Fitch Affirms Rating on Troy MBA's (MI) LTGOs at `AA+'; Outlook Stable

Fitch Ratings has taken the following rating actions on Troy Municipal Building Authority (MBA), Michigan's general obligation limited tax bonds (LTGO).

--$450,000 outstanding Troy Municipal Building Authority (golf course bonds) general obligation limited tax bonds, series 2002 affirmed at `AA+';

The Rating Outlook is Stable.

SECURITY

The bonds are secured by cash rentals under a lease between the building authority and the City of Troy (the city). The cash rentals constitute the city's full faith and credit general obligation and its ad valorem tax pledge, subject to applicable charter, statutory and constitutional tax limitations. The cash rentals are not subject to annual appropriation nor are they subject to set-off or abatement.

KEY RATING DRIVERS

CONTINUED FINANCIAL STRENGTH: Financial operations remain strong despite large multi-year declines in property taxes. City officials restructured operations, reduced staff by 30% and negotiated wage and benefit concessions in order to achieve cost savings sufficient to offset revenue shortfalls.

LOW LEVELS OF RAPIDLY AMORTIZED DEBT: City debt levels are modest and principal payout is rapid. Minimal additional debt is expected.

WEAKENED BUT RECOVERING DIVERSE ECONOMY: The city's economy declined during the recent recession but remains a diverse regional economic center with active retail, commercial and manufacturing sectors. Affluent wealth indices and a highly educated workforce provide the basis for a slow economic recovery.

TAX BASE IMPROVEMENT FOLLOWING SIGNIFCANT DECLINES: Taxable values (TV) declined by 33% from the peak in 2007 to 2013 reflecting the sharp downturn in residential and commercial values. TV growth is expected to be positive over the next few years given current building activity.

PROGRESSIVE MANAGEMENT: The city's management team has been proactive in addressing projected revenue shortfalls by restructuring city operations and downsizing government in order to trim costs. Fitch believes management has the ability and intention to maintain budgetary balance and strong reserves.

MODEST RETIREMENT LIABILITIES: The city closed its defined benefit pension plan in 2002 while requiring all new employees to participate in a defined contribution plan. As a result, the city's pension and other post employment benefit (OPEB) plans are well-funded with very modest and manageable long term liabilities.

RATING SENSITIVITIES

CHANGE IN FUNDAMENTALS: The rating is sensitive to shifts in fundamental credit characteristics including the city's strong financial management practices and deep, diverse tax base. The Stable Outlook reflects Fitch's expectation that such shifts are highly unlikely.

CREDIT PROFILE

The city is located in Oakland County, about 14 miles north of Detroit and encompasses nearly 34 square miles. Population growth has been essentially stagnant with the city's population growing a low 1.5% to 82,212 since 2000.

WEAKENED BUT RECOVERING DIVERSE ECONOMY

Economic activity is based on a diverse mix of retail, commercial and manufacturing enterprises. The city's economy was hard hit by the recession resulting in a 7% decline in employment from 2008 to 2009 raising unemployment rates above 11% in 2009. Employment stabilized over the past three years with modest growth above state and national levels. Unemployment dropped below the state and national averages to 6.3% in November 2013 from 7.4% in the prior year reflective of an improving labor force and employment.

The city's extensive commercial office sector, one of the largest in the state, was particularly damaged by the economic downturn, with vacancy rates rising into the 30% to 35% range. Office vacancy rates have moderated more recently to below 25%, according to city officials. Building permit valuations rebounded from the low in 2010 for the past three years to pre-recession levels1 demonstrating the desirability and resilience of the city's economy.

The city's affluence is demonstrated by wealth indices which are well above the state and national benchmarks. Per capita money income levels are 162% and 148% of the state and national averages, respectively. Resident education levels are substantially in excess of state and national norms. According to U.S. Census Bureau data, nearly 57% of city residents over 25 years old have at least a bachelor's degree, more than double the state and national education attainment levels of 25% and 28%, respectively. Fitch believes the city's affluent and educated workforce places it in a solid position to benefit from continued economic growth.

PRECIPITOUS DECLINES IN TAXABLE VALUES HAVE REVERSED

The recent recession caused significant tax base declines which have begun to reverse in 2014 with resumed building permit and development activity. TV fell steeply from fiscals 2009 to 2012, dropping by $3.4 billion or 27%. Strong permit and building activity over the past two years coupled with rebounding residential property sales prices increased the city TV 1.8% for fiscal 2014. City officials expect TV growth to average 1.5%-2% annually over the next three years based on current and pending development activity and price trends. TV growth is tempered by annual caps. The tax base is diverse with the top ten taxpayers accounting for a low 6.1% of total values.

OPERATIONS REORGANIZED AND STREAMLINED TO CUT COSTS

City finances have been challenged by the magnitude of the declines in TV. Property taxes, which account for two thirds of general fund revenue, were projected to drop in conjunction with the tax base reductions as voter-approved tax limitations restrict the city's ability to offset the valuation losses. The city already levies close to the 8.1 mill operating limit.

In response, city officials instituted major operational reforms with the goal of shrinking expenditures and maintaining financial margins. Measures included privatization of non-essential or peripheral functions, outsourcing, and consolidation of departments and functions. Extensive workforce reductions were implemented during fiscal 2011 through a combination of layoffs, attrition and early retirement incentives, resulting in a 30% decrease in fulltime personnel. Fiscal 2014 budget is 6.6% over the 2013 budget largely driven by increased payroll and benefit expenditures following a partial reduction of furloughs, increased benefit contributions, and funding of road improvements.

To further trim costs city officials negotiated significant wage and benefit concessions from both unionized and non-unionized employees. As a result, general fund expenditures have fallen by over $16 million or 25% from fiscal 2009 to 2013, enabling the city to report modest general fund net surpluses in each of fiscal year beginning fiscal 2010 after three consecutive years of operating deficits.

General fund reserves are robustly maintained with fiscal 2013 unrestricted fund balance accounting for nearly 65% of expenditures. The city's policy is to maintain unassigned general fund balances in the 10% to 17% range. The fiscal 2014 general fund budget projects a small $594,000 drawdown which is a conservative assumption based on prior year performance. Fitch believes that continued tight expenditure controls are indicative of management's commitment to maintain structural balance and very strong reserves.

MODEST LEVELS OF RAPIDLY AMORTIZED DEBT

Direct debt is a low 0.4% of market value. Total tax burden including significant overlapping school debt remains modest at 2.2%. Amortization of outstanding principal is very rapid with 85% retired within the next ten years The city's capital plans are manageable and will be funded on a pay-go basis. No additional debt is planned for at least the next four years.

BELOW AVERAGE PENSION AND OPEB LIABILITIES

Pension liabilities are minimal as the city closed its defined benefit plan in 2002 to new employees, who were than required to participate in a defined contribution plan. As a result, the city's defined benefit plan was 96.4% funded as of the end of 2012 and the unfunded accrued actuarial liability (UAAL) was just over $5 million. Together with the unfunded liability of a small volunteer fire fighters incentive plan, the city's total UAAL was a modest $13 million or 0.1% of the city's tax base for fiscal 2012. Investment return assumptions are conservative at 6.5%. City annual contributions to all three plans, $5 million for 2013, are expected to be stable and manageable.

The city also provides healthcare benefits to retired employees. As of December 31, 2012, the city's OPEB plan was 59% funded, which is well above the funding rate of most municipalities. For the past two fiscal years, the city has been over funding its actuarial determined annual required contribution (ARC). Fiscal 2013 OPEB contributions were $2.4 million and 196% of ARC. While combined debt service, pension and OPEB costs for 2013 represent a moderate 19% of total governmental spending, the city's modest combined pension and OPEB UAAL of $46 million or less than 1% of TV is a credit plus which affords future financial flexibility.

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Additional information is available at 'www.fitchratings.com'.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index and IHS Global Insight.

Applicable Criteria and Related Research:

--'Tax-Supported Rating Criteria' (Aug. 14, 2012);

--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).