue to increase as a result of growth in home values and extensive construction activity.

The mall makes up over 10% of the city's total assessed value. The city continues to experience growth centered around the mall, with substantial expansion projects complementing MOA's continued robust occupancy and sales performance. 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 home to more hotel rooms than Minneapolis and St. Paul combined, with more hotels now under construction.

CONSISTENTLY STRONG FINANCIAL PERFORMANCE

The combination of historically strong economic indicators and manageable budgetary increases has contributed to a strong financial position. Property taxes accounted for almost two-thirds of general fund operating support in 2014. A lodging tax, permit fees and an admission tax are other key revenue sources for the city. Overall, the measured pace of budgetary expansion combined with the discretionary nature of significant portions of the budget and maintenance of ample reserves provides the city with considerable financial flexibility.

The city posted a $3.7 million general fund surplus (6% of expenditures) for 2014, driven by permit fees and the lodging tax coming in well ahead of budget. The city's unrestricted general fund balance was a substantial $24.6 million, representing 40.5% of expenditures and transfers out. City officials project another smaller operating surplus for 2015, primarily through cost-savings measures and diligent budget monitoring as well as continued strong permitting activity. The city's preliminary budget for 2016 is balanced and includes a 6.85% increase in the property tax levy.

MODERATE DEBT LEVELS AND CARRYING COSTS

Moderate debt ratios are a product of high internal funding for capital projects. Overall debt levels are 2.6% of market value or $3,138 on a per capita basis. Payout is high with approximately 87% of debt retired within 10 years. Additional debt plans are moderate.

The city participates in two state pension plans for all employees except volunteer firefighters, for whom the city has a single-employer plan. State pension plans are approximately 63% and 69% funded using Fitch's 7% return assumption. Statutorily required payments have historically been at or below the actuarially required contribution

level with an elevated discount rate, so significant increases in pension costs are likely. Fitch believes the city has sufficient financial flexibility to manage increased payments that could be required to improve the plans' funding levels. The city's fire plan is currently 128% funded assuming a 7% return, with additional funds set aside for future contributions. The city provides only an implicit subsidy for other post-employment benefits (OPEB) for retirees. Total carrying costs for debt, pensions and OPEB are manageable at 22% of government fund expenditures.

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Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to fewer than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from CreditScope, IHS Global Insight, and Zillow Group.

Applicable Criteria
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942)
Tax-Supported Rating Criteria (pub. 14 Aug 2012)

(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015)
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)
(https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form
(https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=991128)
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