Moody's Investors Service

New Issue: MOODY'S ASSIGNS Aaa RATING TO LIVINGSTON COUNTY'S (MI) $6.4 MILLION 2012 REFUNDING BONDS (HANDY TOWNSHIP, LIMITED TAX GENERAL OBLIGATION)

Global Credit Research - 29 Mar 2012

Aaa RATING APPLIES TO $71.9 MILLION OF POST-SALE GOLT DEBT

LIVINGSTON (COUNTY OF) MI
Counties
MI

Moody's Rating

ISSUE	RATING
Refunding Bonds, 2012 (Limited Tax General Obligation)	Aaa
Sale Amount $6,375,000	
Expected Sale Date 04/05/12	
Rating Description General Obligation Limited Tax	

Moody's Outlook NOO

Opinion

NEW YORK, March 29, 2012 --Moody's Investors Service has assigned a Aaa rating to Livingston County's (MI) $6.4 million 2012 Refunding Bonds (Handy Township, Limited Tax General Obligation). Concurrently, Moody's has affirmed the Aaa rating on the county's outstanding general obligation limited tax debt. Post-sale, the county will have $71.9 million of general obligation limited tax debt outstanding.

SUMMARY RATING RATIONALE

Debt service on the bonds is ultimately secured by the county's general obligation limited tax pledge, but is expected to be paid from special assessments levied by Handy Township. Proceeds of the bonds will be used to refund the county's outstanding general obligation bonds, Series 2003 and Series 2005, for expected interest savings. The refinancing also extends the maturity of the Series 2005 bonds by five years to 2030 rather than 2025. Extension of maturity is due to delays in special assessment collections in Handy Township. The restructuring results in significant reductions in annual debt service over the next few years, which is expected to enable the township to continue repaying the bonds without direct financial assistance from the county. Despite the five-year extension of maturity, the refunding is estimated to result in net present value savings of 5% of par. The Aaa rating reflects the county's sizeable tax base, sound financial operations characterized by annual surpluses and healthy reserves, and modest debt burden.

STRENGTHS

- Favorable location in mid-Michigan between Ann Arbor (Aa1) and Lansing (A1)

- Ongoing growth in population

- Sound financial management that has built up and maintained healthy General Fund reserves

- Modest debt burden after accounting for bonds issued on behalf of underlying local units of government

CHALLENGES

- Declining trend in taxable valuations

- Potential obligation to make debt service payments on behalf of underlying borrowers

DETAILED CREDIT DISCUSSION

DEBT REFUNDED ON BEHALF OF TOWNSHIP

The current issue refunds outstanding bonds that Livingston County issued in 2003 and 2005 on behalf of Handy Township. Similar to other counties throughout the state, Livingston has lent its general obligation bonding authority to underlying municipalities intent on accessing the bond market. In some cases, underlying units have made use of the county's authority in order to issue debt for development-related purposes. While these units are obligated to make debt service payments, typically with revenue generated by special assessments, the county is ultimately liable for repaying the bonds.

The current debt refinancing, in addition to achieving interest savings, extends the maturity of the bonds that were issued in 2005. Those bonds were issued to finance extension of utility infrastructure to parcels of land identified for new development within Handy Township. Through the recent recession, development of that land ultimately stalled and the township has had difficulty collecting special assessments from the developer. The failure to pay has resulted in litigation with one developer, which has further hampered the collection of special assessment revenue. The restructuring results in significant reductions in annual debt service over the next few years, which is expected to enable Handy Township to continue repaying the bonds without direct financial assistance from the county.

The county is working with the township to develop a longer-term plan that addresses payment of the outstanding bonds. While the township has the ability to seek voter approval of a new levy that would support debt service payments, there are currently no specific plans to approach voters for new revenue. As litigation regarding the property in question is settled, it is possible that the township could begin to collect sufficient special assessment payments. The county has also set aside $2 million in a separate fund, with that money available for making debt payments, if necessary. Should the county ultimately make any debt service payments on behalf of the township, it has the full authority to seek repayment from the township and the township is contractually obligated to make such a payment. County officials report that, at this time, no other townships have been identified as having potential issues with the ability to pay debt service on outstanding bonds.

SIZEABLE TAXBASE IN MID-MICHIGAN; DECLINING TREND IN VALUATION

The county's tax base is expected to exhibit a further, modest decline in value in the coming year, as the region continues to contend with downward pressure on property values following the recession. The large $16.4 billion tax base has declined in value at an average annual rate of 5.1% over the past five years. While county officials had planned for a further reduction of nearly 4.5% in the current year, new estimates show that taxable valuations will likely fall by a more modest 1.9% when assessments are finalized in May. Officials also report that the county's housing market has shown signs of improvement as indicated by an increase in sales as well as permits for new units.

The county has enjoyed steady population growth through recent decades, including that of 15% between the 2000 and 2010 census periods. Maintenance of steady growth is likely over the long term given the county's favorable location. Situated equidistant from the cities of Lansing and Ann Arbor, county residents have easy access to those cities' local economies, which are stabilized by the presence of major universities (Michigan State University in East Lansing and the University of Michigan in Ann Arbor) as well as the location of the state's capital (Lansing). Livingston County's unemployment rate of 9.1% in January 2012 fell below that of the state (9.7%) but exceeded that of the nation (8.8%). Resident income levels remain strong, with median family income equivalent to 137% and 131% of state and national figures, respectively, according to 2006-2010 American Community Survey 5-year estimates.

SOUND FINANCIAL MANAGEMENT AND HEALTHY GENERAL FUND RESERVES

The county's financial operations are expected to remain sound over the near term given prudent fiscal management, conservative budgeting, and a healthy General Fund balance. The county has consistently posted operating surpluses in its General Fund, including annual surpluses of over $1.6 million in each of the past four fiscal years through 2010. As a result, the county's General Fund balance has grown to $22.2 million, equivalent to 51.4% of fiscal 2010 revenues. While audited financial information is not yet available for fiscal 2011, officials report an additional operating surplus that is estimated to increase the fund balance to just over $23 million.

Management has budgeted to use approximately $700,000 of fund balance in fiscal 2012. However, the budget was built upon a projected 4.5% reduction in taxable valuation, while current estimates indicate a more modest 1.9% decline. As a result, actual revenues are expected to exceed those budgeted and the county may have no need to use available reserves. In addition to the General Fund balance, the county maintains additional reserves in the Delinquent Tax Revolving Fund. Unrestricted net assets in this fund totaled $39.3 million in fiscal 2010 and are estimated to have grown further in 2011.

Property taxes represent the county's largest revenue source, comprising 63% of General Fund revenues in fiscal 2010. The county also received revenue sharing payments from the State of Michigan up to October 2004, at which time those payments were temporarily suspended. To offset the impact of the loss of this revenue stream, the state called for the county's property tax levy to be shifted in phases from December to July over three years under a schedule that called for the establishment of a Revenue Sharing Reserve Fund (RSRF). In the RSRF, certain portions of the levy were deposited and managed by the county, with annual transfers made to the General Fund in place of the former state shared revenue. The county has been allowed to access this fund for transfers in an amount equal to what it would have received from the state in 2004 plus an inflationary adjustment. The county's RSRF will be depleted in fiscal 2013, at which time the state is statutorily required to reinstate revenue sharing payments. Each county will deplete their reserve funds at different times and the state has been resuming payments to counties on schedule to date.

MANAGEABLE DEBT PROFILE; EXPECTED FUTURE BORROWING

The county's debt burden is expected to remain manageable given rapid repayment of outstanding principal. Inclusive of special assessment debt that is expected to be repaid by the county's underlying local units, the county's direct debt burden is a modest 0.4% of full valuation. Bonds issued on behalf of local units comprises 80% of the county's outstanding direct debt. Aside from such bonds, the county has a very modest $5 million of long-term debt outstanding. Furthermore, debt service has historically represented less than 5% of total operating expenditures. Post-refunding, maximum annual debt service on Handy Township's debt is a manageable $613,000. Amortization of the county's outstanding debt is rapid, with nearly 77% of principal scheduled to be retired within ten years. Officials report that the county intends to issue approximately $8.5 million in additional bonds this year to finance a new EMS headquarters. All of the county's debt is fixed rate and there is no exposure to interest rate swap agreements.

WHAT COULD CHANGE THE RATING - DOWN

- Further declines in taxable values that exert additional strain on property tax revenues

- Material declines in General Fund reserves

KEY STATISTICS

2010 census population: 180,967 (15.3% increase since 2000)

2011 full valuation: $16.4 billion (5.1% five-year average annual decline)

2011 full valuation per capita (estimate): $90,578

2010 median family income (as % of state): 137%

2010 median family income (as % of U.S.): 131%

County unemployment (January 2012): 9.1%

Fiscal 2010 General Fund balance: $22.2 million (51.4% of revenues)

Debt burden: 5.2% (0.0% direct)

Principal amortization (ten years): 76.8%

General obligation limited tax debt outstanding: $71.9 million

PRINCIPAL RATING METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

Although this credit rating has been issued in a non-EU country which has not been recognized as endorsable at this date, this credit rating is deemed "EU qualified by extension" and may still be used by financial institutions for regulatory purposes until 30 April 2012. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

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