MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aaa rating to Livingston County's (MI) $2.4 million Capital Improvement Refunding Bonds (Regional Wastewater System) Series 2013 and $5 million Sanitary Sewer Improvement Refunding Bonds Tyrone Township Series 2013

Global Credit Research - 15 Apr 2013

Aaa rating affirmed on county's outstanding general obligation limited tax debt

LIVINGSTON (COUNTY OF) MI
Counties
MI

Moody's Rating

ISSUE		RATING
Sanitary Sewer Improvement Refunding Bonds Tyrone Township, Series 2013		Aaa
Sale Amount	$4,980,000	
Expected Sale Date	04/22/13	
Rating Description	General Obligation Limited Tax	
Capital Improvement Refunding Bonds (Regional Wastewater System), Series 2013		Aaa
Sale Amount	$2,420,000	
Expected Sale Date	04/22/13	
Rating Description	General Obligation Limited Tax	

Moody's Outlook NOO

Opinion

NEW YORK, April 15, 2013 --Moody's Investors Service has assigned a Aaa rating to Livingston County's (MI) $2.4 million Capital Improvement Refunding Bonds (Regional Wastewater System) Series 2013 (Limited Tax General Obligation) and $5 million Sanitary Sewer Improvement Refunding Bonds Tyrone Township Series 2013 (Limited Tax General Obligation). Concurrently, Moody's has affirmed the Aaa rating on the county's general obligation limited tax debt, of which $67.7 million will be outstanding following the current issuance.

SUMMARY RATING RATIONALE

Debt service on the bonds is secured by the county's general obligation limited tax pledge, though debt service on the Tyrone Township bonds is expected to be paid from the collection of assessments within the township. Proceeds of the Capital Improvement Refunding Bonds will be used to refund the county's outstanding Series 2006 general obligation limited tax bonds for expected interest savings. Proceeds of the Tyrone Township bonds will be used to refund the county's outstanding Series 2005 Sanitary Sewer Improvement Bonds (Tyrone Township) for expected interest savings. The Aaa rating reflects the county's sizeable tax base, favorable demographic profile, sound financial operations characterized by annual surpluses and healthy reserves, and modest debt burden.

STRENGTHS

- Favorable location within commuting distance of multiple metropolitan regions including Ann Arbor (GOLT rated Aa1), Lansing (GOLT rated A1) and Detroit (GO rated Caa1/negative)

- Sound demographic profile as evidenced by continued population growth and above average income levels

- Solid financial management that has contributed to annual growth in General Fund reserves

- Modest debt burden

CHALLENGES

- Substantial tax base depreciation in recent years

- Exposure to contingent liabilities in the form of debt issued on behalf of and expected to be repaid by underlying municipalities

DETAILED CREDIT DISCUSSION

SIZEABLE TAXBASE IN SOUTHEAST MICHIGAN THAT HAS EXPERIENCED MULTI-YEAR TREND OF DEVALUATION

Despite a recent trend of tax base devaluation, the county is positioned to maintain its role as a rapidly growing area of southeast Michigan (GO rated Aa2/positive). Through 2012, the county's full valuation had declined at a five-year average annual rate of 6.4%, representing a cumulative loss of 28% of valuation. Despite the trend of depreciation, the county's full valuation remained a sizeable $15.9 billion in 2012. Though valuations have not yet been finalized for 2013, preliminary estimates indicate that both full and taxable valuation may grow by at least 1%. This growth reflects a combination of housing price stabilization and new economic investments that are poised to accommodate the county's growing population. The county has enjoyed steady population growth over the past few decades, including that of 35.7% and 15.3% in the 2000 and 2010 US census reports, respectively. Resident income levels remain solid, with median family income estimated at 131% of the national figure.

Livingston County is located on the far western edge of the Detroit metropolitan area, approximately equidistant from the City of Lansing to the west and the City of Ann Arbor to the south. As a bedroom community (residential values comprise 78% of full valuation), the county has grown in part due to continued suburban expansion of those three metropolitan areas. Given the county's location, residents have easy access to multiple economic areas with considerable institutional presence, including the state capitol and Michigan State University (revenue debt rated Aa1/stable) in the Lansing region and the University of Michigan (revenue debt rated Aaa/stable) in Ann Arbor. The county's own economic development efforts have resulted in a projected $58 million of new capital investment in the coming year, positioning the county for further tax base growth over the longer term.

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 million in each of the past seven fiscal years through 2011. As a result, the county's General Fund balance grew to $23.2 million, or a strong 56.1% of revenues at the close of fiscal 2011. Despite budgeting to use fund balance in fiscal 2012, management estimates that collection of revenues actually exceeded budgeted amounts resulting in a modest increase to year-end reserves. While audited financial information is not yet available, officials estimate the General Fund balance grew to $23.4 million, or 57% of revenues, in fiscal 2012. The county's fiscal 2013 budget was built upon a similar use of reserves due to $1 million in one-time expenditures. However, expected growth in taxable valuations could completely offset the use of fund balance given that the budget was built upon flat property tax revenues.

Further enhancing the county's financial position, is an unrestricted net asset balance of $40.3 million in the delinquent tax revolving fund (DTRF) at fiscal year-end 2011. The fund is utilized to purchase the delinquent taxes of underlying local governments, with the county collecting fees and interest expense on the taxes that are subsequently received. The combination of the DTRF's net asset position with the county's General Fund balance results in total reserves of $63.5 million, or a significant 151.5% of General Fund revenues at the close of fiscal 2011.

MANAGEABLE DEBT PROFILE; EXPOSURE TO DEBT ISSUED ON BEHALF OF UNDERLYING LOCAL GOVERNMENTS

The county's direct debt burden is a modest 0.1% of full valuation. The debt burden does not include approximately $53 million in outstanding general obligation limited tax bonds that have been issued on behalf of underlying local governments. Those bonds are expected to be repaid by the local governments pursuant to contractual obligations with the county. Within the near term, future debt issuance is limited to an estimated $8.6 million in short-term delinquent tax anticipation notes that the county expects to issue later this month. Some Michigan counties issue such notes to provide upfront financing for the purchase of delinquent taxes of underlying municipalities. The county's notes typically mature in just over two years from issuance and are paid with the county's collection of delinquent taxes, though they carry the county's general obligation limited tax pledge. Amortization of all outstanding long-term debt is sound, as nearly 73% of principal is scheduled to be repaid within ten years. All of the county's debt is fixed rate and there is no exposure to interest rate swap agreements.

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 March 2012, Livingston County refunded bonds that had been issued in 2005 on behalf of Handy Township. The 2005 bonds were issued to finance extension of utility infrastructure to land identified for new development within the 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 2012 bond refunding extended the maturity of the original bonds by five years to reduce near-term annual debt service and enable the township to continue repaying the bonds without direct financial assistance from the county.

The county continues to work with the township to develop a longer-term plan that addresses payment of the outstanding bonds. This includes potentially approaching township voters for approval of a new levy that would be used to help make debt service payments on the bonds. Furthermore, 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 sinking fund that is available for making future 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. Maximum annual debt service on Handy Township bonds is approximately $613,000, which would not pose a notable liquidity demand for the county.

WHAT COULD CHANGE THE RATING - DOWN

- Significant contraction of the tax base or weakening of the county's demographic profile

- Material declines in General Fund reserves

KEY STATISTICS

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

2012 full valuation: $15.9 billion (6.4% five-year average annual decline)

Estimated full valuation per capita: $88,053

Estimated median family income(as % of US: 131%

County unemployment (January 2013): 9.5%

Fiscal 2011 General Fund balance: $23.2 million (56.1% of revenues)

Debt burden: 5.7% (0.1% direct)

Principal amortization (ten years): 72.5%

General obligation limited tax debt outstanding: $67.7 million

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

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with

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