

**Rating Action: Moody's assigns Aaa to Oakland County, MI's \$5.4M GO bonds**

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**26 Apr 2022**

New York, April 26, 2022 -- Moody's Investors Service has assigned a Aaa rating to Oakland County, MI's \$5.4 million Oakland County Oakland Township Water Supply System Improvements Bonds, Series 2022. Moody's maintains a Aaa issuer rating for the county along with the Aaa ratings assigned to the county's outstanding general obligation limited tax (GOLT) debt. The issuer rating represents Moody's hypothetical assessment of debt supported by a general obligation unlimited tax (GOULT) pledge. The county does not currently have any outstanding debt supported by a GOULT pledge. The outlook is stable.

**RATINGS RATIONALE**

The Aaa issuer rating reflects the county's very broad and affluent tax base, strong management policies and practices that sustain its robust fund balance and liquidity, low annual fixed costs and modest leverage. The county has maintained its financial strength throughout the pandemic and has benefitted from the receipt of significant federal stimulus, which it has and will continue leverage to support small businesses, community health, and social services. The county's revenue-raising ability is constrained by the state's system of tax caps, however, and it is exposed to volatility in the auto industry.

The GOLT rating is Aaa, the same as the issuer rating, based on the county's full faith and credit pledge.

**RATING OUTLOOK**

The outlook is stable because the county's credit profile will remain consistent given its positive tax base trajectory, significant reserve cushion, as well as management's track record and commitment to complying with its budgetary and debt policies and practices. The federal stimulus will contribute to financial stability through the remainder of the current pandemic.

**FACTORS THAT COULD LEAD TO A UPGRADE OF THE RATING**

- Not applicable

**FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATING**

- Material weakening of resident wealth and income
- Significant declines in fund balance or liquidity
- Material growth in the county's debt or pension burden

**LEGAL SECURITY**

The bonds are ultimately backed by Oakland County's full faith and credit pledge. The county's ability to raise funds to pay debt service is subject to applicable statutory and constitutional tax limitations. The bonds are also backed by contract payments made by Oakland Township to Oakland County. The township has pledged its full faith and credit to the payments.

**USE OF PROCEEDS**

Proceeds will finance water infrastructure improvements in Oakland Township

**PROFILE**

Oakland County is located in the southeast portion of Michigan's (Aa1 stable) Lower Peninsula. Encompassing roughly 910 square miles, the county includes 30 cities, 10 villages and 21 townships. The county operates under an elected Board of Commissioners and provides municipal county services to a population of 1.25 million residents. The City of Pontiac is the county seat.

**METHODOLOGY**

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2021 and available at [https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM\\_1260094](https://www.moody.com/researchdocumentcontentpage.aspx?docid=PBM_1260094) Alternatively, please see the Rating Methodologies page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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## CREDIT OPINION

26 April 2022



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# Oakland (County of) MI

## Update to credit analysis

### Summary

[Oakland County](#) (Aaa stable) has an exemplary credit profile that will remain strong because of its robust operating fund balance and liquidity, good budget management, growing tax base and above-average property wealth and resident income. Also substantial federal stimulus funding will provide the county significant financial flexibility and the ability to pursue various initiatives such as health and human services and loans to small business. The county's combined debt and pension burdens are modest and the related annual fixed costs are low.

### Credit strengths

- » Strong economic and tax base fundamentals
- » Positive demographic trends and above-average property wealth and resident income
- » Very healthy financial position supported by substantial operating liquidity
- » Moderate debt and pension burdens, and related low annual fixed costs

### Credit challenges

- » Above-average exposure to the automotive industry
- » Statutory and constitutional limitations on tax base and tax levy growth can cause revenue loss during periods of taxable value declines and slow recovery when values increase

### Rating outlook

The outlook is stable because the county's credit profile will remain consistent given its positive tax base trajectory, significant reserve cushion, as well as management's track record and commitment to complying with its budgetary and debt policies and practices. The federal stimulus will contribute to financial stability through the remainder of the current pandemic.

### Factors that could lead to an upgrade

- » N/A

### Factors that could lead to a downgrade

- » Weakening of property wealth and resident income

- » Significant declines in fund balance or liquidity
- » Material growth in the county's debt or pension burden

## Key indicators

Exhibit 1

Oakland (County of) MI	2017	2018	2019	2020	2021
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$130,169,702	\$138,016,704	\$143,742,718	\$153,432,005	\$162,390,790
Population	1,235,215	1,241,860	1,250,843	1,253,185	N/A
Full Value Per Capita	\$105,382	\$111,137	\$114,917	\$122,434	N/A
Median Family Income (% of US Median)	132.9%	133.2%	133.9%	133.2%	N/A
<b>Finances</b>					
Operating Revenue (\$000)	\$403,979	\$419,059	\$435,589	\$532,557	\$585,841
Fund Balance (\$000)	\$458,201	\$436,211	\$457,885	\$472,183	\$500,845
Cash Balance (\$000)	\$419,764	\$404,237	\$403,190	\$564,527	\$427,089
Fund Balance as a % of Revenues	113.4%	104.1%	105.1%	88.7%	85.5%
Cash Balance as a % of Revenues	103.9%	96.5%	92.6%	106.0%	72.9%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$514,039	\$491,936	\$375,281	\$345,401	\$321,268
3-Year Average of Moody's ANPL (\$000)	\$274,090	\$281,830	\$270,040	\$274,922	\$319,033
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.3%	0.2%	0.2%
Net Direct Debt / Operating Revenues (x)	1.3x	1.2x	0.9x	0.6x	0.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.2%	0.2%	0.2%	0.2%	0.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.7x	0.7x	0.6x	0.5x	0.5x

Source: US Census Bureau, Oakland (County of) MI's financial statements and Moody's Investors Service

## Profile

Oakland County is located in the southeast portion of [Michigan's](#) (Aa1 stable) Lower Peninsula. Encompassing roughly 910 square miles, the county includes 30 cities, 10 villages and 21 townships. The county operates under an elected Board of Commissioners and provides municipal county services to 1.25 million residents. The City of Pontiac is the county seat.

## Detailed credit considerations

### Economy and tax base: very large economy and tax base demonstrating resiliency despite pandemic pressures

Oakland County's economy will remain dynamic and diverse and its educated labor pool will continue to make it competitive in retaining and attracting business and industry. Some economic issues are likely to linger, however, including the county's above-average concentration within the automotive sector. Oakland County's February 2022 unemployment rate of 3.8% compared favorably to the state and national rates of 5.3% and 4.1%, respectively. Also, the county's civilian labor force grew 7.7% from February 2020 to February 2021, although it is still down somewhat from its pre-pandemic level. Resident income is strong, and both median family income and full value per capita are above the [Aaa-rated medians for counties nationally](#).

Oakland County is the second most populous county in the state behind [Wayne County](#) (A3 positive). Yet, while it holds only about 12.5% of the state's total population, it accounts for roughly one fifth of the state's GDP. The county's tax base has grown over the past eight years, following significant tax base contraction from 2008 to 2012. The tax base grew at an average annual rate of 5.4% over the last five years and was fully valued at \$169.6 billion in 2021. The base is largely residential (76% of 2020 full value), with

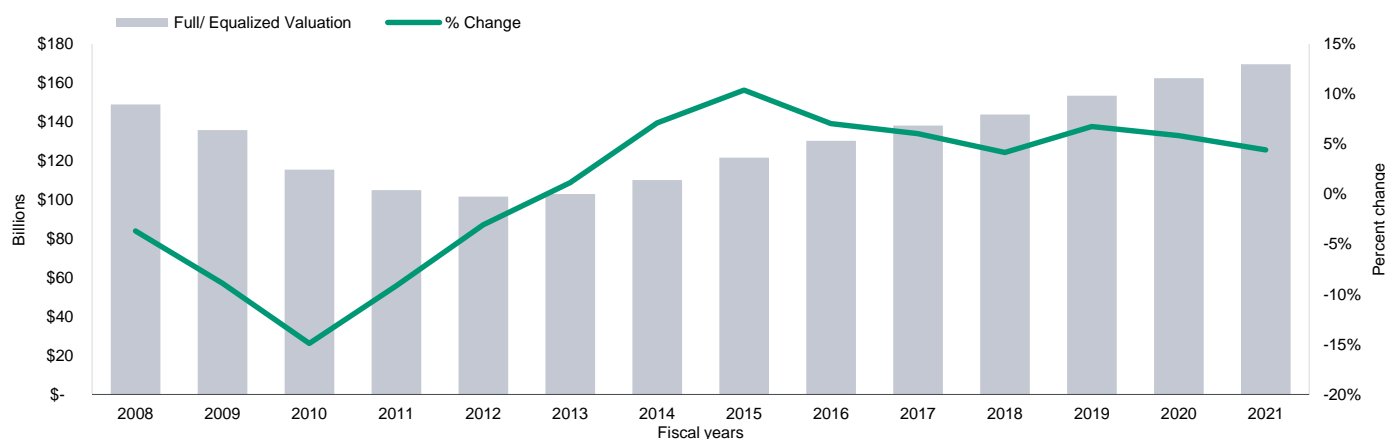
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some commercial/industrial (19%) property. The county features a number of affluent suburban communities with strong housing markets that will continue to drive long-term tax base expansion. While valuations are growing robustly, state constitution and statute limit the benefit of that growth for the county so assessed values (known as taxable values in Michigan) are only growing modestly. Management expects a taxable value increase of 6.5% for tax year 2022.

Exhibit 2

### Full value tax base has grown consistently since 2012



Source: Moody's Investors Service

### Financial operations and reserves: consistent operations sustain robust fund balance and liquidity

Oakland County's financial condition will remain strong, despite a likely use of fund balance that is mostly for one-time spending, because management has track record of strong operating performance. Management anticipates a \$29 million use of general fund balance in fiscal 2022 (year-end September 30), largely for one-time spending and carryforward items. Even if the deficit were realized, fund balance would remain robust at \$259 million representing 53% of budgeted revenue. The county received \$244 million from the American Rescue Plan, which provides the county ample financial flexibility. The county intends to use the funds on a variety of initiatives, including livable neighborhoods, environmental sustainability and infrastructure, health and human services and pandemic-driven operating costs.

The county has posted nine general fund operating surpluses over the past 10 audited fiscal years. Fund balance increased \$21.5 million in fiscal 2021, increasing available fund balance to \$288 million or 49.1% of revenue.

Inclusive of the county's general fund, debt service fund and DTRF, available fund balance totaled \$500.8 million at the close of fiscal 2021, a robust 85.5% of operating revenue.

The county maintains a significant balance in its delinquent tax revolving fund (DTRF), which can be used for county operations per Board of Commissioner approval. The DTRF had an unrestricted net position of \$208 million at the end of fiscal 2021. The balance in the fund is likely to remain stable going forward given the continuation of strong property tax collections. Michigan counties use DTRFs to purchase the tax delinquencies of underlying units of governments. The funds then earn fines and fees on the delinquent properties.

The county faces modest exposure to the *Rafaeli, LLC v Oakland County* court case, which has ramifications for counties across the state. The court's holding in *Rafaeli*, which requires counties to return equity realized on foreclosed properties to the owner at the time of the foreclosure, applies to tax-foreclosed properties sold or transferred pursuant to the General Property Tax Act after July 17, 2020. The county's maximum exposure, for which it has set aside an appropriate reserve, will be contingent on the court deciding whether or not its decision applies retroactively.

### Liquidity

Net cash and investments across operating funds (general, debt service and DTRF) totaled \$427 million at the close of fiscal 2021, a substantial 72.9% of fiscal 2021 operating revenue and more than double the median cash balance for Aaa-rated counties of 35% of revenue.



### Debt, pensions and OPEB: very low fixed costs from long-term liabilities

The county's all-in leverage for debt and pensions will remain modest because its defined benefit retirement plans have been closed for years and debt plans are limited. Fixed costs are low, and Oakland County has not made annual contributions to pension or OPEB plans in recent years because the plans are overfunded on a reported basis. Also the bulk of debt service is paid from alternative revenue sources, particularly benefiting properties of utility debt issued by the county on behalf of underlying units of government.

The county is currently issuing \$5.4 million of GOLT bonds for a water project within Oakland Township. While the bonds are general obligations of the county, they will likely be paid from contract payments from the township to the county, which have also been pledged to the bonds. After that issuance, Oakland County's gross long-term debt burden will stand at \$529 million. Its direct debt, net of county issued debt paid by local municipalities, is \$317.6 million, a low 0.2% of full valuation and a moderate 0.5x fiscal 2021 operating revenue, which is in line with the Aaa median.

### Legal security

Outstanding GOLT bonds are backed by the county's full faith and credit pledge. The county's ability to raise funds to pay debt service is subject to applicable statutory and constitutional tax limitations. The current issuance is also backed by contract payments made by Oakland Township to Oakland County. The township has pledged its full faith and credit to the payments.

Outstanding bonds issued by the Oakland County Building Authority (OCBA) are backed by rental payments made to the authority by the county pursuant to contractual agreements. Oakland County has pledged its limited tax, full faith and credit to the rental payments and the payments are not subject to annual appropriation or abatement.

### Debt structure

All of the county's debt, with the exception of minor outstanding leases, consist of fixed-rate GOLT bonds that amortize over the long term.

### Debt-related derivatives

The county is not party to any debt related derivative agreements.

### Pensions and OPEB

The county faces relatively modest credit risk from long-term legacy pension and other post-employment healthcare benefit (OPEB) plans. The county's defined benefit pension plan has been closed to new hires since 1994 and its OPEB plan was closed to new hires in 2006. Hires following the closure of the pension plan participate in the county's defined contribution plan.

Eligible county employees are members of the Oakland County Public Employees' Retirement System. The county's adjusted net pension liability, based on a discount rate or assumed return on pension plan assets of 2.87%, totaled roughly \$262 million as of fiscal 2021, representing 45% of revenue. While nominally small and lower than the Aaa median for counties, the ANPL is still significantly larger than the county's reported position, which is overfunded by roughly \$72 million based on a discount rate of 7.25%

On a reported basis, the county's OPEB liability was overfunded by \$384.3 million as of September 30, 2020. Our Moody's adjusted net OPEB liability, which uses a 2.65% discount rate, as compared to the plan's 7.25% rate, results in a net OPEB liability of \$295.4 million which is very similar in size to its ANPL. Similar to pensions the county has not made contributions for a number of years. In 2007, the county issued certificates of participation (COPs) to fully fund its accrued OPEB liability. The county refinanced the COPs with GOLT bonds in 2013.

## ESG considerations

### OAKLAND (COUNTY OF) MI's ESG Credit Impact Score is Neutral-to-Low CIS-2

Exhibit 3

#### ESG Credit Impact Score

# CIS-2

## Neutral-to-Low

For an issuer scored CIS-2 (Neutral-to-Low), its ESG attributes are overall considered as having a neutral-to-low impact on the current rating; i.e., the overall influence of these attributes on the rating is non-material.

NEGATIVE : POSITIVE  
IMPACT : IMPACT

Source: Moody's Investors Service

Oakland County's ESG credit impact score is a 2, reflecting moderately negative exposure to environmental risks, neutral-to-low exposure to social risks and a strong governance profile that supports Oakland County's resilience and capacity to respond to shocks.

Exhibit 4

#### ESG Issuer Profile Scores

ENVIRONMENTAL

# E-3

## Moderately Negative



SOCIAL

# S-2

## Neutral-to-Low



GOVERNANCE

# G-1

## Positive



Source: Moody's Investors Service

### Environmental

The county's overall environmental issuer profile score is moderately negative (**E-3**) relative to counties nationally, reflecting medium exposure to extreme rainfall, heat stress and cyclones, low exposure to water stress and no exposure to sea level change. The county benefits from access to an abundance of fresh water. Water and sewer services are mainly provided to county residents through the Great Lake Water Authority (GLWA). While waste and pollution risk is low, the county faces carbon transition risk because of the region's economic reliance on the domestic automotive industry. The extent of this impact will likely payout over a long period of time.

### Social

Oakland County's social risk is neutral-to-low (**S-2**). The county is home to some of the wealthiest communities in the state. Overall demographics and educational attainment are in line with peers. Residents have good access to healthcare and other basic services.

### Governance

Oakland County's strong governance is reflected in a score of **G-1**. The county adheres to long-established fiscal, debt, and investment policies and routinely provides in-depth public disclosures, which result in a high level of transparency.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

## Rating methodology and scorecard factors

The US Local Government General Obligation Debt methodology includes a scorecard, a tool providing a composite score of a local government's credit profile based on the weighted factors we consider most important, universal and measurable, as well as possible notching factors dependent on individual credit strengths and weaknesses. Its purpose is not to determine the final rating, but rather to provide a standard platform from which to analyze and compare local government credits.

Exhibit 5

### Oakland (County of) MI

Rating Factors	Measure	Score
<b>Economy/Tax Base (30%)[1]</b>		
Tax Base Size: Full Value (in 000s)	\$162,390,790	Aaa
Full Value Per Capita	\$129,582	Aa
Median Family Income (% of US Median)	133.2%	Aa
<b>Finances (30%)</b>		
Fund Balance as a % of Revenues	88.7%	Aaa
5-Year Dollar Change in Fund Balance as % of Revenues	4.5%	A
Cash Balance as a % of Revenues	106.0%	Aaa
5-Year Dollar Change in Cash Balance as % of Revenues	29.7%	Aaa
<b>Management (20%)</b>		
Institutional Framework	A	A
Operating History: 5-Year Average of Operating Revenues / Operating Expenditures	1.0x	A
<b>Debt and Pensions (20%)</b>		
Net Direct Debt / Full Value (%)	0.2%	Aaa
Net Direct Debt / Operating Revenues (x)	0.5x	Aa
3-Year Average of Moody's Adjusted Net Pension Liability / Full Value (%)	0.2%	Aaa
3-Year Average of Moody's Adjusted Net Pension Liability / Operating Revenues (x)	0.6x	Aa
	Scorecard-Indicated Outcome	Aa1
	Assigned Rating	Aaa

[1] Economy measures are based on data from the most recent year available.

[2] Notching Factors are specifically defined in the US Local Government General Obligation Debt methodology.

[3] Standardized adjustments are outlined in the GO Methodology Scorecard Inputs publication.

Sources: US Census Bureau, Oakland's financial statements and Moody's Investors Service

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