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New Issue

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Grand Forks Park District, ND

New Issue - Moody's assigns Aa2 rating to Grand Forks Park District, ND's GO Bonds

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to Grand Forks Park District ND's $3.3 million, General Obligation Special Assessment Refunding Bonds, Series 2017A. Moody's has also maintained the Aa2 rating on the district's outstanding general obligation debt (GO) and A1 rating on the district's outstanding lease revenue debt. Post sale, the district will have $18.0 million in GO parity debt outstanding, and $5.5 million in lease revenue debt outstanding.

The Aa2 GO rating reflects the district's moderately sized and growing tax base supported by the institutional presences of Grand Forks Air Force Base and the University of North Dakota (Aa3 stable), sound financial operations with adequate reserve levels, despite recent narrowing of fund balance, and average debt burden with some enterprise risk.

The A1 rating on the district's lease revenue bonds, notched twice off of the district's GO rating, reflects the annual risk of non-appropriation, the less essential nature of the financed projects, and the underlying credit characteristics of the district.

Credit Strengths

» Large and growing tax base benefitting from the institutional presence of the of the University of North Dakota and Grand Forks Air Force Base

» Sound financial operations supported by budgetary flexibility

Credit Challenges

» Enterprise risk relating to golf courses and Choice Health & Fitness center

» Recent declines in state aid due to decreasing sales tax revenues

» Recent narrowing of fund balance due to capital spending projects

Rating Outlook

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

Factors that Could Lead to an Upgrade

» Continued diversification and expansion of the city's tax base

» Material increases to available operating reserves

Factors that Could Lead to a Downgrade

» Contraction of the district's tax base and demographic profile

» Structural imbalance and continued draws on operating reserves

» Growth in debt and fixed cost ratios

Key Indicators

Exhibit 1

Grand Forks Park District, ND	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 3,159,122	$ 3,259,944	$ 3,441,331	$ 3,816,795	$ 4,109,540
Full Value Per Capita	$ 60,286	$ 61,758	$ 64,548	$ 70,558	$ 69,617
Median Family Income (% of US Median)	106.9%	110.7%	108.4%	101.8%	101.8%
Finances					
Operating Revenue ($000)	$ 3,953	$ 6,342	$ 6,360	$ 8,679	$ 9,158
Fund Balance as a % of Revenues	26.0%	31.5%	24.4%	18.0%	14.0%
Cash Balance as a % of Revenues	24.8%	31.5%	21.2%	25.2%	17.2%
Debt/Pensions					
Net Direct Debt ($000)	$ 12,118	$ 13,028	$ 21,400	$ 25,457	$ 24,271
Net Direct Debt / Operating Revenues (x)	3.1x	2.1x	3.4x	2.9x	2.7x
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.6%	0.7%	0.6%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	1.3x	1.1x	1.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	0.2%	0.3%	0.2%

The table above reflects data through the close of fiscal 2015.
Source: Moody's Investors Services; Audited Financial Statements; US Census Bureau

Detailed Rating Considerations

Economy and Tax Base: Regional Retail Hub Benefits from Institutional Presence of Grand Forks Air Force Base and University of North Dakota

We expect the district's tax base to continue to grow due to its stable role as a regional economic hub, a diversity of employment opportunities, and availability of land for development. The district, which is coterminous with the City of Grand Forks (Aa2 stable), is located along the Red River on the eastern border of North Dakota (Aa1 negative). The city serves as the county seat of Grand Forks County (Aa2). The district's historic economic stability is derived from a diverse employment base that includes education, military and health care. The district benefits from the institutional presence of the University of North Dakota, which has approximately 4,325 employees, Altru Health Systems, employing approximately 4,200 people, and the Grand Forks Air Force Base, which is located 15 miles west of the city and is the third largest employer with approximately 3,984 military personnel and civilians. The full valuation of the tax base, currently at $4.5 billion, has grown at an annual average rate of 7.2% over the last five years, including a 8.6% increase most recently in 2016.

The city of Grand Fork's unemployment has historically trended well below the national average at 2.0%, and slightly below the state's 2.5% rate as of November 2016. This reflects a healthy employment base with a somewhat tight labor market. Over the last decade, the city's population grew by 7.1% to 52,838 as of the 2010 census and 2014 estimates indicate an additional 2.4% growth to 54,095. Income levels are slightly above the national average, with median family income at 101.8% of the nation, in spite of a large student population, which tends to negatively skew wealth measures.

Financial Operations and Reserves: Healthy Financial Position Expected Despite Recent Declines in Reserves Due to Capital Spending

The district's financial profile is expected to remain healthy, despite recent declines in reserves due to planned capital spending, given management's demonstrated history of cost cutting and commitment to building up reserves going forward. The district closed fiscal 2015 with an available fund balance across major operating funds (inclusive of General Fund, Debt Service Fund and Recreation Fund), of $1.3 million, or a narrowed 14% of operating fund revenues. This is down from $1.6 million in 2014, or 18% of operating revenues and is due to one-time cost of paying the remaining portion of the Icon Sports Center facility's construction. Going forward management plans to build reserves back up to 25% of revenues.

For fiscal 2016, unaudited results show a $375,000 surplus in the general fund, and a $38,000 surplus in the recreation fund, despite $400,000 in reduced state aid revenues. Officials attribute the estimated surplus to the scaling back of project spending coupled with savings in fuel costs as a result of the mild winter. For 2017 the district has budgeted for an additional surplus in the general fund of $309,000, due to reduced spending on projects, in an effort to the build up fund balance, and another modest $26,000 surplus in the recreation fund.

Management budgeted a modest decline in state revenues for 2017. A larger decline in aid, should it occur, could be offset by further reductions in program spending. Recently local governments have seen declines in state aid revenues as the state has been faced with substantial revenue shortfalls due to the dramatic decline in oil and gas activity in the western part of the state. State aid is the district's third largest source of operating fund revenue, at 12.4% in fiscal 2015. Property taxes account for the largest portion of operating fund revenue at 68.0%, followed by program income at 15.4%.

LIQUIDITY

The district's net cash position across major operating funds at the close of fiscal 2015 was $1.6 million, or a sound 17.2% of operating revenues. This is down from $2.2 million, or 25% of operating revenues in 2014, due to start-up expenses for the Icon Sports Center Facility. Going forward management plans to begin building up cash reserves with no planned capital projects.

Debt and Pensions: Manageable Debt and Modest Pension Burden

Direct debt is equivalent to a modest 0.5% of full valuation, but a more elevated 2.6 times 2015 operating fund revenue. We expect no major changes in the district's debt profile as the city has no plans to issue additional bonds in the coming years. Fixed costs, inclusive of debt service and pension contributions, were a high 24% of operating fund revenue in fiscal 2015.

DEBT STRUCTURE

All of the district's debt is fixed rate and amortizes over the long term. Principal amortization of the park district's GO debt is average with 77.3% of principal retired within 10 years.

The Series 2009 and 2013B Lease Revenue Bonds are secured by rental payments made by the district, subject to annual appropriation, per a master lease-purchase agreement. By appropriation of annual rental payments, the district intends to renew the lease annually through December 2020 for the Series 2009 bonds and October 2033 for the Series 2013B bonds. A separate ground lease extends to December 31, 2020 for the Series 2009 bonds and December 31, 2038 for the Series 2013B bonds. Per the 2009 and 2013 master lease-purchase agreements, the district granted the trustee a leasehold interest in the Elks Swimming Pool and Icon Sports Center. The trustee has the right to take possession of the leased facilities upon non-renewal of the lease-purchase agreement.

DEBT-RELATED DERIVATIVES

The district has no exposure to derivatives.

PENSIONS AND OPEB

The district participates in one state administered multi-employer cost sharing plan, North Dakota Public Employees Retirement System (NDPERS), and has its own single-employer defined-benefit plan. The district contributed a combined $343,000 in fiscal 2015, or a modest 4.0% of operating revenues. Moody's adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is $9 million as of fiscal 2015. The three-year average ANPL is $9.5 million, or 1.0 times operating revenues and 0.2% of full value. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities.

Management and Governance: Strong Institutional Framework; Budgetary Flexibility and Conservative Budgeting

North Dakota park districts have an institutional framework score of ‘Aa’ or strong. District revenues are primarily composed of charges for services and property taxes. Although the flexibility to increase property tax rates can be constrained without voter approval, park districts benefit from the flexibility to increase fees and other charges for services. Additionally, park districts have considerable flexibility to reduce expenditures. The management team has maintained healthy finances due to conservative budgeting and cost cutting.

Legal Security

Debt service on the 2017A bonds is secured by the district's general obligation unlimited tax (GOULT) pledge to levy a property tax unlimited by rate or amount.

Debt service on the Series 2009 and Series 2013B lease revenue bonds are secured by rental payments to be made by the district, subject to annual appropriation, per a lease purchase agreement with a leasehold interest in district facilities granted to the trustee as collateral.

Use of Proceeds

Proceeds of the Series 2017A bonds will be used to prepay special assessment obligations to the city of Grand Forks, and refund the district's outstanding General Obligation Special Assess Prepayment Bonds, Series 2009 and Series 2009B for anticipated savings.

Obligor Profile

The district is coterminous with the City of Grand Forks, covering an area of approximately 1,188 acres of land and serving an estimated population of 54,095. The district maintains 44 parks, and facilities including golf courses, ice arenas, a fitness center, and a tennis complex. The district completed in 2012 the construction of Choice Health & Fitness, a 159,000 square foot health and fitness facility.

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.

Ratings

Exhibit 2

Grand Forks Park District, ND

Issue	Rating
General Obligation Special Assessment Refunding Bonds, Series 2017A	Aa2
Rating Type	Underlying LT
Sale Amount	$3,310,000
Expected Sale Date	01/24/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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