

ISSUER COMMENT

31 August 2020

RATING

General Obligation (or GO Related) ¹

A2 Negative

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City of Ypsilanti, MI

Annual Comment on Ypsilanti

Issuer Profile

The City of Ypsilanti is located in Washtenaw County, in the southeastern portion of Michigan's lower peninsula, approximately 30 miles west of Detroit and seven miles southeast of Ann Arbor. The county has a population of 365,961 and a moderate population density of 515 people per square mile. The county's median family income is \$98,184 (1st quartile) and the June 2020 unemployment rate was 10.5% (4th quartile) ². The largest industry sectors that drive the local economy are state government, health services and professional/scientific/technical services.

We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety and the economy. We do not see any material immediate credit risks for Ypsilanti. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Ypsilanti changes, we will update our opinion at that time.

Credit Overview

The credit position for Ypsilanti is solid. However, its A2 rating is beneath the median rating of Aa3 for US cities. Notable credit factors include a robust financial position, elevated debt burden, heavy unfunded pension and other post employment benefit (OPEB) liabilities, a somewhat weak wealth and income profile and a modestly sized tax base that benefits from the stabilizing presence of [Eastern Michigan University](#) (A2 negative).

Finances: Ypsilanti has a strong financial position, which is a notable strength when compared to the assigned rating of A2. The city's cash balance as a percent of operating revenues (42.3%) is consistent with the US median. Also, the fund balance as a percent of operating revenues (41.7%) is a little stronger than the US median.

Debt and Pensions: Overall, the debt, pension and OPEB burdens of Ypsilanti are elevated and are weak in comparison to the assigned rating of A2. The Moody's-adjusted net pension liability to operating revenues (2.6x) unfavorably is materially above the US median, and increased modestly from 2015 to 2019. Additionally, the Moody's-adjusted net OPEB liability to operating revenue (2.0x) is a significant burden. Furthermore, the city's net direct debt to full value (3.3%) is significantly higher than the US median.

Economy and Tax Base: The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure

to tourism, hospitality, healthcare, retail, and oil and gas could suffer particularly severe impacts.

Ypsilanti has satisfactory economy and tax base characteristics, although these factors are slightly weak with respect to its A2 rating. These factors are somewhat depressed by the tax exempt property of Eastern Michigan University and its 15,000 full time equivalent students. The total full value (\$861 million) is below the US median. Yet, this number increased dramatically from 2015 to 2019. Additionally, the full value per capita (\$40,994) is much weaker than other Moody's-rated cities nationwide. Lastly, the median family income equates to a mere 68.6% of the US level.

Management and Governance: Michigan cities have an institutional framework score ³ 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.

Sector Trends - Michigan Cities

Michigan cities will face pressure from likely state aid reductions as the coronavirus outbreak has adversely affected state finances. Leading up to the coronavirus outbreak, the financial position of many cities benefited from strategic budget decisions and improvements in key revenues that will help to provide a buffer against state aid declines. Cities rely on two primary sources of revenue: property taxes, which makes up the largest revenue source for most cities, and state aid. Taxable values have improved in recent years, but this trend may slow given broader economic trends, which may in turn weaken property tax revenue growth. The biggest expenditure pressure for many cities is unfunded pension and retiree healthcare benefits, which have resulted in growing fixed costs. Rising retirement benefit costs coupled with revenue pressure and unfavorable population trends will likely result in crowding out other spending priorities for many Michigan cities.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 1

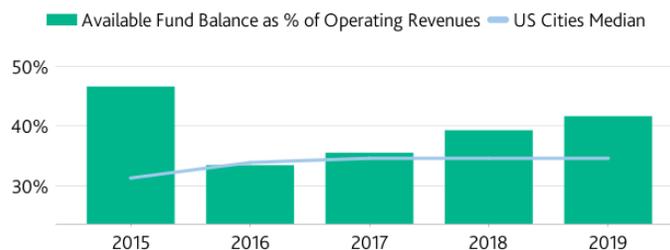
Key Indicators 4.5 Ypsilanti

	2015	2016	2017	2018	2019	US Median	Credit Trend
Economy / Tax Base							
Total Full Value	\$661M	\$717M	\$786M	\$807M	\$860M	\$1,904M	Improved
Full Value Per Capita	\$33,290	\$34,881	\$37,797	\$38,587	\$40,994	\$94,106	Improved
Median Family Income (% of US Median)	68%	70%	70%	69%	69%	111%	Stable
Finances							
Available Fund Balance as % of Operating Revenues	46.6%	33.5%	35.5%	39.3%	41.7%	34.6%	Stable
Net Cash Balance as % of Operating Revenues	49.6%	33.6%	37.2%	40.5%	42.3%	39.6%	Weakened
Debt / Pensions							
Net Direct Debt / Full Value	3.3%	2.1%	4.5%	3.9%	3.3%	1.1%	Stable
Net Direct Debt / Operating Revenues	1.29x	0.94x	2.15x	1.93x	1.64x	0.84x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	5.5%	5.4%	5.3%	5.4%	5.2%	1.9%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	2.14x	2.39x	2.55x	2.68x	2.62x	1.56x	Stable
	2015	2016	2017	2018	2019	US Median	
Debt and Financial Data							
Population	19,874	20,577	20,804	20,939	20,995	N/A	
Available Fund Balance (\$000s)	\$7,935	\$5,469	\$5,819	\$6,424	\$7,114	\$8,028	
Net Cash Balance (\$000s)	\$8,435	\$5,494	\$6,098	\$6,623	\$7,229	\$9,530	
Operating Revenues (\$000s)	\$17,019	\$16,346	\$16,377	\$16,343	\$17,074	\$23,172	
Net Direct Debt (\$000s)	\$21,964	\$15,286	\$35,149	\$31,522	\$28,009	\$19,139	
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$36,430	\$38,989	\$41,835	\$43,767	\$44,709	\$35,448	

Source: Moody's Investors Service

EXHIBIT 2

Available fund balance as a percent of operating revenues decreased from 2015 to 2019



Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

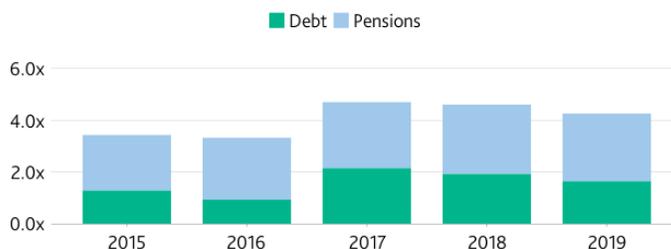
Full value of the property tax base increased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues increased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
 - The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.
- The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.
- The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(September 2019\)](#) methodology report for more details.
 - For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
 - The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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