

RatingsDirect®

Summary:

**Muskegon County Building Authority,
Mich
Muskegon County; General Obligation**

Primary Credit Analyst:

Kathryn A Clayton, Chicago (1) 312-233-7023; kathryn.clayton@spglobal.com

Secondary Contact:

John Sauter, Chicago (1) 312-233-7027; john.sauter@spglobal.com

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Credit Profile

US\$44.345 mil bldg auth jail and juvenile transition ctr bnds (ltd tax GO) ser 2018 due 11/01/2043		
<i>Long Term Rating</i>	AA/Stable	New
US\$4.775 mil bldg auth comnty mental health bldg rfdg bnds (ltd tax GO) (Muskegon Cnty) ser 2018 due 05/01/2033		
<i>Long Term Rating</i>	AA/Stable	New
Muskegon Cnty GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Muskegon County, Mich.'s limited-tax general obligation (GO) building authority community mental health building refunding bonds, series 2018, and taxable building authority jail and juvenile transition center bonds, series 2018. At the same time, we affirmed our 'AA' long-term rating on the county's limited-tax GO debt outstanding. The outlook is stable.

The 2018 series bonds are individually secured and paid by rental payments from the jail and mental health facilities. Both rental payments constitute a full faith and credit general obligation of the county, and under the provisions of Act 31, the county is required to provide sufficient moneys in its annual budget for the payment thereof and, if necessary, to levy ad valorem taxes on all taxable property within its boundaries for payment thereof. Any such levies, however, are subject to applicable constitutional and statutory tax rate limitations. Despite these limitations, we rate the limited-tax GO debt on par with our view of Muskegon County's general creditworthiness as would be reflected in an unlimited-tax GO bond.

The series 2018 taxable jail and juvenile transition center bonds will be used to restructure the county's series 2013 limited-tax GO bonds to achieve level debt service payments in with the useful life of the facility. The series 2018 community mental health building refunding bonds will be used to refund the county's series 2008 bonds for interest cost savings.

The 'AA' rating also reflects our view of the following credit factors:

- Weak economy, with projected per capita effective buying income at 75.3% of the national level and market value per capita of \$59,279;
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Adequate budgetary performance, with a slight operating deficit in the general fund but a slight operating surplus at the total governmental fund level in fiscal 2017;

- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 26% of operating expenditures;
- Very strong liquidity, with total government available cash at 41.0% of total governmental fund expenditures and 13.1x governmental debt service, and access to external liquidity we consider strong;
- Adequate debt and contingent liability position, with debt service carrying charges at 3.1% of expenditures and net direct debt that is 58.0% of total governmental fund revenue, but a large pension and other postemployment benefit (OPEB) obligation; and
- Strong institutional framework score.

Weak economy

We consider Muskegon County's economy weak. The county has an estimated population of 173,408. The county has a projected per capita effective buying income of 75.3% of the national level and per capita market value of \$59,279. Overall, the county's market value grew by 4.3% over the past year to \$10.3 billion in 2018. The county unemployment rate was 5.2% in 2016.

Muskegon County is located on the west-central part of the state along Lake Michigan. The county seat is the city of Muskegon, which is located approximately 40 miles northwest of Grand Rapids. The county's tax base is primarily residential (72% of taxable value); however, the county has a strong commercial and industrial component (combined 18% of taxable value). The county's tax base has grown consistently in recent years, with the exception of fiscal 2016. However, the fiscal 2016 decline was due to personal property tax exemptions. While county management expects that it will continue to see personal property tax exemptions in future years, growth and development are projected to outpace the impact of potential future exemptions. Economic development continues along the county's waterfront, within the aerospace component manufacturing industry, and in the health care industry. As a result, the county's job market growth has remained stable. Leading employers in the county include Mercy Health Partners (4,372 employees), Arconic Howmet (aerospace manufacturing, 2,355 employees), the county itself (1,089 employees), and Meijer (grocery, 900 employees). Given continuous growth and development in both the tax base and within the local job market, we expect overall economic characteristics to remain stable in future years.

Strong management

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

The county utilizes both historical and external sources of information to build budgetary assumptions. As the county works its way through the fiscal year, the county board receives frequent updates on budget-to-actual financial comparisons. The county also has its own investment policy and reports monthly on the investment portfolio to its board. There is no debt management policy, but the county does monitor upcoming capital needs through a rolling five-year capital improvement plan. The county also annually updates a five-year general fund financial projection, and it has a policy that states a targeted fund balance equal to 23% of general fund expenditures, for cash flow and contingency purposes.

Adequate budgetary performance

Muskegon County's budgetary performance is adequate in our opinion. The county had slight deficit operating results in the general fund of negative 1.4% of expenditures, but a slight surplus result across all governmental funds of 0.8% in fiscal 2017.

We have adjusted the county's revenue and expenditures to include recurring transfers and exclude one-time costs.

The county's general fund performance has been positive in recent years. However fiscal 2017 results included a transfer into the general fund from the county's delinquent tax revolving fund, which was higher than the normal annual transfer. After excluding this one-time portion of the transfer from revenue, and adjusting for other ongoing transfers and one-time items, the overall general fund performance was adequate. The total governmental funds overall performance was positive in fiscal 2017 as well. For fiscal 2018, county management expects to post break-even operations in the general fund, despite facing budgetary pressures, a failed millage referendum, and limited revenue-raising flexibility. In fall 2017, the county approached voters with a referendum for a property tax millage to support the county's youth and family criminal justice system. The millage did not pass but had been included in the budget for fiscal 2018. The county had identified a general fund imbalance of approximately \$4.9 million if the millage did not pass. After the millage failed, the county began implementing budgetary cuts through staffing, benefits, and department-wide budget reductions. During this process, the county board agreed to close the county-owned Brookhaven medical care facility, the operations of which the county had been subsidizing for many years. In recent years, the subsidies ranged from \$350,000 to \$770,000. Most of the budgetary reductions planned for fiscal 2018 have been implemented, and county management now expects break-even operations in the general fund for the year as a direct result of management's actions to cure the imbalance. Total governmental fund performance is expected to remain positive.

Very strong budgetary flexibility

Muskegon County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 26% of operating expenditures, or \$12.1 million. The available fund balance includes \$9.5 million (19.9% of expenditures) in the general fund and \$2.7 million (5.7% of expenditures) that is outside the general fund but legally available for operations.

The county's expenditures have been adjusted to include recurring transfers and exclude one-time expenditures. The county has consistently maintained reserves in the 25%-30% range, although its targeted available general fund balance is 23% (when including available general fund, set-aside budget stabilization reserves, and available delinquent tax revolving fund reserves). Given the county's expectation of break-even operations in the general fund for fiscal 2018 and fiscal 2019, we expect overall financial flexibility to remain consistent in future years.

The county's primary source of general fund revenue is property tax (56.4%), followed by charges for services (22.5%) and state shared revenue (15.5%). The county levies at its maximum authorized property tax levy and has limited revenue raising flexibility, in our opinion.

Very strong liquidity

In our opinion, Muskegon County's liquidity is very strong, with total government available cash at 41.0% of total governmental fund expenditures and 13.1x governmental debt service in 2017. In our view, the county has strong

access to external liquidity if necessary.

The county has maintained a very strong liquidity position, and the county management does not plan to spend down cash over the next few years. The county has privately placed certain debt obligations in the past; however, the transaction documents include no acceleration provisions, and as a result, the obligations are not considered a significant liquidity risk. The county has been a frequent issuer of limited-tax GO debt for the past 20 years, demonstrating strong access to the market. The county typically places its delinquent tax note privately with a bank and had privately placed its 2013 limited-tax GO bonds in the fall of 2013 to fund a county jail project. We do not consider these bonds to have provisions that may have any significant negative effect on liquidity. We therefore do not anticipate the liquidity assessment changing in the near term.

Adequate debt and contingent liability profile

In our view, Muskegon County's debt and contingent liability profile is adequate. Total governmental fund debt service is 3.1% of total governmental fund expenditures, and net direct debt is 58.0% of total governmental fund revenue.

The county is preparing to issue its annual delinquent tax note at about \$12 million, and expects to issue \$3.1 million of drainage district bonds. Both planned issues will hold a limited-tax GO pledge of the county, and both have been included in our consideration of the county's total debt profile. We have given self-support for debt that is secured by the county's limited-tax GO pledge but is historically paid from enterprise revenue and for the drain bonds outstanding, which are paid from participating municipalities.

In our opinion, a credit weakness is Muskegon County's large pension and OPEB obligation. Muskegon County's combined required pension and actual OPEB contributions totaled 6.7% of total governmental fund expenditures in 2017. Of that amount, 5.2% represented required contributions to pension obligations, and 1.5% represented OPEB payments. The county made its full annual required pension contribution in 2017. The funded ratio of the largest pension plan is 62.5%.

The county contributes to a defined benefit pension plan through the Michigan Municipal Employees Retirement System, or MERS (an agent multiple-employer plan administered by the MERS retirement board). The plan has been closed to certain new employees since 2007, and the county now offers a defined contribution plan to those new hires. Contributions to the MERS plan are moderate when compared to the size of the county's budget, but the Dec. 31, 2016, valuation date net pension liability of \$101.5 million represented a 62.5% funded ratio, which we believe is low. While the underfunded pension liability is not placing significant pressure on the budget now, we believe future pension costs could rise given that the MERS plan uses aggressive assumptions on rates of return and risky mortality projections. The county has taken steps to mitigate future cost increases by closing the defined benefit plan to new employees, and continues to negotiate benefit changes with staff. The county also administers a single-employer defined benefit postemployment healthcare benefit plan for retired employees and beneficiaries. The plan held a net OPEB liability of \$60.3 million, which represented a funded ratio of 46.9%.

Strong institutional framework

The institutional framework score for Michigan counties with a population greater than 4,000 is strong.

Outlook

The stable outlook reflects our expectation that the county management will continue its practice of making budgetary adjustments as necessary each year to ensure that general fund reserves are maintained in compliance with the county's reserve policy, regardless of budgetary pressures that may arise. Additionally, we expect that the economy will continue to strengthen with new developments and expansion among leading employers and industries, and therefore we do not expect to change the rating within the two-year outlook horizon.

Downside scenario

We could lower the rating if the county's budget were to come under pressure due to increasing costs or if the county's economy were to deteriorate to the point where it was no longer comparable with those of 'AA' rated peers, regardless of other credit strengths.

Upside scenario

Should the county's local economic metrics show signs of sustainable improvement, and should the county be able to significantly grow general fund reserves, we could consider raising the rating, although we believe this is unlikely, given the current economic profile.

Related Research

2017 Update Of Institutional Framework For U.S. Local Governments

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