

CREDIT OPINION

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New Issue

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Ypsilanti (City of), MI

New Issue - Moody's assigns A2 to Ypsilanti, MI's \$10.5M GOLT Refunding

Summary Rating Rationale

Moody's Investors Service has assigned an A2 rating to the City of Ypsilanti's Limited Tax General Obligation (GO) Refunding Bonds, Series 2016A and Series 2016B. Moody's maintains an A2 rating on the city's previously issued general obligation limited tax (GOLT) debt. Post-sale, the city will have \$11.3 million of rated GOLT debt outstanding. The A2 rating reflects the city's modestly-sized tax base which benefits from the presence of Eastern Michigan University, healthy reserve levels, elevated but manageable debt burden, and above average pension liability. The rating also considers the constitutional and statutory limitations on the operating revenues available to pay debt service.

Credit Strengths

- » Modestly-sized growing tax base with significant institutional presence
- » Healthy reserve and liquidity levels

Credit Challenges

- » Elevated debt burden
- » Michigan's statutory limits on taxable valuation and revenue growth cause revenue loss during times of tax base decline and slow recovery of revenues as valuations increase

Rating Outlook

Moody's does not normally assign outlooks to local governments with this amount of debt.

Factors that Could Lead to an Upgrade

- » Significant reduction in the city's debt burden
- » Strengthening of the tax base and/or demographic profile

Factors that Could Lead to a Downgrade

- » Material declines in reserves or liquidity
- » Weakening of the tax base and/or demographic profile
- » Increases to the city's debt burden

Key Indicators

Exhibit 1

Ypsilanti (City of) MI	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 656,691	\$ 601,144	\$ 604,542	\$ 623,185	\$ 661,605
Full Value Per Capita	\$ 33,789	\$ 31,027	\$ 30,811	\$ 30,940	\$ 32,947
Median Family Income (% of US Median)	87.7%	79.7%	71.7%	71.7%	71.7%
Finances					
Operating Revenue (\$000)	\$ 15,813	\$ 15,820	\$ 15,527	\$ 16,549	\$ 15,913
Fund Balance as a % of Revenues	68.9%	63.5%	64.0%	46.9%	63.0%
Cash Balance as a % of Revenues	71.0%	67.7%	70.5%	50.0%	53.7%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 28,685	\$ 27,095	\$ 25,530	\$ 23,685	\$ 21,964
Net Direct Debt / Operating Revenues (x)	1.8x	1.7x	1.6x	1.4x	1.4x
Net Direct Debt / Full Value (%)	4.4%	4.5%	4.2%	3.8%	3.3%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	1.8x	1.9x	2.3x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	4.7%	5.2%	5.5%

Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Modestly-Sized Tax Base with Institutional Presence

The City of Ypsilanti derives stability from the presence of Eastern Michigan University (A1 negative) and its close proximity to the City of Ann Arbor (Aa1). The city's modest \$661.6 million tax base has contracted an average of 1.3% annually over the last five years, but has recently stabilized with increases of 3.1% and 6.2% in 2014 and 2015, respectively. Eastern Michigan University, with a student population of over 17,000, is located within the city and provides institutional stability as well as a major source of employment (approximately 1,730 employees in 2015). The city is comprised of a diverse mix of residential and commercial properties, and residents also have easy access to employment opportunities in neighboring Ann Arbor, home to the University of Michigan (Aaa stable).

Resident income levels are below the national average with median family income at 71.1% of the US, according to estimates from the American Community Survey (2009-2013), though wealth indicators are skewed by the sizable student population within the city. At 2.9%, the city's November 2015 unemployment rate was well below both state (4.5%) and national (4.8%) rates.

Financial Operations and Reserves: Recent Operating Surplus; Ample Reserves

The city's large financial reserves will likely remain healthy despite ongoing operational imbalance. Prior to posting a modest \$236,000 General Fund operating surplus in fiscal 2015, the city had five consecutive years of deficits which resulted in a decline in available General Fund balance from \$9.3 million, or 65.2%, in fiscal 2010, to \$7.8 million, or a still strong 55.5% of revenues, in fiscal 2015. The majority of recent deficits are attributable to expenses associated with city-wide improvements, including retrofitting the majority of the city's streetlights to LED lights and purchasing new public safety equipment and vehicles. Available fund balance across the city's operating funds (General and Debt Service Funds) was \$10 million, or 63% of total operating revenues at the close of fiscal 2015. For fiscal 2016, the city budgeted a draw of \$1.4 million on General Fund reserves predominately driven by a partial use of fund balance in conjunction with the current refunding, however city management now anticipates a deficit of approximately \$1 million.

LIQUIDITY

The city closed fiscal 2015 with an Operating Fund net cash position of \$8.5 million, or an ample 53.7% of operating fund revenues.

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Debt And Pensions: Manageable Debt Burden With Above Average Pension Liabilities

The city's debt burden will remain manageable given the absence of future borrowing plans. Post-sale, the city's debt burden will be an above average 2.7% of full value, or 1.1 times revenues. Fixed costs including debt service, pension, and other post-employment benefits comprised a high 36% of fiscal 2015 revenues.

DEBT STRUCTURE

All of the city's debt is fixed rate. Principal amortization is below average with 61.3% of debt retired within ten years. The city's Series 2012 GOULT Refunding Bonds were privately placed with KeyBank N.A. (Aa3, rating under review). The Series 2012 bonds mature in 2018 and currently have an outstanding balance of \$2.3 million. The terms of the privately placed bonds do not give holders any rights or remedies not available to holders of the city's other general obligation limited tax obligations.

DEBT-RELATED DERIVATIVES

The city not a party to any derivative agreements.

PENSIONS AND OPEB

Ypsilanti has elevated unfunded pension and OPEB liabilities. Eligible city employees participate in either the multi-employer agent plan Municipal Employees' Retirement System of Michigan (MERS), or the City of Ypsilanti's single-employer Police and Fire Retirement System. Based on our approach for assessing pension liabilities, the city's three-year average Moody's adjusted net pension liability (ANPL) through fiscal 2015 is \$36.4 million, equivalent to a high 5.5% of full valuation and 2.3 times fiscal 2015 operating revenue. Our adjustments are not intended to replace Ypsilanti's reported funding information, but to improve comparability with other rated entities. In fiscal 2015 the city contributed a combined \$2.6 million to its pension plans, or 16.4% of operating fund revenue. The city's unfunded OPEB liability was \$13.8 million as of its most recent December 2014 actuarial valuation date, equivalent to 0.9 times fiscal 2015 operating fund revenue.

Management and Governance: Capacity to Raise Revenue is Limited by Statute and Voter Authorization

Michigan cities have an institutional framework score 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.

Legal Security

The Series 2016 bonds and the city's outstanding GOLT debt are secured by the city's general obligation limited tax pledge, which is backed by the city's full faith and credit pledge. Payment of the bonds are a first budget obligation from the general fund, including the collection of its property tax, which is subject to constitutional and statutory limitations.

Use of Proceeds

Proceeds from the Series 2016A and 2016B bonds will be used to refund the city's outstanding 2006 GOLT Capital Improvement Refunding Bonds for debt service savings.

Obligor Profile

Ypsilanti encompasses approximately 4.5 square miles in Washtenaw County (Aaa), just east of the city of Ann Arbor (Aa1). The city had a population of 19,435 as of the 2010 Census, and is home to Eastern Michigan University.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moody's.com for a copy of this methodology.

Ratings

Exhibit 2

YPSILANTI (CITY OF) MI

<u>Issue</u>	<u>Rating</u>
Limited Tax General Obligation Refunding Bonds, Series 2016A (Taxable)	A2
Rating Type	Underlying LT
Sale Amount	\$8,210,000
Expected Sale Date	02/23/2016
Rating Description	General Obligation Limited Tax
Limited Tax General Obligation Refunding Bonds, Series 2016B (Taxable)	A2
Rating Type	Underlying LT
Sale Amount	\$2,290,000
Expected Sale Date	02/23/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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