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CREDIT OPINION
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Contacts

Benjamin J VanMetre +1.312.706.9951
Analyst
ben.vanmetre@moodys.com

Coley J Anderson +1.312.706.9961
AVP-Analyst
coley.anderson@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Three Rivers Park District, MN

Update to credit analysis

Summary

Three Rivers Park District, MN (Aaa) benefits from large and diverse tax base serving an affluent Twin Cities (Minneapolis, Aa1 negative; St. Paul, Aa1 negative) suburban region and a healthy financial profile. The district's credit attributes are balanced by an operating levy that is limited by rate and moderate debt and pension burdens.

Credit strengths

» Large and diverse tax base coterminous with Hennepin County (Aaa stable), except for the City of Minneapolis

» History of balanced operations supported by strong management and ample flexibility to adjust user fees and staffing levels to match demand

Credit challenges

» Operating levy limited by rate

» Seasonally sensitive enterprise revenues can be unpredictable

Rating outlook

Outlooks are not usually assigned to local governments with this amount of debt.

Factors that could lead to an upgrade

» Not Applicable

Factors that could lead to a downgrade

» Material tax base declines or weakening of socioeconomic indices

» Deterioration of operating reserves or liquidity

» Deterioration of the district's enterprise operations that require General Fund support

Key indicators

Exhibit 1

Three Rivers Park District, MN	2013	2014	2015	2016	2017
Economy/Tax Base					
Total Full Value ($000)	$93,062,898	$97,748,607	$105,877,511	$111,103,592	$117,877,372
Population	798,708	804,888	812,210	812,531	829,693
Full Value Per Capita	$116,517	$121,444	$130,357	$136,738	$142,073
Median Family Income (% of US Median)	130.7%	130.8%	132.1%	134.0%	134.0%
Finances					
Operating Revenue ($000)	$48,660	$50,647	$51,012	$52,037	$51,551
Fund Balance ($000)	$27,450	$29,816	$32,189	$30,297	$27,902
Cash Balance ($000)	$29,061	$31,153	$33,789	$31,564	$29,321
Fund Balance as a % of Revenues	56.4%	58.9%	63.1%	58.2%	54.1%
Cash Balance as a % of Revenues	59.7%	61.5%	66.2%	60.7%	56.9%
Debt/Pensions					
Net Direct Debt ($000)	$68,509	$66,945	$72,145	$70,475	$68,265
3-Year Average of Moody's ANPL ($000)	$65,521	$71,131	$66,965	$75,553	$78,069
Net Direct Debt / Operating Revenues (x)	1.4x	1.3x	1.4x	1.4x	1.3x
Net Direct Debt / Full Value (%)	0.1%	0.1%	0.1%	0.1%	0.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.3x	1.4x	1.3x	1.5x	1.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.1%	0.1%	0.1%	0.1%	0.1%

Sources: Moody's Investors Service, US Census Bureau, the district's audited financial statements

Profile

Three Rivers Park District serves all of Hennepin County, with the exception of the City of Minneapolis, and Scott County (Aa1) through a joint powers agreement. The district also has recreational facilities in Dakota (Aaa stable), Wright, Carver, and Ramsey (Aaa stable) counties. The district operates a 27,000 acre system in 10 regional parks, seven park reserves, more than 160 miles on 13 different regional trails, six special recreation features, two ski and snowboarding areas and four golf courses. Two of the golf courses are operated as enterprises and two of which are operated as recreation facilities for other governments. The park district hosted approximately 12.7 million visitors in fiscal 2017, a figure that nearly doubled in the last 10 years.

Detailed credit considerations

Economy and tax base: large and diverse tax base

We expect the district's tax base to remain a credit strength given its size, above average resident income levels and favorable location in the economically strong Twin Cities metropolitan area. Fully valued at $124 billion, as measured by economic market value, the district's tax base grew annually for each of the previous six years and well exceeds it's prerecession peak of $108 billion in 2009. The district's base is primarily residential (59%), but also contains notable commercial and industrial (31%) sectors. The district's tax base is very strong and diverse with little taxpayer concentration, with the top ten payers at less than 3% of net tax capacity.

The district's population growth has also been positive. From 2000 to 2016, Hennepin County's population increased by 8% to more than 1.2 million residents. As of August 2018, the county's unemployment rate (2.4%) was below the state's rate (2.5%) and national rate (3.9%). Median family income in the county is estimated at 134% of the national figure. This figure understates the district's demographic profiles since the district does not include the City of Minneapolis, which tends to have lower resident income levels than the county as a whole.

Financial operations and reserves: sound financial operations with healthy reserves

The park district will likely maintain sound financial operations given prudent management and substantial flexibility to adjust both revenues and expenditures. In our view, this flexibility partially mitigates the park district's limited ability to raise property taxes for operations. The park district closed both fiscal 2016 and 2017 operationally balanced though drew down reserves each year to finance one-time capital improvements. As a result of the draw on reserves, the district closed fiscal 2017 with a combined available fund balance of $28 million, equal to 54% of revenue across its major operating funds, which we consider to be the General Fund, Scott County Fund and Debt Service Fund. Management expects fiscal 2018 to close with a $400,000 to $500,000 operating surplus, with not additional plans to use fund balance for one-time capital projects or for operating purposes.

The park district has three enterprise funds: two for golf courses and a ski and snowboard facility. These funds are generally self supporting, but are subject to volatility, as revenues are dependent on user fees and activity at these facilities are also dependent on weather conditions. In fiscal 2017, the Baker Golf Fund posted an operating surplus of $310,000, net of depreciation, and closed the year with nearly 230 days cash on hand. The Eagle Lake Golf Course Fund posted a $311,000 net operating surplus and closed the year with nearly 240 days cash on hand. During 2017, the Park District changed the year end of the Hyland Hills Ski Area Enterprise Fund to December 31 from June 30. The combined 18 months of financial activity included in the 2017 audit show the Hyland Ski and Snowboard Fund posting a $600,000 net operating surplus with 47 days cash on hand. Operating imbalances in any of these funds that are not addressed with programmatic or fee changes could pressure the district's other funds.

Property taxes are the district's largest operating revenue source, and comprised approximately 79% of operating revenue. Park district operations are subject to levy limits, with its operating levy capped at 0.03% of estimated market value. Recent increases to the park district's taxable valuations has increased its taxing authority and this trend is expected to continue. The park district levies at approximately 83% of its allowed rate, leaving an available taxing margin of more than $6 million. Additionally, the park district has the flexibility to adjust charges for services and other cost savings measures.

LIQUIDITY

The district's closed fiscal 2017 with a net cash position of $29 million, or a healthy 57% of revenue across it's major operating funds.

Debt and pensions: moderate leverage related to long-term debt and pension liabilities

The park district's direct debt burden comprises less than 0.1% of full value while its overall debt burden is 2.7% of full value. Going forward, the park district expects to issue general obligation (GO) debt in an amount averaging $8 million to $9 million for its annual capital borrowings and plans to pay down existing debt at a faster rate than it issues new debt, with the long-term goal of lowering the debt burden.

The park district's three year average Moody's Adjusted Net pension Liability (ANPL) totaled $78 million, equal to 0.1% of full value and 1.5x fiscal 2017 operating revenues. The district's total fixed costs, inclusive of debt service and retirement contributions, equal 26% of operating revenue, which is somewhat high but reflects the nature of the park district's operations.

DEBT STRUCTURE

All outstanding debt is fixed rate, with approximately 80% of outstanding principal retired within 10 years.

DEBT-RELATED DERIVATIVES

The district is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The park district participates in two multiple-employer cost-sharing plans, the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF). Minnesota statutes establish local government retirement contributions as a share of annual payroll. Employer contribution rates are currently set at 7.5% of payroll for GERF and at 16.2% of payroll for PEPFF. The district's total fiscal 2017 pension contribution was $1.8 million.

Statutory contribution levels have not kept pace with growing unfunded liabilities in state-wide pension plans. Contributions to PEPFF from all participating governments in aggregate amounted to 90% of the plan's “tread water” indicator in 2017.[1] The state of Minnesota approved legislation in 2018 that will modify benefits and modestly increase contributions for some pension plans. Employer contributions to the police and fire plan, for example, will modestly increase to 17.7% by 2020 from the current rate of 16.2%. Because employer contributions will not rise significantly, the park district is unlikely to contend with material budget strain from the increases.

Management and governance: moderate institutional framework

Three Rivers Park District is the only park district in Minnesota. It is assigned an institutional framework score of Aa, or moderate. The park district relies on property taxes to fund the majority of operations followed by fees. Expenditures are predictable and the park district has the ability to reduce expenditures if necessary. The park district's five year operating ratio of revenues to expenditures of 1.00 reflects a history of balanced operations reflecting management's conservative budget assumptions.

Endnotes

1 Employer contributions that tread water equal the sum of current year service cost and interest on reported net pension liabilities at the start of the year, using reported assumptions. If plan assumptions are met exactly, contributions equal to the tread water indicator will prevent the reported net pension liabilities from growing.

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Contacts

Benjamin J VanMetre +1.312.706.9951
Analyst
ben.vanmetre@moodys.com

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AVP-Analyst
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