

CREDIT OPINION

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New Issue

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Contacts

Natalie Claes 312-706-9973
Associate Analyst
natalie.claes@moodys.com

Matthew Butler 312-706-9970
Vice President
matthew.butler@moodys.com

Ypsilanti (City of), MI Water & Sewer Enterprise

New Issue: Moody's Assigns A1 to City of Ypsilanti, MI's \$8.5M Water and Sewer Revenue Bonds, Ser. 2016

Summary Rating Rationale

Moody's Investors Service has assigned an A1 to the City of Ypsilanti, MI's \$8.5 million Water Supply and Sewerage Disposal System Revenue Refunding Bonds, Series 2016. Moody's maintains an A1 rating on the city's outstanding water and sewer revenue debt. Inclusive of the current sale, the utility has \$14.7 million of senior lien, \$9.3 million of junior lien, and \$1.2 million of general obligation debt outstanding.

The A1 rating reflects the system's modest but stable service area which benefits from the presence of Eastern Michigan University, relatively narrow liquidity and debt service coverage ratios, unlimited rate setting authority vested in the city, and sound legal covenants associated with the bonds.

Credit Strengths

- » Eastern Michigan University remains a stabilizing presence in local economy and service area
- » Unlimited rate-setting authority

Credit Challenges

- » Exposure to water rate increases by the Great Lakes Water Authority
- » Narrow debt service coverage and liquidity compared to similarly rated utilities

Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt.

Factors that Could Lead to an Upgrade

- » Significant growth and diversification of customer base
- » Strengthened liquidity and/or debt service coverage

Factors that Could Lead to a Downgrade

- » Weakened liquidity and/or debt service coverage

- » Increased leverage of the utility
- » Contraction of or weakened economic profile of the utility's service area

Key Indicators

Exhibit 1

Ypsilanti (City of), MI Water and Sewer Enterprise					
System Characteristics					
Asset Condition (Net Fixed Assets / Annual Depreciation)	20 years				
System Size - O&M (in \$000s)	6,372				
Service Area Wealth: MFI % of US median	89.5%				
Legal Provisions					
Rate Covenant (x)	1.25				
Debt Service Reserve Requirement	DSRF funded at lesser of standard 3-prong test				
Financial Strength					
	2011	2012	2013	2014	2015
Operating Revenue (\$000)	8,730	8,813	8,763	9,192	9,253
O&M (\$000)	5,545	5,652	5,867	5,720	6,372
Long-Term Debt (\$000)	67,105	68,381	73,825	74,521	71,995
Annual Debt Service Coverage (x)	1.13	1.11	1.04	1.20	1.03
Cash on Hand	120 days	129 days	88 days	74 days	57 days
Debt to Operating Revenues (x)	2.0x	2.0x	2.2x	2.1x	2.0x

The above coverage is for all outstanding debt. Senior lien coverage for fiscal 2015 was 1.67 times. Long-term debt, cash on hand, and debt to operating revenues reflect metrics for YCUA. The remaining metrics are for the city's portion of YCUA only.

Source: Moody's Investors Service, Audited Financial Statements, US Census data

Detailed Rating Considerations

Service Area and System Characteristics: Moderately-Sized System Benefits From Institutional Presence

The Ypsilanti Community Utility Authority (YCUA) was established in 1974 to provide water and wastewater services to the [City of Ypsilanti](#) (A2) and Ypsilanti Charter Township, as well as additional customers in seven surrounding townships. Wastewater service is provided to a separate Western Townships Utilities Authority (WTUA), which consists of the townships of Canton, Northville and Plymouth. While the YCUA reports a single balance sheet, operations are divided by those attributed to the city and township of Ypsilanti.

Within the City of Ypsilanti, the number of customer accounts has remained relatively stable, hovering near 5,200. Excluding the sewer services sold to the WTUA, [Eastern Michigan University](#) (A1 negative) is the system's largest customer, accounting for 19.5% of total billing in fiscal 2015. The university also serves as the city's second largest employer, with an estimated enrollment of 22,600 students. The YCUA purchases all of its water from the [Great Lakes Water Authority](#) (GLWA; Baa1 stable), but maintains its own wastewater treatment facilities. Total capacity of the wastewater treatment plant is 51.2 million gallons per day (MGD), compared to average daily treatment of 22.3 MGD.

Debt Service Coverage and Liquidity: Relatively Narrow Coverage and Liquidity

Total debt service coverage and liquidity are narrow compared to similarly rated utilities. Calculation of annual debt service coverage is based only on net revenues of the city's portion of the YCUA. Historically, the enterprise has maintained coverage of annual senior lien debt service near 1.6 times, with fiscal 2015 senior lien coverage of 1.67 times. Coverage of total debt service (senior and junior lien) has historically been narrow. Fiscal 2015 net revenues provided combined senior and junior lien debt service coverage of 1.03 times.

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For fiscal 2016, management is projecting flat revenues, which would result in senior lien debt service coverage of 1.9 times, based on the estimated post-sale debt service schedule. Total debt service coverage would grow to 1.13 times. We expect that limited borrowing plans and likely rate increases will keep debt service coverage at stable levels.

LIQUIDITY

The YCUA closed fiscal 2015 with \$4.6 million of unrestricted cash, equivalent to a relatively narrow 57 days of operating and maintenance expenses.

Debt and Legal Covenants: Moderate Leverage and Satisfactory Legal Covenants

Inclusive of the current offering, net revenue debt is equivalent to a moderate 2.35 times total YCUA revenue. There are currently no plans to issue additional debt secured by system net revenue. Legal provisions include a rate covenant of 1.25 times annual debt service and an additional bonds test of 1.25 times MADS. The bonds also benefit from a debt service reserve account, which is funded at the lesser of MADS, 1.25 times average annual debt service, or 10% of outstanding principal.

DEBT STRUCTURE

All of the enterprise's debt is fixed rate.

DEBT-RELATED DERIVATIVES

The enterprise is not a party to any derivative agreements.

PENSIONS AND OPEB

System employees are members of the Michigan Employees Retirement System (MERS), a multi-employer agent plan. In fiscal 2015, YCUA contributions to MERS were \$1.4 million, or 3.9% total operating revenues. YCUA also offers health care benefits to all full-time employees upon retirement. The contributions for these other post-employment benefits (OPEB) were \$2.8 million in fiscal 2015.

Management and Governance: Unlimited Rate Setting Authority

The YCUA is exposed to water rate adjustments implemented by the GLWA, but has the flexibility to pass on those increased costs to its customers. The city and township independently set their own water rates. For fiscal 2015, the city of Ypsilanti increased both the water and sewer utility rates by 3.5%, effective October 1, 2014. The city has historically raised rates in conjunction with increases from its supplier, and plans to continue doing so going forward.

Legal Security

The Series 2016 revenue bonds are secured by a pledge of the net revenues of the city's portion of the Ypsilanti Community Utilities Authority.

Use of Proceeds

Proceeds from the Series 2016 bonds will be used to refund the city's outstanding Water Supply and Sewerage Disposal System Revenue Bonds, Series 2006 for anticipated interest cost savings.

Obligor Profile

The Ypsilanti Community Utilities Authority (YCUA) is an incorporated municipal authority operating under the guidance of a five-member board consisting of two representatives from the City of Ypsilanti and three representatives from the Charter Township of Ypsilanti. The YCUA purchases its water from the Great Lakes Water Authority. The sewer enterprise collects, treats and disposes of wastewater.

Methodology

The principal methodology used in this rating was US Municipal Utility Revenue Debt published in December 2014. Please see the Ratings Methodologies page on www.moody.com for a copy of this methodology.

Ratings

Exhibit 2

Ypsilanti (City of) MI Wtr & Swr Enterprise

Issue	Rating
Water Supply and Sewage Disposal System	A1
Revenue Refunding Bonds, Series 2016	
Rating Type	Underlying LT
Sale Amount	\$8,505,000
Expected Sale Date	06/28/2016
Rating Description	Revenue: Government Enterprise

Source: Moody's Investors Service

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