

MOODY'S

INVESTORS SERVICE

New Issue: Moody's assigns Aaa to Bloomington, MN's \$7.7M GO Bonds of 2014, Ser. 48

Global Credit Research - 12 Nov 2014

Aaa applies to \$61.4M 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 and Refunding Bonds of 2014, Series 48	Aaa
Sale Amount	\$7,685,000
Expected Sale Date	11/20/14
Rating Description	General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, November 12, 2014 --Moody's Investors Service has assigned a Aaa rating to the City of Bloomington's (MN) \$7.7 million General Obligation Permanent Improvement Revolving Fund and Refunding Bonds 2014, Series 48. The bonds are secured by the city's general obligation unlimited tax pledge which benefits from a dedicated property tax levy not limited by rate or amount. Proceeds of the Series 48 bonds will finance various improvement projects within the city and a current refunding for net present value savings. Concurrently, Moody's maintains the Aaa rating on the City of Bloomington's outstanding general obligation unlimited tax (GOULT) debt, affecting \$61.4 million post-sale.

SUMMARY RATINGS 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.

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

DETAILED CREDIT DISCUSSION

SUBSTANTIAL TAX BASE CONTINUES TO PLAY INTEGRAL ROLE IN TWIN CITIES ECONOMY; SIGNIFICANT TAXBASE CONCENTRATION DUE TO MALL OF AMERICA

We expect the city's large tax base to continue to grow 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 \$10.4 billion. While the city's tax base, as measured by the Minnesota Department of Revenue's economic market value, experienced valuation declines during the recession, valuation trends returned to growth in 2013 and 2014. Management's preliminary estimates for valuations in 2015 point to a 6% increase, driven largely by residential property appreciation and also new commercial construction. 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. Building permit activity through August 31 of this year is nearly \$205 million, already eclipsing the full year total for 2013. Commercial activity has been the dominant driver of the permit activity in recent years.

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 (10.6% of 2013 total tax capacity) and employer (13,900 full time and part time employees). Due largely to the MOA, the city's tax base is concentrated with the ten largest taxpayers comprising 22.7% of total tax capacity. 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. As part of the expansion, a Radisson Blu hotel opened recently. The next phase of the expansion includes a luxury hotel, retail and office building. 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 August 2014 was 3.7% compared to 3.8% for the state and 6.3% for the nation. Resident income levels exceed national medians, with median family incomes at 122%.

CONSISTENTLY WELL-MANAGED FINANCIAL OPERATIONS; STRONG RESERVE LEVELS

We expect the city's strong financial operations to continue due to a history of balanced operations, consistent maintenance of strong reserve levels, multi-year financial planning, and conservative budgeting assumptions. Bloomington maintains ample and stable reserves, with General Fund balances that have hovered 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 2013, the General Fund ended the year with a fund balance of \$20.9 million after transfers, or 34% of revenues. The city's adopted 2014 budget pointed to a modest operating surplus but projected yearend results indicate a \$2.9 million 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 59% of fiscal 2013 revenues. 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. 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 \$22 million in available reserves at the end of 2013. The city also maintained approximately \$19 million in its Debt Service Fund at the end of 2013, net of bond proceeds, which provides additional operating liquidity.

MODEST DEBT BURDEN AND PENSION LIABILITY

The city's direct debt burden, equal to 0.6% of full value and 0.9 times 2013 operating revenues, will remain manageable despite ongoing capital needs due to the city's rapid principal amortization. The city anticipates issuing approximately \$20.5 million in GO debt in 2015 which will finance annual street improvements (\$8 million), a parking structure (\$7.5 million) and golf course improvements (\$5.5 million). Additionally, in 2016, the city anticipates issuing approximately \$15 million in GO debt which will finance street improvements (\$8 million), storm water improvements (\$5.6 million) and other infrastructure projects (\$1.3 million). Principal amortization is rapid, with 92% of all debt repaid in ten years. Debt service costs made up an above average 15.7% of operating expenditures in 2013. All of the city's debt is fixed rate, and the city is not a party to any interest rate swap agreements.

Bloomington has a slightly above average employee pension burden, 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 \$6.2 million across its three plans, equal to a manageable 8.5% of operating revenues.

Moody's three-year average (2011-2013) adjusted net pension liability (ANPL) for the city is \$155.5 million, or 2.3 times operating revenues (General Fund and Debt Service Funds). This figure is higher than the median of approximately 1.0 times for rated local governments. 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. We determined the city's share of liability for GERF and PEPFF in proportion to its contributions to the plans.

WHAT COULD CHANGE THE RATING - DOWN

- Significant declines in the city's valuation or demographic profile
- Deterioration in reserves to levels inconsistent with similarly rated credits

KEY STATISTICS

Full valuation: \$10.4 billion

Full value per capita: \$120,200

2008-2012 Median Family Income as a % of the US: 122%

Operating Fund Balance as a % of Revenues: 58.3%

Five-Year Dollar Change in Fund Balance as % of Revenues: 16.8%

Cash Balance as a % of Revenues: 58.7%

Five-Year Dollar Change in Cash Balance as % of Revenues: 15.6%

Institutional Framework: Aa

Operating History (Five-Year Average of Operating Revenues/Operating Expenditures): 1.00x

Net Direct Debt/Full Value: 0.6%

Net Direct Debt/Operating Revenues: 0.9 times

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

Three-Year Average of Moody's ANPL/Operating Revenues: 2.3 times

PRINCIPAL 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.moody.com for a copy of this methodology.

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