

### Summary:

# Tuscola County, Michigan; General Obligation; General Obligation Equivalent Security

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### Credit Profile

US\$.995 mil cap imp bnds (GO ltd tax) ser 2011 dtd 09/01/2011 due 06/01/2031

*Long Term Rating*

A+/Stable

New

## Rationale

Standard & Poor's Rating Services assigned its 'A+' long-term rating to Tuscola County, Mich.'s series 2011 capital improvement bonds. The outlook is stable.

At the same time, Standard & Poor's affirmed its 'A+' long-term and underlying (SPUR) ratings on the county's general obligation (GO) debt outstanding.

The ratings reflect what we view as Tuscola County's:

- Stable agriculture-based local economy that is, however, relatively limited;
- Strong general fund reserves along with additional liquidity available in the delinquent tax revolving fund;
- Good financial management practices; and
- Low debt burden.

These strengths are partially offset in our opinion by the county's declining tax base and high unemployment rate.

The county's limited-tax GO pledge secures the bonds.

Tuscola County (population, 55,000) spans 816 square miles about 20 miles northeast of Flint, Mich. Its leading employers include the county itself, a regional health center and hospital, a detention facility, a Walmart, three school districts, and two manufacturers. The economy is largely agricultural, with corn and sugar beets being the main crops given the ethanol and sugar processing facilities within the county. Management reports that Tuscola County's economy has been mostly stable, and is also projecting future growth in wind energy. Income levels within the county are adequate, in our opinion, with median household effective buying income at 83% of the national average. The county's unemployment rate averaged 14.2% in 2010, but has only averaged 12.3% through June 2011, although is still higher than the state (10.8%) and national (9.2%) averages. Following steady, modest growth, the county's taxable value fell 3.9% in 2010 largely due to declines in residential property values. Market value totaled \$3.7 billion in 2010, or what we consider a strong \$66,000 per capita. Tuscola County is expecting another year or two of taxable value declines, but at a lower rate.

The county has maintained its strong financial position and we expect it will continue to address budgetary pressures to preserve its strong position. In fiscal 2009, the most recent audited year, it had an operating shortfall of \$645,000, bringing the unreserved general fund balance to \$1.26 million, or what we consider a strong 11.5% of expenditures. Tuscola County had anticipated the 2009 drawdown and began preparing expenditure reductions to balance operations for fiscal 2010, which included a wage freeze, reducing positions, and other cost reductions. In

fiscal 2010, it added about \$100,000 to the general fund reserves. The general fund also has access to additional liquidity from Tuscola County's self-funded delinquent tax revolving fund, which had \$5.7 million in unrestricted net assets at fiscal year-end 2010. For fiscal 2011, the county is projecting to add approximately \$100,000-150,000 to reserves, partially due to about \$300,000 in one-time revenue. Reductions in state revenue sharing have been proposed for fiscal 2012, and along with declining property tax revenue and the loss of one-time revenue from 2011, the county is projecting a \$600,000 decline in revenue relative to fiscal 2011. As a result, it is planning for approximately \$450,000 in expenditure reductions and expects to use about \$150,000 of reserves.

Tuscola County's management practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of good indicates that practices exist in most areas, although not all might be formalized or regularly monitored by governance officials. Highlights include historical trend analysis used in the budgeting process, monthly budget-to-actual review, annually updated long-term financial and capital plans, quarterly reporting of investment holdings and performance, and a formal reserve policy requiring a minimum of 10% of expenditures.

The county's overall net debt burden is low, in our opinion, at about \$1,300 per capita and a 2.0% of market value, which excludes county-backed debt paid directly by benefited municipalities. Amortization is rapid with 70% of debt scheduled to be retired within 10 years. Carrying charges are low, in our view, at 0.8% in fiscal 2010. Tuscola County's employees participate in several pension plans, which it funds at the annually required levels; its unfunded actuarially accrued liabilities for these plans total only \$4 million as all plans are at least 68% funded. The county does not pay for retiree health care, but allows retired employees to buy into its plan at their own cost. It is our understanding that Tuscola County is planning two bond issues in the next year for which debt service will be paid by local municipalities.

## Outlook

The stable outlook reflects Standard & Poor's expectation that the county will continue to monitor budgetary pressures and make timely expenditure reductions to maintain its strong financial position. Failure to do so could put downward pressure on the rating. An upgrade would likely require positive economic trends and stabilized revenues.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

Ratings Detail (As Of August 10, 2011)		
Tuscola Cnty tuscola county medical care facility cap imp rfdg bnds ser 2011 dtd 05/01/2011 due 06/01/2017		
Long Term Rating	A+/Stable	Affirmed
Tuscola Cnty ltd tax GO bnds ser 1997 dtd 08/01/1997 due 11/01/1998-2017		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed
Tuscola Cnty GO		
Unenhanced Rating	A+(SPUR)/Stable	Affirmed

<b>Ratings Detail (As Of August 10, 2011) (cont.)</b>		
<b>Alder Creek &amp; Branches Drain Drainage Dist, Michigan</b>		
Tuscola Cnty, Michigan		
<b>Alder Creek &amp; Branches Drainage Dist GO</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<b>Bach &amp; Branches Dr Drainage Dist, Michigan</b>		
Tuscola Cnty, Michigan		
<b>Bach &amp; Branches Dr Drainage Dist (Tuscola Cnty)</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<b>Moore Dr Drainage Dist, Michigan</b>		
Tuscola Cnty, Michigan		
<b>Moore Dr Drainage Dist (Tuscola Cnty) GO</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<b>Northwest Drain Drainage Dist, Michigan</b>		
Tuscola Cnty, Michigan		
<b>Northwest Drain Drainage Dist GO</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<b>Sebewaing Intercounty Drainage Dist, Michigan</b>		
Tuscola Cnty, Michigan		
<b>Sebewaing Intercounty Drainage Dist (Tuscola Cnty) drain bonds</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
<b>Tuscola Cnty Bldg Auth, Michigan</b>		
Tuscola Cnty, Michigan		
<b>Tuscola Cnty Bldg Auth (Tuscola Cnty) ltd GO bldg auth bnds ser 1999 dtd 11/01/1999 due 03/01/2001-2015</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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