N-08

STANDARD & POOR'S

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September 14, 2010

Summary:
Troy, Michigan; General Obligation; General Obligation Equivalent Security

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Credit Profile		
US$9.74 mil GO unltd tax rfdg bnds ser 2010B due 10/01/2011-2020		
Long Term Rating	AAA/Stable	New
Troy GO		
Long Term Rating	AAA/Stable	Affirmed
Troy Mun Bldg Auth, Michigan		
Troy, Michigan		
Troy Mun Bldg Auth (Troy) GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services has assigned its 'AAA' long-term rating to Troy, Mich.'s unlimited-tax general obligation (GO) refunding bonds and affirmed its 'AAA' long-term rating on the city's previously rated GO debt, reflecting:

- 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, Mich., 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, 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 11.3%, below the state's 13.6% rate. In July 2010, the city's unemployment rate was 11.9%, also below Michigan's 14% rate. Another pronounced effect of the economic challenges 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, followed by a second and larger year over year drop of 11.3%. Taxable value currently stands at $4.8 billion. Management expected the double-digit decrease and expects taxable value to continue decreasing 5% annually for the next two years. The decrease in taxable value has a direct impact on the city's ability to levy taxes and results in a decrease in revenues. The market value of the tax base is $9.98 billion, and, while having fallen 14.6% from the previous year, it still equates to an extremely strong $124,582 per capita.

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). Without the ability to raise taxes, it was Standard & Poor's view that the city's operating flexibility would be limited, particularly if the city's tax base contracted. With the city levying at its maximum 8.1 mills for general operations, decreases in taxable value directly affect property tax revenues. In response to the actual and expected decreases in property tax revenues, the city made expenditure reductions to help bridge the growing structural imbalance. Thus, Troy's financial performance remains very strong despite recent draws on the general fund balance. Fiscal 2009 ended with a $2.3 million deficit, bringing the general fund balance to $21.3 million, or a very strong 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 balanced its budget, and management tells us it achieved a roughly $2.5 million surplus.

The city also adopted a three-year budget that spans fiscals 2011-2013. Although the city plans to use a portion of its reserves to balance the budget, management has also outlined in its budget document a variety of spending cuts, such as staff reductions and the closure of its library, museum, community center, and nature center. Over the next three fiscal years, the city projects that it will trim general fund spending. In 2010, general fund expenditures were roughly $60 million; as a result of cost controls, the city will shrink its budget to $50 million by 2013. The projected ending general fund balance will decrease to $17.3 million by the close of 2013, but this will remain a still-very-strong 35% of expenditures. City officials did place a 1.9-mill five-year levy on the ballot for a special election in February 2010, but the millage request failed. The city's three-year budget does not assume future voted millage increases.

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 revision of 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 moderate at $2,913 per capita but low at 2% of market value. Debt matures rapidly, with 80% retired in 10 years. Debt service carrying charges are a low 5.3% of expenditures. The city does not have any additional debt plans at this time. The city will use the bond proceeds to refund outstanding debt.

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. The city's participation in the diverse Oakland County economy supports the outlook.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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