MOODY'S INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Bloomington, MN's GO Bonds of 2015

Global Credit Research - 22 Sep 2015

Aaa applies to $67.1M of outstanding GO debt

BLOOMINGTON (CITY OF) MN
Cities (including Towns, Villages and Townships)
MN

Moody's Rating

ISSUE		RATING
General Obligation Permanent Improvement Revolving Fund Bonds of 2015, Series 49 (the Series 49 Bonds)		Aaa
Sale Amount	$5,810,000	
Expected Sale Date	10/06/15	
Rating Description	General Obligation	
Taxable General Obligation Tax Increment Bonds (Lennar Apartments Parking Ramp), Series 2015 (the Series 2015 Bonds)		Aaa
Sale Amount	$7,300,000	
Expected Sale Date	10/06/15	
Rating Description	General Obligation	

Moody's Outlook

NEW YORK, September 22, 2015 --Moody's Investors Service has assigned a Aaa rating to the City of Bloomington's (MN) $5.8 million General Obligation Permanent Improvement Revolving Fund Bonds 2015, Series 49. Additionally, we have assigned the Aaa rating on the Port Authority of the City of Bloomington's (MN) $7.3 million Taxable General Obligation Tax Increment Bonds (Lennar Apartments Parking Ramp), Series 2015. The Port Authority is serving as the issuer, while debt service is the obligation of the city. Moody's maintains a Aaa rating on the City of Bloomington's general obligation unlimited tax (GOULT) debt, affecting $67.1 million post-sale.

SUMMARY RATING RATIONALE

The Aaa rating reflects the city's substantial tax base that continues to play an integral role in the Twin Cities area economy; consistently well-managed financial operations; and affordable debt position with rapid principal amortization.

OUTLOOK

Outlooks are generally not assigned to local government credits with limited amounts of debt outstanding.

WHAT COULD MAKE THE RATING GO DOWN

- Significant declines in the city's valuation or demographic profile

- Deterioration in reserves

STRENGTHS

- Sizeable tax base; significant role in Twin Cities regional economy

- Solid commercial development and strong trends in building permits

- Strong financial operations

CHALLENGES

- Below average income levels for rating category

- Above average pension liabilities

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: SUBSTANTIAL TAX BASE IN TWIN CITIES METRO AREA; HOME TO MALL OF AMERICA

The city's large tax base will to continue to strengthen due to significant and ongoing residential and commercial development activity. 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 $11.5 billion. The city's tax base, as measured by the Minnesota Department of Revenue's economic market value grew 2013 and 2014. Going forward, we expect the city's economy to continue to expand term given significant retail and commercial base, and its major service role in the region. Commercial activity has been the dominant driver of the permit activity in 2015.

Retail and the hospitality industries are key components of Bloomington's economy. The city is home to the Mall of America (MOA), the largest mall in the nation and the second largest in North America. MOA is the city's largest taxpayer (12.7% of 2014 total tax capacity) and employer (13,900 full time and part time employees). Notably, officials report that the occupancy rate at the mall remains high, at approximately 95% per MOA press reports. A 5.6 million square foot expansion of the MOA is planned over the next several years, which will include additional retail, hotel, entertainment, office, and parking space. The city works closely with the MOA and reviews valuations annually, mitigating unexpected or significant tax appeals. In addition to the retail industry, approximately 10,000 people are employed by Bloomington's hospitality industry. The city's unemployment rate for July 2015 was 3.8%, equivalent to that of the state and lower than the nation (5.6%). Resident income levels exceed national medians, with median family incomes at 121.6%.

FINANCIAL OPERATIONS AND RESERVES: CONSISTENTLY WELL-MANAGED FINANCIAL OPERATIONS; STRONG RESERVE LEVELS

The city's strong financial operations are expected to continue due to multi-year financial planning and conservative budgeting assumptions. Bloomington maintains ample and stable reserves, with General Fund balances that have remained around 35% of annual General Fund revenues over the last decade, consistent with its formal General Fund balance policy to maintain 50% of the next year's property tax levy for cash flow purposes. The city regularly transfers excess funds to its Special Revenue and Capital Projects Funds. The General Fund has consistently generated operating surpluses by reducing overall expenditures and revenues coming in better than budget. Most recently in fiscal 2014, the General Fund ended the year with a fund balance of $24.6 million after transfers, or 38.4% of revenues. The city's original fiscal 2015 budget pointed to balanced operations but officials currently project a $818,000 operating surplus driven primarily by positive expenditure variances. The city will likely continue its practice of transferring surplus revenues to other funds as long as it is still in compliance with its reserve policy.

Property taxes are the General Fund's largest revenue source and comprised 56.8% of fiscal 2014 operating revenues, which includes the General and Debt Service Funds. The city's second and third largest operating revenues are lodging & admissions tax, and licenses & permits, which comprised a combined 20% of revenues. While these revenues are sensitive to economic cycles, the revenues have performed better than budgeted in the past few years.

Liquidity

The city's net operating fund cash at the close of fiscal 2014 was $42.4 million, or a very healthy 58.3% of fiscal 2014 operating revenues. The city's financial position is further strengthened by alternate liquidity available in its Capital Projects and Improvement Construction Funds. The two funds maintained over $24.6 million in available reserves at the end of 2014.

DEBT AND PENSIONS: MODEST DEBT BURDEN; ABOVE AVERAGE PENSION LIABILITIES

The city's direct debt burden, equal to 0.6% of full value, will remain manageable despite ongoing capital needs due to the city's rapid principal amortization. The city anticipates issuing approximately $8 million of GO debt in 2016 which will finance street improvements, and an additional $7 million in 2017 for storm water improvements and other infrastructure projects.

Debt Structure

All of the city's outstanding debt is fixed rate. Principal amortization is rapid, with 93% of all debt repaid in ten years.

Debt-Related Derivatives

The city is not party to any swap 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 2013, the city contributed a total of $7.2 million across its three plans, equal to 9.9% of operating revenues.

Moody's three-year average adjusted net pension liability (ANPL) for the city through fiscal 2014 is $174.6 million, or 2.4 times operating revenues (General Fund and Debt Service Funds) and 1.5% of full valuation. Moody's ANPL reflects certain adjustments we make to improve the comparability of reported pension liabilities. The adjustments are not intended to replace the city's reported liability information, but to improve comparability with other rated entities.

MANAGEMENT AND GOVERNANCE: STRONG INSTITUTIONAL FRAMEWORK; FORWARD-LOOKING FINANCIAL MANAGEMENT

Minnesota cities have an institutional framework score of "Aa" or strong. Cities rely on property taxes to fund the majority of operations followed by state aid. State Local Government Aid (LGA) typically comprise the second largest source and ranges approximately from 0% to 80%, or on average 25% of GF revenues. The State increased aid for next biennium, after years of state aid cuts and stagnant aid. Cities typically have above average debt related expenditures. Notably, overall expenditures are predictable and cities have the ability to reduce expenditures if necessary, and benefit from unlimited operating levy authority.

KEY STATISTICS

- Full valuation (economic market value): $11.5 billion

- Estimated full value per capita: $138,273

- 2009-2013 Median Family Income as a % of the US: 121.6%

- 2014 Operating Fund Balance as a % of Revenues: 57%

- Five-Year Dollar Change in Fund Balance as % of Revenues: 30%

- 2014 Cash Balance as a % of Revenues: 58.3%

- Five-Year Dollar Change in Cash Balance as % of Revenues: 28.9%

- Institutional Framework: Aa

- Operating History (Five-Year Average of Operating Revenues/Operating Expenditures): 0.98x

- Net Direct Debt/Full Value: 0.6%

- Net Direct Debt/Operating Revenues: 0.92x

- Three-Year Average of Moody's ANPL/Full Value: 1.5%

- Three-Year Average of Moody's ANPL/Operating Revenues: 2.4x

OBLIGOR PROFILE

Bloomington is the fourth largest city in the State of Minnesota (Aa1 stable) and is located 10 miles south of Minneapolis (Aa1 stable). The city's population is 82,893, according to the 2010 United States Census.

LEGAL SECURITY

Debt service on the city's GOULT debt, including both series of 2015 bonds, is ultimately 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 49 bonds will finance various road reconstruction and improvement projects within the city. Proceeds of the Series 2015 Bonds will be used to finance the construction of a parking ramp of approximately 664 spaces on the site of a multifamily rental housing project.

RATING METHODOLOGY

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

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Analysts

Mark G. Lazarus
Lead Analyst
Public Finance Group
Moody's Investors Service

Hetty Chang
Backup Analyst
Public Finance Group
Moody's Investors Service

Rachel Cortez
Additional Contact
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653

Moody's Investors Service, Inc.
250 Greenwich Street
New York, NY 10007
USA