

RatingsDirect®

Summary:

Fraser, Michigan; General Obligation

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Credit Profile

US\$5.135 mil GO Unltd Tax Bnds ser 2015 due 10/01/2020

Long Term Rating AA/Stable New

Fraser GO (AGM)

Unenhanced Rating AA(SPUR)/Stable Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services assigned its 'AA' long-term rating to Fraser, Mich.'s series 2015 general obligation (GO) bonds. At the same time we affirmed our 'AA' long-term rating on the city's existing GO debt. The outlook is stable.

Revenue from unlimited-tax ad valorem taxes levied on taxable properties within the city secure the 2015 bonds. It is our understanding that officials will use bond proceeds to finance the improvement of city streets.

The long-term rating reflects our assessment of the following factors for the city:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial policies and practices;
- Adequate budgetary performance, with operating results that we expect could improve in the near term relative to fiscal 2014, which closed with operating deficits in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 20% of operating expenditures;
- Very strong liquidity, with total government available cash of 33.1% of total governmental fund expenditures and 6.7x governmental debt service, and access to external liquidity we consider strong;
- Strong debt and contingent liability position, with debt service carrying charges of 4.9% and net direct debt that is 55.3% of total governmental fund revenue, and rapid amortization with 72.1% of debt scheduled to be retired in 10 years, but a large pension and other postemployment benefit (OPEB) liability; and
- Strong institutional framework score.

Adequate economy

We consider Fraser's economy adequate. Fraser, with an estimated population of 14,316, is located in Macomb County in the Detroit-Warren-Dearborn, MI MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 88.6% of the U.S. level and per capita market value of \$62,719. Overall, the city's market value grew by 3.9% over the past year to \$897.9 million in 2015. The county unemployment rate was 8.2% in 2014.

Adequate management

We view the city's management as adequate, with "standard" financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not

all key areas.

The city does not have a formal reserve policy but has an informal goal to maintain at least 15% of operating expenses. The city provides its council members with budget to actual results on a quarterly basis.

Adequate budgetary performance

Fraser's budgetary performance is adequate in our opinion, with operating deficits of negative 4.8% in the general fund and negative 5.5% across all governmental funds in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could improve from 2014 results in the near term.

Management projects breakeven results for fiscal 2015 (June 30) for the general fund and expects to adopt a fiscal 2016 budget that calls for a surplus in its general fund.

Very strong budgetary flexibility

Fraser's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 20% of operating expenditures, or \$2.5 million. The available fund balance includes \$1.5 million (11.9% of expenditures) in the general fund and \$1.0 million (8.2% of expenditures) that is outside the general fund but legally available for operations.

Included in the available amounts are monies from the city's gambling and drug forfeiture funds, which officials have stated are available for general fund operations, if needed, and would not be required to pay the general fund back.

Very strong liquidity

In our opinion, Fraser's liquidity is very strong, with total government available cash of 33.1% of total governmental fund expenditures and 6.7x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

Strong debt and contingent liability profile

In our view, Fraser's debt and contingent liability profile is strong. Total governmental fund debt service is 4.9% of total governmental fund expenditures, and net direct debt is 55.3% of total governmental fund revenue. Approximately 72.1% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

In our opinion, a credit weakness is Fraser's large pension and OPEB liability. Fraser's combined pension and OPEB contributions totaled 24.5% of total governmental fund expenditures in 2014. Of that amount, 12.5% represented contributions to pension obligations and 12.0% represented OPEB payments. The city made 80% of its annual required pension contribution in 2014. The pension funded ratio is 54.3%.

Effective July 1, 2014, the city began participating in the Michigan Employees Retirement System (MERS), a multiple public employer retirement system, which acts as a common investment and administrative agent for municipalities throughout Michigan.

Strong institutional framework

The institutional framework score for Michigan municipalities with a population between 4,000 and 600,000 is strong.

Outlook

The stable outlook reflects our view that the city will maintain its very strong budget flexibility and liquidity profile. We do not expect to revise the rating within the two-year outlook period but if the reserves from the city's gambling and drug forfeiture funds materially decline and the city's budgetary performance falls to strong, we could lower the rating. In addition, if the city's budgetary performance materially weakens and falls to very weak, we could lower the rating. Consideration for a higher rating would require material improvement in economic metrics such as per capita effective buying income and market value per capita, which we do not feel will occur within the two-year outlook period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Michigan Local Governments

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