STANDARD
& POOR'S
RATINGS SERVICES

RatingsDirect®

Summary:

Michigan Finance Authority Bay County; General Obligation

Primary Credit Analyst:
Santo F Barretta, Chicago (1) 312-233-7068; santo.barretta@standardandpoors.com

Secondary Contact:
Michael S Furla, Chicago (1) 312-233-7002; michael.furla@standardandpoors.com

Table Of Contents

Summary:

Michigan Finance Authority Bay County; General Obligation

Credit Profile		
US$30.0 mil loc govt ln prog rev bnds (cnty of Bay loc proj bnds) (Bay Cnty) ser 2013B due 11/01/2043		
Long Term Rating	AA/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Michigan Finance Authority's local government loan program revenue bonds, series 2013B (County of Bay local project bonds), issued on behalf of Bay County. At the same time, Standard & Poor's affirmed its 'AA' long-term rating and underlying (SPUR) on the county's existing debt. The outlook is stable.

The ratings reflect our assessment of the county's creditworthiness based on:

- The local economy's ties to Saginaw and Midland;
- The county's strong financial position, strengthened by very strong general fund reserves;
- The county's good financial management practices and policies; and
- The county's low overall net debt burden.

Partially offsetting the above credit strengths, in our view, are the county's below-average income levels.

The local project bonds are payable from the repayment of a loan made by the authority to the county. The county's full faith and credit limited-tax general obligation pledge secures the loan. The authority has pledged its rights under the municipal obligations and all funds derived therefrom to secure the bonds. A full faith and credit pledge, subject to statutory tax limits, secures the county's obligation. It is our understanding that the county intends to satisfy loan payments with water supply system revenues.

The bonds are a portion of a $64 million water system project. We understand bond proceeds will be used, in conjunction with loans from the state of Michigan's Drinking Water Revolving Fund (DWRF), to acquire and construct a new water treatment plant and install roughly two miles of 30-inch raw water transmission main to connect the new water treatment plant to the Saginaw Midland Municipal Water Supply Corporation raw water supply system. The county will borrow a total of $18 million from the DWRF, with $7 million worth of principal forgiveness. Management expects to issue approximately $18 million in additional debt in the first quarter of 2014 to complete the financing of the project. After completion of the project, the new facility will replace the existing Bay City water treatment plant.

Located in east-central Michigan, Bay County's 106,935 residents have access to the Midland and Saginaw employment bases. While the General Motors Corp. powertrain facility and other regional automobile-related manufacturers have historically dominated the employment base, recent downsizing and the development of other area employers have lessened the auto sector's concentration in the area. For example, leading employers now include McLaren Regional Medical Center (2,016 employees), Dow Corning Corp. (silicon products, 1,245), and Delta College (1,029). County unemployment has decreased since the statewide recession, as demonstrated by an average unemployment rate of 11.7%, 9.7%, and 8.5% in 2010, 2011, and 2012 respectively. Income levels are adequate, in our view, with median household effective buying income at 90% of the state level and 86% of the national median.

The county's market value has begun to stabilize, as demonstrated by a modest increase of 0.03% for 2013 to $6.25 billion, equal to $58,407 per capita, which we consider strong. Taxable value decreased 0.5% in 2012 and 1.1% in 2013 to $2.87 billion, but officials say they expect both taxable value and market value will remain stable going forward. The tax base is made up mostly of residential (60%), commercial (13%), and industrial (10%) properties. We consider the tax base diverse, with the 10 leading taxpayers representing 16.5% of total taxable value. Property taxes constitute nearly 95% of the county's general fund receipts. Management indicated that Dow Corning Corp., the county's second-largest taxpayer, is expanding one of its existing facilities and a partial assessment is expected to roll onto the county's tax base starting in fiscal 2014.

In our opinion, the county has maintained a strong financial position due to good management practices and policies. At fiscal year-end 2012 (Dec. 31), the county recorded a surplus of $996,000 in the general fund, increasing the assigned general fund balance of $7.13 million, or 26.0% of expenditures, which we consider very strong. The county carried an additional $5.05 million marked as committed, representing a budget stabilization fund that is available to the counsel in fiscal emergencies. As of Dec. 31, 2012, the county held an unrestricted $7.5 million in the delinquent tax fund. The county board can access this fund for liquidity purposes, if needed. The county's combined budget stabilization, delinquent tax, and assigned general funds equate to $19.69 million, or 71.7% of operating fund expenditures. Historically, the county has produced positive operating balances in the general fund, and management expects to continue this trend with a projected $92,000 surplus for fiscal 2013. We understand that management has balanced recent budgets by cutting expenditures and by sharing services with neighboring municipalities, including police, central dispatch, and mosquito control. The majority of the county's labor contracts are up for negotiation at the end of the fiscal year. Management does not anticipate any issues with negotiations, and expects all contracts to be renewed by Oct. 1, 2013.

Funding for the 2013B bonds is initially reliant on net water system revenues. The county plans to raise rates during the next four years in order to make payments on the 2013A DWRF loan and on the 2013B bonds, as well as on the anticipated 2013C DWRF loan to be approved by the end of fiscal 2013 and on an additional bond issuance in the beginning of fiscal 2014, the final aspect of financing for the project. Rates are not subject to voter approval and can be raised by the county at any time.

Bay County's financial management practices are considered "good" under Standard & Poor's financial management assessment (FMA) methodology. This indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. The county plans its future needs and financial position with a five-year rolling capital plan that identifies financing sources for projects and a rolling three-year financial plan. The county maintains investment policies that follow state guidelines and reports to the board monthly. Management uses historical analysis and accounts for upcoming one-time expenditure items in budgeting and reports budget performance results monthly to the county board. After the initial budget is created, it is amended typically on a monthly basis. The county maintains formal fund balance policies for its budget stabilization fund and the unreserved portion of the general fund.

The county operates a self-funded, single-employer defined benefit retirement plan. The county is required to contribute at an actuarially determined rate according to state statute; for fiscal 2012, the county contributed approximately $3.5 million, or 113% of the annual required contribution for the defined contribution plan. The county has a net pension asset of approximately $1.47 million. The county also provides other postemployment benefits (OPEBs) to county, medical facility, road commission, library, and department of water and sewer employees. The single-employer defined benefit health care plan is sponsored through a Voluntary Employees Beneficiary Association trust, and payments are broken out for each employee group. The total OPEB contributions for all groups in 2012 was approximately $4.21 million. Combined pension and OPEB contributions totaled $7.7 million, representing 16.6% of total governmental funds expenditures, in 2012.

We consider the overall debt burden to be low, at 2.8% of market value and $1,651 per capita. The debt carrying charge is low, in our view, at 5.5% of the 2012 operating budget. Management informs us that the county will borrow an additional $6.0 million from the DWRF in the last quarter of fiscal 2013, with $1 million of principal forgiveness, and anticipates issuing another $18 million at the end of the first quarter of 2014, concluding the funding for the project.

Outlook

The stable outlook reflects our view of the stability of the pledged revenue sources and their statewide basis of collection. We anticipate management will make necessary budget adjustments to maintain at least strong reserves as taxable values in the county stabilize. Due to the county's below-average income levels, we do not anticipate raising the ratings within the two-year outlook horizon. Based on the county's historically strong reserves and good management practices, we do not anticipate lowering the ratings.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of September 6, 2013)		
Bay Cnty (GO)		
Long Term Rating	AA/Stable	Affirmed
Bay Cnty Wtr Supp Sys, Michigan		
Bay Cnty, Michigan		
Bay Cnty Wtr Supp Sys (Bay Cnty) GO (MBIA) (National)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Bay Cnty Wtr Supp Sys GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Ratings Detail (As Of September 6, 2013) (cont.)		
Michigan Fin Auth, Michigan		
Bay Cnty, Michigan		
Michigan Fin Auth (Bay Cnty) local govt ln prog rev bnds (Cnty of Bay local proj bnds)		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.