S&P Global Ratings

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Summary:

Grand Ledge, Michigan; General Obligation

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Summary:

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Credit Profile		
Grand Ledge GO		
Long Term Rating	AA-/Stable	Upgraded
Grand Ledge GO (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Grand Ledge GO (MAC)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its rating on Grand Ledge, Mich.'s existing general obligation (GO) debt one notch to 'AA-' from 'A+'. The outlook is stable.

The upgrade reflects our view of the city's three consecutive years of positive performance, which have, in turn, grown reserves with the anticipation of maintaining them near current levels in accordance with the city's fund balance policy. The rating also reflects our view that management is taking steps necessary to reduce the city's pension liability while maintaining positive financial performance.

Grand Ledge's full faith and credit limited-tax GO pledge and an agreement to levy ad valorem property taxes, within statutory and constitutional tax limitations applicable to the city, secure the bonds outstanding. Despite these limitations, we rate the limited-tax GO debt on par with our view of the city's general creditworthiness, as reflected in its unlimited-tax GO rating.

The rating further reflects our assessment of the city's:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with good financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2017;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2017 of 45% of operating expenditures;
- Very strong liquidity, with total government available cash at 63.6% of total governmental fund expenditures and 3.5x governmental debt service, and access to external liquidity that we consider strong;
- Very weak debt and contingent liability profile, with debt service carrying charges at 18.2% of expenditures and net direct debt that is 168.8% of total governmental fund revenue, and a large pension and other postemployment benefits (OPEB) obligation, but rapid amortization, with 81.2% of debt scheduled to be retired in 10 years; and

- Strong institutional framework score.

Adequate economy

We consider Grand Ledge's economy adequate. The city, with an estimated population of 8,001, is located in Clinton and Eaton counties in the Lansing-East Lansing, Mich. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 106.4% of the national level and per capita market value of $57,947. Overall, the city's market value grew by 4.8% over the past year to $463.6 million in 2018. The weight-averaged unemployment rate of the counties was 4.0% in 2016.

Residential, commercial, and industrial valuations account for approximately 71%, 22%, and 1.4%, respectively, of the city's taxable values. Management anticipates increases in taxable values and stability in the largest taxpayers, which include the recent addition of a manufacturing company. The 10 largest taxpayers make up approximately 12.1% of the assessed value in 2017. Management also outlined possible residential development due to a proposed luxury apartment complex to be built on previously undeveloped land. Lastly, management also notes that no significant tax appeals are outstanding. Therefore, we expect the city's economy to remain adequate, in our opinion, over the next two years.

Strong management

We view the city'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.

Some of the management highlights include:

- Use of at least three years of historical information in the formulation of the upcoming year's revenue and expenditure assumptions with the help of outside sources and a line-by-line approach to budgeting;
- Monthly reporting of budget-to-actual performance to the council with the ability to make amendments to the budget as needed;
- A formal long-term capital plan that addresses the city's capital needs for the next five years.
- Formalized investment management policy with monthly reporting of investments and holdings;
- Formalized debt management policy; and
- Formalized fund balance policy to maintain 25% of budgeted expenditures in fund balance.

The city lacks a long-term financial plan.

Strong budgetary performance

Grand Ledge's budgetary performance is strong, in our opinion. Budgetary performance has been adjusted to account for recurring transfers, bond proceeds, and one-time revenues and expenditures. Our assessment also accounts for the fact that we expect budgetary results could deteriorate somewhat from 2017 results in the near term.

For fiscal 2017, the city's general fund resulted in an operating surplus of 7.4% of expenditures, and across total governmental funds resulted in an operating surplus of 13.2% of expenditures. The city plans to use the general fund surplus for future capital improvements and maintaining the target fund balance. The general fund was primarily funded by taxes (52% of revenues), followed by intergovernmental revenues (31%), and licenses and permits (9%).

For fiscal 2018, Grand Ledge's amended budget reflects a deficit of approximately $151,000. Based on historical results, management typically budgets conservatively when comparing final budgeted figures to actual results. The budget includes one-time revenue for a Michigan State Housing and Development Authority grant, and one-time expenditures for eliminating dilapidated properties and purchasing new property. For fiscal 2019, the city has yet to adopt a budget, however preliminary figures demonstrate a possible deficit of approximately $68,000. Despite the possibility of a deficit, we expect Grand Ledge's budgetary performance to be strong over the next two years given the city's ability to outperform its budget.

Very strong budgetary flexibility

Grand Ledge's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2017 of 45% of operating expenditures, or $1.2 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a credit strength.

Despite a budgeted general fund deficit in fiscal 2018 and possible deficit in 2019, we believe that the city's budgetary flexibility will remain very strong given management's conservative budgetary practices and intention to maintain available fund balance at current levels.

Very strong liquidity

In our opinion, Grand Ledge's liquidity is very strong, with total government available cash at 63.6% of total governmental fund expenditures and 3.5x governmental debt service in 2017.

We believe the city has strong access to external liquidity, having issued GO debt that 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 in the next two years and believe it will remain strong. We understand the city does not have any potential contingent liabilities that could have an adverse effect on the cash position.

Very weak debt and contingent liability profile

In our view, Grand Ledge's debt and contingent liability profile is very weak. Total governmental fund debt service is 18.2% of total governmental fund expenditures, although this is mainly caused by a front-loaded maturity schedule for the city's 2016 bonds. Net direct debt is 168.8% of total governmental fund revenue. Approximately 81.2% of the direct debt is scheduled to be repaid within 10 years, which we view as a credit strength.

In 2019, the city intends to fund a facility for housing road-salt through an installment purchase agreement. Despite this, the city currently does not have any major plans to issue additional debt in the near term. Furthermore, the city does not have any direct purchase debt, private placements, or variable rate debt instruments.

In our opinion, a credit weakness is Grand Ledge's large pension and OPEB obligation. Combined required pension and actual OPEB contributions totaled 6.4% of total governmental fund expenditures in 2017. Of that amount, 2.2% represented required contributions to pension obligations, and 4.2% represented OPEB payments.

City law enforcement participate in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer, defined benefit pension plan. The city makes its full required contributions according to state statutes each year. The city's proportion of the net MERS liability as of the 2016 valuation was $1.367 million. The funded ratio, which consists of the plan fiduciary net position as a percent of the total pension liability, was 57.6%, an increase from the 2016 valuation of 52.8%. We believe the plan's high discount rate, wage inflation, and static mortality assumptions are somewhat aggressive. However, the city is reducing the pension liability by contributing above its required contribution. It made 166% of its annual required pension contribution in 2017. In addition to contributing above the required contribution in 2018, the city plans to continue to do so for fiscal 2019 and beyond. Although the city is taking action to reduce its liability, increased contributions may place additional pressure on finances, in our opinion.

The city also established the City of Grand Ledge Group Pension Plan, a defined contribution pension plan administered by the Public Sector Retirement Organization to provide retirement benefits to all participating full-time employees of the city. Its maximum contribution does not exceed 15% for employees hired before July 1, 2012, and 10% for employees hired after June 30, 2012. Employer contributions to the plan for fiscal year-end 2017 was $127,677.

The city also provides OPEBs to its retirees through a city-administered single-employer defined benefit health care plan that provides health insurance benefits to certain retirees and, in some cases, their beneficiaries. The required contribution is based on projected pay-as-you-go financing requirements, however the city prefunds it on a discretionary basis. For the year ended June 30, 2017, the unfunded actuarial accrued liability was $771,725, and the plan was 18% funded. For 2017, the city contributed $174,903, which included $150,000 in advance funding. Management expects to advance fund again in 2018.

Strong institutional framework

The institutional framework score for Michigan municipalities with a population between 4,000 and 600,000 is strong.

Outlook

The stable outlook reflects our view that the city will maintain its very strong budgetary flexibility and strong budgetary performance, despite potential for pension contributions to increase. Therefore, we do not expect to change the ratings within the two-year outlook period.

Upside scenario

If all credit factors remain stable, we could raise the rating if the city's economic metrics improve to levels commensurate with those of higher rated peers.

Downside scenario

A lower rating is possible if budgetary performance declines to a level that we view as weak or very weak, causing a significant deterioration in the city's budgetary flexibility.

Related Research

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