M-02b

STANDARD & POOR'S

Global Credit Portal
RatingsDirect®

February 17, 2010

Summary:

Troy, Michigan; General Obligation; General Obligation Equivalent Security

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Summary:

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Credit Profile		
US$12.28 mil GO unltd tax rfdg bnds ser 2010 due 10/01/2020		
Long Term Rating	AAA/Stable	New
Troy GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' rating to Troy, Mich.'s unlimited-tax general obligation (GO) refunding bonds. In addition, Standard & Poor's has affirmed its ratings on all of Troy's GO debt at 'AAA'. The rating reflects our assessment of the city's:

- Participation in the deep and diverse Oakland County economy,
- Very strong wealth and income levels,
- Very strong financial operations despite reduced financial flexibility given the city has limited property tax-raising capability; and
- Low debt as a percentage of market value.

Troy is an affluent suburb of Detroit, in Oakland County. Excellent highway access has resulted in the development of a substantial employment base with a variety of employment sectors available within the city's limits. The city's 80,300 residents also benefit from employment throughout southeastern Michigan. Income levels are very strong, in our opinion, with median household effective buying income at about 165% of state and national levels. The city is nearly fully built out.

Michigan's economy has suffered in recent years, and the local economies in Oakland County and Troy have as well. Unemployment in the city has increased and in 2009 averaged 11.7%, nearly twice the 2008 average. Another pronounced effect of the economic difficulties faced by the city has been the reduction in taxable and market value over the past several years. The city's taxable value fell 1.6% in 2009 to $5.46 billion. City officials expect another decline of 10% for 2010, followed by decreases closer to 5% in the following years. The decrease in taxable value has a direct impact on Troy's ability to levy taxes, and results in a decrease in revenues. The market value of the tax base is approximately $11.7 billion; although that is a 9% drop from the prior year, it still equates to $145,000 per capita, which we consider very high.

In November 2008, Troy voters approved a referendum reducing the city's operating tax rate to its current taxing level of 8.10 mills from 8.56 (the tax limit as per Headlee rollback). It was Standard & Poor's view that, without the ability to raise taxes the city's operating flexibility would be limited, particularly if the city's tax base contracted. With the city levying 8.1 mills for general operation--and a decrease of $91 million in the tax base--Troy lost $734,000 in tax revenues in fiscal 2010. As such, the city made expenditure reductions to help bridge the growing structural imbalance. However, in order to avoid making even greater cuts, city officials have placed a 1.9 mill five-year levy on the ballot for a special election in February 2010. Should the millage fail, city officials report they have identified a wide range of service cuts in order to close the structural imbalance, and there are other revenue enhancements the city could pursue as well. It is Standard & Poor's expectation that regardless of the passage of the new millage, Troy will regain structural balance and maintain healthy reserve levels.

In our view, Troy's financial performance remains very strong despite some draws on the general fund balance. Fiscal 2009 ended with a draw of $2.3 million, bringing the general fund balance to $21.3 million or 34% of expenditures. The unreserved fund balance was $20.7 million, equal to 33% of expenditures. In addition, the city maintains a budget stabilization fund outside the general fund. At year-end 2009, the fund held $2.1 million. Despite the falling revenues for 2010, the city still projects operations in the general fund to be balanced.

The city's financial management practices are considered "strong" under Standard & Poor's Financial Management Assessment (FMA). An FMA of strong indicates that practices are strong, well embedded and likely sustainable. This is a change in the city's FMA to "strong" from "good", reflecting the implementation of five-year financial forecasting.

Overall net debt, including tax increment debt, the bonds backed by golf course revenues, and overlapping debt, is in our opinion moderate at $3,274 per capita but low at 2.3% of market value. We understand that Troy does not have any additional debt plans at this time. Bond proceeds will be used to refund debt outstanding.

Outlook

The stable outlook reflects Standard & Poor's expectation that the city will regain balanced financial operations regardless of the passage of the new millage, and that management will exert strong fiscal controls to protect its financial position. Troy's participation in the diverse Oakland County economy supports the outlook.

Related Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of February 17, 2010)		
Troy Mun Bldg Auth, Michigan		
Troy, Michigan		
Troy Mun Bldg Auth (Troy) GO		
Long Term Rating	AAA/Stable	Affirmed

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