S&P Global
Ratings

RatingsDirect®

Summary:

Livonia Municipal Building Authority, Michigan
Livonia; General Obligation; General Obligation Equivalent Security

Primary Credit Analyst:
Linda Yip, New York (1) 212-438-2036; linda.yip@spglobal.com

Secondary Contact:
Anna Uboytseva, Chicago (1) 312-233-7067; anna.uboytseva@spglobal.com

Table Of Contents

Summary:

Livonia Municipal Building Authority, Michigan Livonia; General Obligation; General Obligation Equivalent Security

Credit Profile		
US$21.06 mil bldg auth rfdg bnds ser 2017 due 05/01/2030		
Long Term Rating	AA/Stable	New
Livonia GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' long-term rating on Livonia Municipal Building Authority, Mich.'s series 2017 limited-tax building authority refunding bonds. At the same time, we affirmed our 'AA' long-term rating on the authority's and Livonia's outstanding parity debt. The outlook is stable.

The bonds are secured by the city's full faith credit and resources as well as its limited property tax pledge. We view the limited tax pledge as on par with the unlimited tax pledge as they are investment grade. It is our understanding that bond proceeds will be used to refund a portion of the authority's series 2007 refunding bonds to achieve present value savings. There is no extension of maturities.

The rating reflects our opinion of the city's:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA), but significant population decline;
- Strong management, with good financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with balanced operating results in the general fund and an operating surplus at the total governmental fund level in fiscal 2015;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2015 of 21% of operating expenditures;
- Very strong liquidity, with total government available cash at 65.4% of total governmental fund expenditures and 17.2x governmental debt service, and access to external liquidity we consider strong;
- Very strong debt and contingent liability position, with debt service carrying charges at 3.8% of expenditures and net direct debt that is 34.2% of total governmental fund revenue, as well as low overall net debt at less than 3% of market value and rapid amortization, with 65.3% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Adequate economy

We consider Livonia's economy adequate. The city, with an estimated population of 93,850, is located in Wayne County in the Detroit-Warren-Dearborn, Mich. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 112% of the national level and per capita market value of $96,190. Overall, the city's market value grew by 3.4% over the past year to $9.0 billion in 2017. Constraining Livonia's economy is its demographic profile, which includes significant countywide population decline of negative 7%. The county unemployment rate was 7.3% in 2015.

Livonia encompasses 36 square miles in north-central Wayne County and is centrally located about 25 miles west of downtown Detroit and 25 miles east of Ann Arbor, which provides residents with additional opportunities throughout this economic area. Major employers located in the city include Ford Motor Co. (2,785 employees), Roush Industries (2,400), and Livonia Public Schools (1,931).

The local and regional economies continue to improve, with ongoing economic developments and declines in unemployment. Recently, Ford announced plans to invest $1.4 billion in its Livonia transmission plant, which is expected to retain or create 500 jobs for the city. This is part of the four-year contract it entered into with the United Automobile Workers union in 2015, in which the auto company agreed to invest a total of $9 billion in its U.S. plants, which the company expects will create or retain a total 8,500 jobs. In addition, Amazon is planning to open a new $90 million regional fulfillment center in the city that is expected to create 1,000 full-time jobs through 2020. Unemployment rates continue to trend down, with county unemployment falling to 7.3% and city unemployment dropping to 3.3% in 2015. Although population decline remains above 5%, if these or other developments contribute to improvements in population trends, slowing the decline to less than 5%, the factor score could improve.

Strong management

We view the city's management as strong, with good financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

During the budget process, management bases its revenue and expenditure assumptions on historical trends, adjusted for current economic trends and information from the state. The city continues to provide its council with monthly updates of its budget-to-actual results and has the ability to amend the budget as needed. Although the city also does not regularly perform any long-term forecasts of its operating revenues and expenditures, it does maintain a formal six-year capital improvement plan that is updated biannually and identifies project funding sources.

The city currently lacks formal policies on debt and reserve management but targets to maintain at least two months of expenditures (estimated 16.7%) in available reserves. The city also has a formal investment policy and provides quarterly reports to the board on its investment holdings and performance.

Strong budgetary performance

Livonia's budgetary performance is strong in our opinion. The city had balanced operating results in the general fund of 0.1% of expenditures, and surplus results across all governmental funds of 4.1% in fiscal 2015.

Although the city has posted consistent operating surpluses in both the general and total governmental funds over the last three years, the general fund surpluses have declined. After adjusting for recurring transfers to support the golf fund and finance capital projects, the city's general fund reported a surplus of just $44,000, or 0.1%, compared with the $1.5 million, or 2.9%, posted in fiscal 2013. The city adopted balanced budgets for fiscal years 2016 and 2017 with no use of reserves. Since the city's fiscal year ends on November 30, final audited results are not yet available. However, city officials anticipate break-even results. Given what we believe to be strong management practices, we believe the city will be able to maintain strong budgetary performance over the next few years. However, if budgetary pressures arise that contribute to any operating deficits, the budgetary performance will weaken.

Very strong budgetary flexibility

Livonia's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2015 of 21% of operating expenditures, or $11.1 million. Over the past three years, the total available fund balance has remained at a consistent level overall, totaling 21% of expenditures in 2014 and 20% in 2013.

The city has consistently maintained very strong budget flexibility over the last three years, which we expect it will maintain over the next few years. Based on current estimates, management expects to post at least break-even operations in fiscal 2016. The city adopted a balanced budget for fiscal 2017 with no use of reserves and management expects the city will be able to meet this target.

Very strong liquidity

In our opinion, Livonia's liquidity is very strong, with total government available cash at 65.4% of total governmental fund expenditures and 17.2x governmental debt service in 2015. In our view, the city has strong access to external liquidity if necessary.

We believe that the city has strong access to external liquidity, as it has issued GO debt, which demonstrates access to capital markets. We do not expect the city's cash position, with respect to its total governmental expenditures and debt service, to change much during the next two years and will remain very strong. We understand that, currently, the city does not have any potential contingent liabilities that could have an adverse impact on its cash position.

Very strong debt and contingent liability profile

In our view, Livonia's debt and contingent liability profile is very strong. Total governmental fund debt service is 3.8% of total governmental fund expenditures, and net direct debt is 34.2% of total governmental fund revenue. Overall net debt is low at 2.9% of market value, and approximately 65.3% of the direct debt is scheduled to be repaid within 10 years, which are in our view positive credit factors.

The city has no plans of issuing any new tax secured debt over the next two years. In addition, management has confirmed that the city has not entered into any variable rate or direct purchase debt.

Livonia's combined required pension and actual other postemployment benefits (OPEB) contributions totaled 8.3% of total governmental fund expenditures in 2015. Of that amount, 2.4% represented required contributions to pension obligations, and 5.9% represented OPEB payments. The city made its full annual required pension contribution in 2015.

The city administers the City of Livonia Employees' Retirement System--a single-employer defined-benefit pension plan that provides retirement, disability, and death benefits to employees hired prior to 1998. We understand that this plan has been closed and currently is 102.8% funded (plan fiduciary net position as a percentage of the total pension liability). Employees hired after 1998 participate in the city's defined-contribution plan.

The city's funded ratio on its OPEB liability improved over the last few years, increasing from 38.8% in 2012 to 56.3% in 2015, the date of the last actuarial report. According to management, this improvement is primarily due to a combination of closing the plan to new hires and lower-than-expected health care claims. Furthermore, the city was able to negotiate changes that require all new retirees to contribute to premium costs of up to $200 per month.

Strong institutional framework

The institutional framework score is strong.

Outlook

The stable outlook reflects our view that the city will maintain its very strong budgetary flexibility, and as such we do not expect to revise the rating within the two-year outlook period. Although the margins have thinned, the city has maintained strong budgetary performance, so our expectation is that it will continue to address any future budgetary pressures and will make changes to ensure it maintains fiscal balance.

Upside scenario

A higher rating is possible if the city's economy was to improve and contribute to a slower or a reversal of the population decline and improvements in income levels commensurate with those of its higher rated peers, holding all other factors equal.

Downside scenario

A lower rating is possible if the budgetary performance were to decline to a level we view as weak or very weak causing significant deterioration in the city's budgetary flexibility. Based on historical performance we do not view that as likely.

Ratings Detail (As Of December 29, 2016)		
Livonia GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Livonia Mun Bldg Auth, Michigan		
Livonia, Michigan		
Livonia Mun Bldg Auth (Livonia)		
Long Term Rating	AA/Stable	Affirmed
Livonia Mun Bldg Auth (Livonia) (District Court Facility) (ASSURED GTY)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Livonia Mun Bldg Auth (Livonia) GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.