MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 to Duluth, MN's GO bonds; outlook stable

Global Credit Research - 18 Jan 2018

New York, January 18, 2018 -- Moody's Investors Service assigns a Aa2 rating to the city of Duluth, MN's $4.4 million General Obligation DECC Improvement Bonds, Series 2018A. Moody's maintains a Aa2 on the city's outstanding general obligation debt. The outlook remains stable.

RATINGS RATIONALE

The Aa2 rating reflects the city's stable regional economy which serves as the economic hub for northern Minnesota (Aa1 stable) and is home to a campus of the University of Minnesota (Aa1 stable) system. The rating also incorporates the city's healthy fund balance and liquidity, as well as its above average long-term debt and pension burdens.

RATING OUTLOOK

The stable outlook reflects the expectation that the regional economy will remain fundamentally sound and the city will maintain healthy financial reserves.

FACTORS THAT COULD LEAD TO AN UPGRADE

Steady economic growth coupled with strengthening of the city's socio-economic profile

Materially moderated debt and pension burdens

FACTORS THAT COULD LEAD TO A DOWNGRADE

Narrowing of operating fund balance or liquidity

Growth in the city's leverage or fixed costs

LEGAL SECURITY

The city's general obligation bonds, including the Series 2018A bonds, are secured by the city's full faith and credit pledge and an ability to levy an authorized and dedicated property tax unlimited as to rate or amount for debt service. However a large portion of debt service is paid from utility revenue, special assessments, tourism taxes, or tax increment revenue. The security also benefits from a statutory lien but not a lockbox structure.

USE OF PROCEEDS

Proceeds of the Series 2018A bonds will be used to finance the rehabilitation of seawalls in the Duluth harbor adjacent to the Duluth Entertainment and Convention Center (DECC).

PROFILE

Duluth is the fourth largest city in the State of Minnesota and the seat of St. Louis County (Aa2). The city encompasses approximately 67 square miles and its resident population was 86,178 as of 2015.

METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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