

## ISSUER COMMENT

26 October 2020

### RATING

#### General Obligation (or GO Related) <sup>1</sup>

Aa2 No Outlook

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## City of Livonia, MI

### Annual Comment on Livonia

#### Issuer Profile

The City of Livonia is located in Wayne County in the southeastern region of Michigan's Lower Peninsula. The city lies within the Detroit metro area, approximately 15 miles west of the city center. The county has a population of 1,761,382 and a high population density of 2,868 people per square mile. The county's median family income is \$58,061 (3rd quartile) and the August 2020 unemployment rate was 12.9% (4th quartile) <sup>2</sup>. The largest industry sectors that drive the local economy are health services, manufacturing, and retail trade.

We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety and the economy. We do not see any material immediate credit risks for Livonia. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Livonia changes, we will update our opinion at that time.

#### Credit Overview

The credit position for Livonia is very good. Its Aa2 rating is slightly stronger than the median rating of Aa3 for US cities. Notable credit factors include a solid financial position, a negligible debt burden and a mid-ranged pension liability. The rating also reflects a substantial tax base and a strong wealth and income profile.

**Finances:** Livonia has a healthy financial position, which is relatively favorable with respect to the assigned rating of Aa2. The cash balance as a percent of operating revenues (37.7%) is consistent with the US median. Also, the city's fund balance as a percent of operating revenues (35.2%) is on par with the US median.

**Debt and Pensions:** The debt burden of Livonia is exceptionally light and is favorable in relation to its Aa2 rating. The net direct debt to full value (0.2%) is materially lower than the US median. Yet, the pension liability of the city is mid-ranged and is unfavorable in comparison to the assigned rating of Aa2. The Moody's-adjusted net pension liability to operating revenues (1.0x) is favorably below the US median.

**Economy and Tax Base:** The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to tourism, hospitality, healthcare, retail, and oil and gas could suffer particularly severe impacts.

Livonia has a very healthy economy and tax base, which are modest credit strengths in relation to its Aa2 rating. The full value (\$10.4 billion) is much stronger than the US median, and saw an impressive increase between 2015 and 2019. Furthermore, the full value per capita (\$111,496) approximates other Moody's-rated cities nationwide. Lastly, the median family income is a healthy 124.8% of the US level.

**Management and Governance:** Michigan cities have an institutional framework score <sup>3</sup> of "A," or moderate. Cities rely on property tax and state aid revenues, which are moderately predictable. Revenue-raising ability is moderate as cities are subject to limits on taxable valuation growth (Proposal A) and revenue growth (Headlee Amendment). The Headlee Amendment restriction creates a permanent reduction in the millage rate, although voters can approve an override. Expenditures are moderately predictable and cities have moderate flexibility to reduce them, but many have cut to minimum service levels. While Michigan's constitution protects accrued pension benefits, changes can be made to future benefits.

### Sector Trends - Michigan Cities

Michigan cities will face pressure from likely state aid reductions as the coronavirus outbreak has adversely affected state finances. Leading up to the coronavirus outbreak, the financial position of many cities benefited from strategic budget decisions and improvements in key revenues that will help to provide a buffer against state aid declines. Cities rely on two primary sources of revenue: property taxes, which makes up the largest revenue source for most cities, and state aid. Taxable values have improved in recent years, but this trend may slow given broader economic trends, which may in turn weaken property tax revenue growth. The biggest expenditure pressure for many cities is unfunded pension and retiree healthcare benefits, which have resulted in growing fixed costs. Rising retirement benefit costs coupled with revenue pressure and unfavorable population trends will likely result in crowding out other spending priorities for many Michigan cities.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## EXHIBIT 1

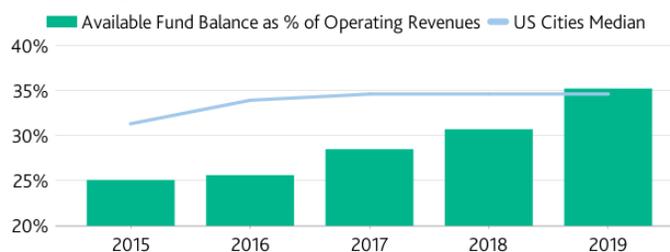
Key Indicators [4](#) [5](#) Livonia

	2015	2016	2017	2018	2019	US Median	Credit Trend
<b>Economy / Tax Base</b>							
Total Full Value	\$8,634M	\$8,966M	\$9,338M	\$9,688M	\$10,443M	\$1,904M	Improved
Full Value Per Capita	\$90,591	\$94,537	\$98,606	\$102,453	\$111,496	\$94,106	Improved
Median Family Income (% of US Median)	128%	127%	127%	125%	125%	111%	Stable
<b>Finances</b>							
Available Fund Balance as % of Operating Revenues	25.1%	25.6%	28.5%	30.7%	35.2%	34.6%	Improved
Net Cash Balance as % of Operating Revenues	28.6%	28.4%	34.5%	32.2%	37.7%	39.6%	Improved
<b>Debt / Pensions</b>							
Net Direct Debt / Full Value	0.4%	0.4%	0.3%	0.3%	0.2%	1.1%	Stable
Net Direct Debt / Operating Revenues	0.44x	0.40x	0.33x	0.29x	0.25x	0.84x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	1.2%	0.9%	0.8%	0.9%	0.9%	1.9%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	1.28x	1.00x	0.86x	0.91x	1.01x	1.56x	Stable
	2015	2016	2017	2018	2019	US Median	
<b>Debt and Financial Data</b>							
Population	95,312	94,849	94,708	94,567	93,665	N/A	
Available Fund Balance (\$000s)	\$20,197	\$20,937	\$24,920	\$28,345	\$34,358	\$8,028	
Net Cash Balance (\$000s)	\$23,038	\$23,244	\$30,172	\$29,704	\$36,810	\$9,530	
Operating Revenues (\$000s)	\$80,627	\$81,806	\$87,513	\$92,351	\$97,576	\$23,172	
Net Direct Debt (\$000s)	\$35,385	\$32,600	\$28,475	\$26,491	\$24,626	\$19,139	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$103,251	\$81,822	\$74,827	\$84,241	\$98,814	\$35,448	

Source: Moody's Investors Service

## EXHIBIT 2

## Available fund balance as a percent of operating revenues increased from 2015 to 2019



Source: Issuer financial statements; Moody's Investors Service

## EXHIBIT 3

## Full value of the property tax base increased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## EXHIBIT 4

## Moody's-adjusted net pension liability to operating revenues decreased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
  - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(September 2019\)](#) methodology report for more details.
  - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
  - The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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