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New Issue: Moody's assigns Aaa to Livingston County, MI's $7.9M GOLT Bonds Ser. 2015

Global Credit Research - 20 Aug 2015

County has $25.4M of rated debt

LIVINGSTON (COUNTY OF) MI
Counties
MI

Moody's Rating

ISSUE	RATING
Brighton Township Sanitary Sewer Drainage District Refunding Bonds, Series 2015	Aaa

Sale Amount	$7,880,000
Expected Sale Date	08/25/15
Rating Description	General Obligation Limited Tax

Moody's Outlook NOO

NEW YORK, August 20, 2015 --Moody's Investors Service has assigned a Aaa rating to Livingston County, MI's $7.9 million Brighton Township Sanitary Sewer Drainage Refunding Bonds, Series 2015 (General Obligation Limited Tax), Series 2015. Moody's maintains a Aaa rating on the county's outstanding long-term general obligation limited tax (GOLT) debt. Inclusive of the current offering, the county has $25.4 million of long-term rated GOLT debt outstanding.

SUMMARY RATING RATIONALE

The Aaa GOLT rating incorporates the county's sizeable southeast Michigan (Aa1 stable) tax base, strong demographic profile, sound financial operations supporting maintenance of healthy reserves, and manageable debt burden.

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

Not applicable

WHAT COULD MAKE THE RATING GO DOWN

- Significant decline in available reserves

- Large increase in the county's debt burden

STRENGTHS

- Favorable location within commuting distance of multiple metropolitan areas including Ann Arbor (Aa1), Lansing (A1) and the northwest Detroit (B2 positive) suburbs of Oakland County (Aaa stable)

- Sound financial operations supporting maintenance of healthy reserves

- Modest direct debt burden

CHALLENGES

- Michigan's statutory limits on taxable valuation and revenue growth cause revenue loss during times of tax base decline and slow recovery of revenues as valuations increase

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

RECENT DEVELOPMENTS

The county closed fiscal 2014 with a substantial available Operating Fund (General, Debt Service, Ambulance, EMA, and 911 Funds) balance of $68.7 billion, or 122.8% of revenues inclusive of unrestricted reserves available in the Delinquent Tax Revolving Fund.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: LARGE TAX BASE FAVORABLY LOCATED WITHIN COMMUTING DISTANCE OF MULTIPLE METRO AREAS

We expect the county's large $18.6 billion tax base to continue to recover supported by its favorable location within proximity to multiple metropolitan areas and institutions. 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 (Aa1 stable) in the Lansing region and the University of Michigan (Aaa stable) in Ann Arbor. The county's tax base is rebounding strongly with valuation increases of 5.6% and 8.6% in 2014 and 2015, respectively, though it remains well below its peak of $22.2 billion in 2007. Full valuation per capita is a solid $103,000. The county's population grew substantially by 36% and 15% in the 2000 and 2010 US census reports, respectively. Growth has been fueled by suburban expansion given the county's location within commuting distance of three metropolitan areas. As of May 2015, the county's unemployment rate of 5.3% was the same as the US and slightly below the state rate of 5.9%. Median family income remains a strong 129% of the national figure.

FINANCIAL OPERATIONS AND RESERVES: FINANCIAL POSITION EXPECTED TO REMAIN STRONG GIVEN SOUND FINANCIAL MANAGEMENT

We expect the county's financial position will remain healthy going forward given strong fiscal policies and conservative management. The county continues to maintain very ample reserves closing fiscal 2014 with an available Operating Fund balance of $68.7 billion, or 122.8% of revenues. The balance is inclusive of $22.8 million in available General Fund balance and $42.0 million in unrestricted net assets of the Delinquent Tax Revolving Fund (DTRF). Michigan counties establish DTRFs to purchase the delinquent taxes of underlying municipalities, as well as to account for the collection of interest and fees on those taxes. Collections above those needed to repay any existing notes issued to capitalize the fund are unrestricted and available for any county purpose. Following nine consecutive operating surpluses, the General Fund posted a minor operating deficit of $281,000 in fiscal 2014 mainly due to expenditures to finance the implementation of a new financial reporting system.

For fiscal 2015, the county has budgeted for a $2.8 million draw on General Fund reserves to finance one-time expenses including $2.3 million to renovate jail facilities. Actual results may be stronger than budgeted given the county's budgeting for contingencies and has a history of conservative positive budget to actual variances.

Liquidity

The county maintains healthy liquidity with an Operating Fund net cash position of $54.4 million, or 95% of revenues at the close of fiscal 2014.

DEBT AND PENSIONS: DEBT BURDEN EXPECTED TO REMAIN MODERATE

The county's debt burden is expected to remain manageable given limited future borrowing plans. The county's net direct debt burden is equivalent to a low 0.1% of full valuation, or 0.4 times operating revenue. The net debt burden does not include $40.1 million of outstanding GOLT bonds issued on behalf of underlying local governments and established drainage districts. To date, underlying entities have routinely fulfilled their contractual obligations to the county for repayment of their associated county-issued debt. The issuance of such debt exposes the county to contingent liability risk should any underlying municipality be unable to collect sufficient revenue to meet its own contractual requirement to repay the debt. The county established a Debt Service Sinking Fund that currently holds $2.1 million of cash available for making any payments should the need arise. The county's net direct debt also excludes $4.2 million of short-term GOLT delinquent tax anticipation notes. Delinquent taxes combined with fees and interest have historically been more than sufficient to cover repayment of annual short-term GOLT notes. Debt service comprised a modest 3% of total operating expenditures in fiscal 2014.

Debt Structure

All of the district's outstanding debt is fixed rate. Amortization is rapid with 78.3% of GOLT debt retired within ten years.

Debt-Related Derivatives

The county is not a party to any derivative agreements.

Pensions and OPEB

The county's three year average adjusted net pension liability (ANPL) is $91.8 million, equivalent to a low 0.5% of full valuation, or a moderate 1.6 times operating revenue. Calculation of the ANPL is based upon our methodology of adjusting reported pension information. County employees are members of a single employer defined benefit pension plan administered by the Michigan Municipal Employees' Retirement System (MERS). The county has consistently contributed in excess of its annual required contribution (ARC) in recent years including a $2 million excess contribution in fiscal 2014. The county's ARC in fiscal 2014 was $3.4 million, or 6% of operating revenue. New employees are no longer eligible to participate in the traditional defined benefit pension plan, but can participate in a hybrid defined benefit-defined contribution plan.

MANAGEMENT AND GOVERNANCE: MODERATE INSTITUTIONAL FRAMEWORK AND STRONG COUNTY MANAGEMENT

Michigan counties have an institutional framework score of "A", or moderate. Growth in county property tax receipts is restricted by statutory and constitutional limitations on increases in taxable values (Proposal A) and total receipts (the Headlee Amendment). Counties have the flexibility to ask voters to override the Headlee limitation or request a special dedicated operating levy for specific functions. In addition, the tax rates in some counties are under tax caps and therefore there is a modest ability to increase taxes without voter approval. Property taxes accounted for 50% of Livingston County's operating revenue in fiscal 2013. Livingston County has demonstrated consistently sound management of its financial operation supported by application of multi-year financial planning, conservative budgeting, and recent history of funding pension obligations in excess of actuarial standards

KEY STATISTICS

Full valuation: $18.6 billion

Estimated full value per capita: $103,000

2008-2012 American Community Survey median family income: 128.9%

Available Operating Fund balance: 122.8%

5-Year Dollar Change in Operating Fund Balance as % of Revenues: 56.1%

Net operating cash balance: 95.0%

5-Year Dollar Change in Cash Balance as % of Revenues: 8.3%

Institutional Framework: A

Operating History: 5-Year Average of Operating Revenues / Operating Expenditures: 1.02

Net Direct Debt / Full Value: 0.1%

Net Direct Debt / Operating Revenues: 0.4x

3-Year Average of Moody's ANPL / Full Value: 0.5%

3-Year Average of Moody's ANPL / Operating Revenues: 1.6x

OBLIGOR PROFILE

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.

LEGAL SECURITY

The bonds are secured by the county's pledge and authorization to levy a tax within statutory and constitutional limitations to pay debt service.

USE OF PROCEEDS

Proceeds of the bonds are refunding county's Brighton Township Sanitary Sewer Drainage Bonds, Series 2005.

PRINCIPAL METHODOLOGY

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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