FITCH RATES THREE RIVERS PARK DISTRICT, MN'S $6MM GOS 'AAA'; OUTLOOK STABLE

Fitch Ratings-New York-16 October 2018: Fitch Ratings has assigned a rating of 'AAA' to the following Three Rivers Park District (MN) general obligation (GO) bonds:

--$6.1 million GO bonds, series 2018A.

In addition, Fitch has affirmed the park district's 'AAA' Issuer Default Rating (IDR) and GO bond rating on $67 million of debt outstanding.

The Rating Outlook is Stable.

The series 2018A bonds are being sold via a competitive sale on October 18, 2018. The bonds will finance the acquisition and betterment of park facilities and properties.

SECURITY
The bonds are backed by the district's full faith and credit pledge and unlimited ad valorem taxing power.

ANALYTICAL CONCLUSION

Fitch's affirmation of its 'AAA' IDR and GO rating for the Three Rivers Park District reflects the district's strong revenue growth prospects, high independent ability to raise revenues, and exceptional gap-closing capacity. Debt and retiree benefit liabilities are low relative to the district's economic resource base, located in Hennepin County, MN.

Economic Resource Base
Three Rivers Park District is a special purpose government entity created in 1957 by an act of the Minnesota Legislature to acquire, develop and maintain public parks, wildlife sanctuaries and forest reservations in the Twin Cities region. Its jurisdiction includes all regional parks in Hennepin County located outside the city of Minneapolis, parks owned by Scott County but administered by the district, and parks owned by the district in four adjacent counties: Dakota, Wright, Carver and Ramsey. The district's taxing borders encompass Hennepin County, excluding Minneapolis. The district serves affluent communities that benefit from a deep and diverse regional economy.

KEY RATING DRIVERS

Revenue Framework: 'aaa'
Fitch expects revenue growth prospects will grow in line with the pace of U.S. GDP given Hennepin County's broad and wealthy tax base and the vibrant economy of the Twin Cities region. The district's legal ability to raise recurring revenue is high as its independently-elected board has broad control over the property tax rate within statutory limits.

Expenditure Framework: 'aa'
The district maintains solid spending flexibility as a single purpose entity with limited operations and a predominantly seasonal workforce. Management can control costs by reducing daily visiting hours and restricting visitors to fewer days of the week or month. Fixed costs are about 18% of expenditures.

Long-Term Liability Burden: 'aaa'

The long-term liability burden is low at approximately 4% of the taxing jurisdiction's resident personal income. This low liability metric reflects high resident income levels, a minimal amount of direct debt outstanding, and modest employee pension liabilities.

Operating Performance: 'aaa'
The district's solid revenue-raising power and considerable ability to reduce costs, supplemented by healthy reserves, underpin its exceptionally strong financial resilience. In a mild U.S. economic downturn, Fitch expects the district's superior gap-closing capacity would enable it to close budget shortfalls with minimal draws on fiscal reserves.

RATING SENSITIVITIES
Financial Resilience: The district's ratings are sensitive to significant shifts in its historically superior financial resilience including strong inherent budget flexibility and solid high reserve balances.

CREDIT PROFILE

The district's recreational resources include public parks and forest preserves spread across five Minnesota counties totaling over 27,000 acres and including 160 miles of trails. District facilities hosted 12.7 million visitors in 2017, more than double the number of visitors in 2006 (5.4 million). The local economy is deep and diverse and benefits from above-average wealth and education levels compared to the nation. Unemployment and poverty levels in the Twin Cities region have also trended well below the U.S. averages.

Revenue Framework
Property taxes have historically accounted for greater than three-quarters of general fund revenues, although the proportion of revenues derived from property taxes is declining as service charges are assuming a greater role in funding. Property taxes made up 77% of general fund revenues in 2017. Service charges made up 18% of revenues, while intergovernmental revenues accounted for 4%. The district's board of commissioners retains broad independent powers to increase revenues.

Fitch believes the natural revenue growth rate over the medium-term is likely to be in line with U.S. GDP given a vibrant economy, low unemployment, and healthy AV and population growth. Revenue growth has historically been strong as a result of increasing property taxes that reflect an expanding local economy.

The district has ample legal revenue-raising authority. The district's seven-member board of commissioners, five of whom are independently elected and two of whom are appointed by Hennepin County, has control over the tax rate within limits imposed by state statute. Under state law, the district is subject to a tax cap that limits its annual levy for operations to 0.03224% of the estimated market value of taxable property within its boundaries.

The district retains significant capacity under its operating levy cap. Healthy market value growth in 2014 through 2017 raised the unused tax levy capacity under the cap to $6.2 million for fiscal 2018, or about 15% of operating expenditures. The board also has the ability to raise visitor fees without limit to help fund operations. Fitch regards the district's independent revenue-raising ability as more than sufficient to offset a normal recessionary revenue decline.

Expenditure Framework
The bulk of general fund spending is directed at activities that directly impact park visitors. The major spending items are park and trail operations (27% of 2017 spending); recreation, education and natural resources (38%); and planning, design and technology (9%). Spending on general government activities such as parks administration accounted for 14% of expenditures in 2017.

Fitch expects the district's spending demands to grow at a pace closely aligned with the natural rate of revenue growth, reflecting continued increases in modest statutorily-determined pension contributions, employee health insurance costs and contractual adjustments to salaries and benefits.

Fitch considers control over expenditures to be solid given the board's ability to cut or eliminate programs for visitors, close facilities and/or reduce hours of operation and adjust staffing levels in response to revenue pressures. The majority of the district's budget goes to compensation. Revenue reductions tend to translate into reduced service levels and lower staffing needs. The district employs approximately 1,800 persons, roughly 1,400 of whom are seasonal and 400 of whom are permanent, full-time employees. The large seasonal staffing component affords management broad spending flexibility, as it can easily reduce seasonal staff for cost savings.

Only 120 full-time employees are union members. In order to reduce costs during the downturn, employees agreed to forego annual cost of living adjustments between 2009 and 2013. Salary increases for the majority of full time employees are expected to approximate the rate of inflation through 2019 based on two recently settled labor contracts. Police officers received 3% raises for 2016 and 2017 as the result of an arbitration award and a new contract is currently being negotiated.

Fixed carrying costs for the district tend to be moderate (18% in 2017). Elevated carrying costs are not unusual, however, for single-purpose government entities with narrowly-defined service missions.

Long-Term Liability Burden

The district's long-term liability burden is low at about 4% of resident personal income in the district's taxing jurisdiction. Debt issued by overlapping jurisdictions including cities and school districts located in Hennepin County (excluding Minneapolis), the regional rail authority, the Metropolitan Council, represents 96% of the total long term liability burden.

The park district participates in two state-sponsored pension plans, the General Employees Retirement Fund (GERF) and the Public Employees Police and Fire Fund (PEPFF). The district is required to make a statutory contribution which has been below actuarially-determined levels in recent years for Minnesota's state-sponsored pension plans. The aggregate assets-to-liabilities ratio for the district's share of GERF and PEPFF unfunded liabilities is approximately 77% using the plans' assumed discount rates. Using Fitch's more conservative 6% discount rate assumption, the assets-to-liabilities metric equals 58%.

Operating Performance

Fitch believes the district is well-positioned to manage the challenges associated with a moderate economic downturn while maintaining a high degree of fundamental financial flexibility. The district's inherently strong gap-closing capacity, which is centered on its considerable revenue-raising ability coupled with a solid ability to reduce costs and high reserves, should allow management to close any budget gaps associated with a mild contraction in U.S. GDP. Healthy general fund reserve levels equaled 31% of spending in 2017.

Fitch considers the district's budget management track record to be strong. Management had achieved operating surpluses from 2013 through 2017, and utilized reserves in 2016 and 2017 to fund the construction of new regional recreational trails. The 2018 year to date estimate indicates that available reserves will increase moderately. The district anticipates a balanced budget without a tax levy increase for 2019.

The district board adheres to detailed financial and debt policies. These include a policy on fund balance usage that has four components, including fully funding all compensated absences and keeping 22% of the next year's estimated operating budget on hand in the form of available reserves. The district is required to budget for 98% of property tax collections, though actual receipts usually come in above that level. Under Minnesota statute, the district is only required to fund its annual statutory pension contributions, even if these are below actuarial levels. Fitch does not believe underfunding of the full actuarial contributions will be a source of fiscal pressure for the district because pension costs make up a small portion of the district's carrying costs; although the deferral of pension spending during a period of economic recovery is a concern.

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Applicable Criteria
U.S. Public Finance Tax-Supported Rating Criteria (pub. 03 Apr 2018)
https://www.fitchratings.com/site/re/10024656

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