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Summary:

Grand Ledge, Michigan; General Obligation

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Credit Profile

US\$4.0 mil downtown development bnds (GO - ltd tax) ser 2023 due 04/01/2043

<i>Long Term Rating</i>	AA-/Stable	New
Grand Ledge GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
Grand Ledge GO (AGM)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
Grand Ledge GO (MAC)		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings assigned its 'AA-' rating to the city of Grand Ledge, Mich.'s, roughly \$4 million series 2023 limited-tax general obligation (LTGO) downtown development bonds.
- S&P Global Ratings also affirmed its 'AA-' rating on the city's outstanding LTGO debt.
- The outlook is stable.

Security

Series 2023 bonds are secured by tax increment financing (TIF) revenue and by the city's limited full-faith-and-credit pledge if TIF revenue is insufficient for debt service. We did not receive sufficient information to evaluate the TIF revenue pledge; therefore, the 'AA-' rating reflects our assessment of the city's LTGO pledge. We rate the LTGO pledge on par with our view of the city's general creditworthiness because ad valorem property taxes are collected from the entire tax base, and because there are few limitations on the fungibility of resources available for debt service.

Management will use bond proceeds to improve streetscapes and public gathering spaces in downtown Grand Ledge.

Credit overview

Grand Ledge is a small city just west of Lansing with a strong managerial team that consistently maintains reserves over 25% of general fund expenditures. Underpinning this financial strength are management's conservative budgeting and the city's growing tax base, yielding year-over-year increases in property tax revenue, the city's primary source of operating revenue (47% in fiscal 2022).

Debt is comparatively high, partially due to overlapping debt, and management plans to issue water-sewer debt through the state's revolving fund later this year; however, we do not expect this to pressure governmental funds. Pension and other postemployment benefit (OPEB) costs are consistent with those of similar-rated peers.

The rating reflects our view of the city's:

- Proximity to Lansing, providing residents with access to good-paying jobs;
- Strong operating performance history and maintenance of very strong reserves;
- Good financial-management policies, practices under our Financial Management Assessment methodology, coupled with a strong Institutional Framework; and
- Lack of additional debt plans and manageable fixed costs (i.e., debt, pension, and OPEB) despite pension and OPEB contributions exceeding the required amounts.

Environmental, social, and governance

We do not currently identify any outsized environmental, social, or governance risks; we view them as neutral within our credit analysis.

Outlook

The stable outlook reflects our expectation for limited change to the credit fundamentals during the two-year outlook because reserves should remain very strong, and because economic growth should continue despite some recessionary headwinds.

Downside scenario

We could lower the rating if the city were to experience a period of prolonged structural imbalance that causes significant financial deterioration.

Upside scenario

We could raise the rating if wealth levels continue improving due to economic growth, coupled with the maintenance of reserves at higher levels and the formalization of some key financial-management policies/practices typically seen by higher-rated peers, such as rolling financial projections for governmental funds.

Credit Opinion

Stable economy near Lansing with ongoing residential and commercial development

Grand Ledge is located 15 minutes west of downtown Lansing and covers about four square miles, mostly in Eaton County and partially in Clinton County.

The tax base is 68% residential, 28% commercial, and 4% industrial/utility. Between fiscal years 2019 and 2023, average annual growth rates of taxable value and market value were 5.8% and 7.7%, respectively. Management reports ongoing residential development by homebuilders Allen Edwin Homes and Mayberry Homes in the north and south portions of the city. Additionally, an Amazon fulfillment center and a battery manufacturing plant (Ultium Cells, LLC) are under construction in the nearby Delta Township; the facilities are expected to open in 2024 and 2025, respectively, and are expected to create thousands of jobs once fully operational.

Average Eaton County unemployment was 5.3% in 2021, lower than that of the nation (5.4%) and state (5.9%). County unemployment peaked at 20.6% in April 2020 due to COVID-19, decreasing to 3.3% in November 2022.

Proactive management with good risk-mitigating policies, practices

Highlights include management's:

- Zero-based budgeting based on historical analysis, economic trends, capital needs, and external-information sources;
- Monthly budget-to-actual reports to the city council;
- Lack of formalized financial projections for governmental funds, aside from one-year general fund projections that are required for participation in the state's shared-revenue program, but an awareness of trends and financial projections are done for water and sewer operations;
- Rolling five-year capital-improvement plan (i.e., budget year plus four), with funding sources identified;
- Formalized investment-management policy and monthly reporting of investment account balances to the city council;
- Formalized debt-management policy that mirrors state guidelines; and
- Formalized reserve policy outlining the city's goal of maintaining the unassigned general fund balance at 25% of expenditures, or more, which is followed.

The Institutional Framework score for Michigan municipalities is strong.

Operations primarily funded by property taxes and local sources, very strong reserves

We adjusted fiscal 2020-2022 operating results to include recurring transfers out of the general fund as regular operating expenditures. We also adjusted total governmental revenue to include recurring transfers from enterprise funds as regular governmental revenue, and we removed one-time spending funded by bond proceeds from total governmental expenditures.

Fiscal 2022 general fund revenue includes:

- Property taxes = 47%
- Intergovernmental = 38%
- Local fees/fines/charges = 13%
- Interest and other = 2%

Fiscal 2022 ended with a \$508,000 general fund surplus, or 14.9% of expenditures, mostly due to about \$415,000 in unbudgeted American Rescue Plan Act (ARPA) funds, and due to a positive variance with property taxes.

The adopted fiscal 2023 general fund budget assumes a \$357,000 deficit, or 8% of expenditures; however, this is largely due to one-time capital outlays related to baseball field improvements, equipment purchases, and city hall upgrades. The budget does not include \$415,000 in ARPA funds received by the city in fiscal 2023, and management expects less capital spending; therefore, we expect that reserves will be maintained at very strong levels despite the planned drawdown.

Overall, we expect stable finances over the next few years because operations are structurally balanced and because

the city has room to increase its operating levy by about 3.5 mills if operating pressures were to emerge.

Manageable debt, costs due to water-sewer revenue support

Net direct debt will total about \$12.4 million following issuance of the series 2023 bonds. We consider a portion of the city's LTGO-backed debt as self-supporting as it is paid from water-sewer revenue, with sufficient coverage in fiscal years 2020-2022. Grand Ledge closed on a \$12.9 million Drinking Water State Revolving Fund (SRF) loan in Jan. 2023, and management plans on issuing another \$34.7 million in SRF loans over the next year. Beyond this, management lacks additional debt plans, and we do not expect water-sewer debt to pressure governmental operations. According to management, the city does not have any direct placement debt.

Manageable pension and OPEB costs despite making contributions above required amounts

Grand Ledge's retirement plans include:

- Michigan Employees Retirement System (MERS), an agent multiple-employer defined-benefit pension plan for the city's law enforcement;
- Grand Ledge Group Pension Plan, a defined-contribution plan administered by an insurance company; and
- Grand Ledge Retiree Healthcare Plan, a single-employer defined-benefit OPEB plan closed to employees hired after July 1, 2018, that is administered using a MERS' retiree health funding vehicle.

Retirement funding progress includes:

- MERS, 71% funded and a \$1.1 million net liability as of Dec. 31, 2021, measured using a 7.25% discount; and
- Grand Ledge Retiree Healthcare Plan, 240% funded and a \$504,000 net asset as of June 30, 2022, measured using a 7.35% discount.

MERS contributions have equaled or exceeded the actuarially determined contribution since first reporting in fiscal 2015. Required contributions to the Grand Ledge Retiree Healthcare Plan are calculated on a pay-as-you-go basis; however, contributions have also exceeded required amounts since first reporting in fiscal 2018 due to management's desire to prefund future liabilities, which we view favorably.

Overall, we view pension and OPEB costs as a limited credit pressure, but there is some cost-escalation risk due to market volatility, considering the plans are measured with discount rates above our 6% guideline.

Grand Ledge, Mich.--Key Credit Metrics				
	Most recent	Historical information		
		2022	2021	2020
Adequate economy				
Projected per capita EBI % of U.S.	108.5			
Market value per capita (\$)	78,101			
Population		8,131	8,078	
County unemployment rate (%)		5.3		
Market value (\$000)	635,036	578,800	539,536	
Ten largest taxpayers % of taxable value	15.7			

Grand Ledge, Mich.--Key Credit Metrics (cont.)

	Most recent	Historical information		
		2022	2021	2020
Strong budgetary performance				
Operating fund result % of expenditures	14.9	(1.4)	(0.6)	
Total governmental fund result % of expenditures	9.5	(0.8)	3.1	
Very strong budgetary flexibility				
Available reserves % of operating expenditures	53.3	38.7	41.4	
Total available reserves (\$000)	1,818	1,316	1,362	
Very strong liquidity				
Total government cash % of governmental fund expenditures	154.1	160.2	194.5	
Total government cash % of governmental fund debt service	1,211.6	941.8	1,425.8	
Strong management				
Financial Management Assessment	Good			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures	12.7	17.0	13.6	
Net direct debt % of governmental fund revenue	182.1			
Overall net debt % of market value	5.1			
Direct debt 10-year amortization (%)	49.8			
Required pension contribution % of governmental fund expenditures	2.7			
OPEB actual contribution % of governmental fund expenditures	0.6			
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Data points and ratios may reflect analytical adjustments.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019
- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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