STANDARD & POOR'S RATINGS SERVICES
McGRAW HILL FINANCIAL

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Summary:

George W. Kuhn Drainage District, Michigan
Oakland County; General Obligation; General Obligation Equivalent Security

Primary Credit Analyst:
John Sauter, Chicago (1) 312-233-7027; john.sauter@standardandpoors.com

Secondary Contact:
Anna Uboytseva, Chicago (1) 312-233-7067; anna.uboytseva@standardandpoors.com

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Summary:

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Credit Profile		
US$7.725 mil dr rfdg bnds (Oakland Cnty) ser 2016 dtd 02/01/2016 due 04/01/2024		
Long Term Rating	AAA/Stable	New
Oakland Cnty GO		
Long Term Rating	AAA/Stable	Affirmed
Robert A Reid Dr Dist, Michigan		
Oakland Cnty, Michigan		
Robert A Reid Dr Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' long-term rating to George W. Kuhn Drainage District, Mich.'s series 2016 drain refunding bonds, issued on behalf of Oakland County, reflecting a full faith and credit limited-tax general obligation (GO) pledge of the county. We also affirmed our 'AAA' rating on existing GO and limited-tax GO debt issued by and on behalf of the county. The outlook on all ratings is stable.

Bond proceeds are intended to be used to refund existing series 2007 drainage bonds, for interest cost savings.

The county has pledged its full faith and credit limited-tax GO as security for the series 2016 bonds. The limited-tax GO pledge is payable from ad valorem taxes levied on all taxable property, subject to statutory limitations. The county pledges to annually levy ad valorem taxes within authorized millages to fund debt service payments and, to the extent that taxes are insufficient, all other available revenue sources are pledged for payment.

Also, the county has many outstanding bond issues with structures whereby it pledges its limited-tax GO support to all of debt service, while additional underlying taxing units also pledge limited-tax GO support to either portions or all of the debt service. In each case, each party pledges to annually levy ad valorem taxes within authorized millages to fund their obligations and, to the extent that taxes are insufficient, all other available revenue sources are pledged for payment. In each case, our rating is based solely on Oakland County. Additionally, we do not notch any of the county's limited-tax GO debt.

Oakland County's GO debt is eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions," U.S. local governments are considered to have moderate sensitivity to country risk. Oakland County pledges it limited-tax GO to the debt, which is the sole source of

security on the bonds; this severely limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the county. The institutional framework in the U.S. is predictable for local governments, allowing them significant autonomy, independent treasury management, and no history of government intervention. Also, Oakland County has very strong flexibility, demonstrated by its very strong budgetary flexibility and liquidity.

The 'AAA' rating reflects our view of the county's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our financial management assessment (FMA) methodology;
- Adequate budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2014, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2014 at 115% of operating expenditures;
- Very strong liquidity, with total government available cash at 121.2% of total governmental fund expenditures and 39.0x governmental debt service, as well as access to external liquidity we consider strong, but an exposure to a non-remote contingent liability risk;
- Adequate debt and contingent liability position, with debt service carrying charges at 3.1% of expenditures, net direct debt at 105.4% of total governmental fund revenue, and rapid amortization, with 71.1% of debt scheduled to be retired in 10 years, but exposure to speculative contingent liabilities; and
- Strong institutional framework score.

Strong economy

We consider the county's economy strong. Oakland County, with an estimated population of 1.2 million, is in the Detroit-Warren-Dearborn MSA, which we consider to be broad and diverse. The county does not include Detroit. The county has a projected per capita effective buying income of 128% of the national level and per capita market value of $98,630. Overall, market value grew by 10.4% over the past year to $121.6 billion in 2016. The county unemployment rate was 6.8% in 2014.

The county was not immune to the recession and prolonged housing market slump in southeastern Michigan, evidenced by steep declines in taxable value (TV) and market value. TV declined $15.5 billion, or 24%, from 2008 to 2012, while estimated market value fell $53 billion, or 34%, between 2007 and 2012. TV stabilized in 2013 and increased 1.7% and 3.7% in 2014 and 2015, respectively. Market value grew 1.2% in 2013 and by 7.1% and 10.4% in 2014 and 2015, respectively. The tax base is very diverse, with the 10 largest taxpayers accounting for only 2.8% of TV.

The county is home to the corporate headquarters of the Chrysler Group (12,308 employers) and several General Motors facilities (9,154). Job losses in the region's automotive industry resulted in unemployment growing to as high as 12.9% in 2009, though it has since been moderating and is now below state and national levels.

Very strong management

We view the county's management as very strong, with "strong" financial policies and practices under our FMA methodology, indicating financial practices are strong, well embedded, and likely sustainable.

The county annually produces a new triennial, rolling budget with what we view as well-founded revenue and

expenditure assumptions. Budget documents also include detailed, rolling five-year financial forecasts. Each month, the county reviews budget-to-actual results (formal reports are presented to the board quarterly), as well as investment holdings and earning reports. There is a long-term capital improvement plan, as well as formalized debt and investment management policies. The county has formalized a reserve policy targeting a minimum general fund reserve of 20%, and continues to informally target at least $200 million in unrestricted net assets in the delinquent tax revolving fund, a fund we consider available to support operations.

Adequate budgetary performance

Oakland County's budgetary performance is adequate, in our opinion. The county had operating surpluses of 2.9% of expenditures in the general fund and 2.9% across all governmental funds in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2014 results in the near term.

As part of a long-term plan, the county spent the past several years building up reserves, specifically in response to its recession-related shrinking tax base and falling property tax revenue. The plan also called for the subsequent spending down of these reserves, originally anticipated to begin in fiscal 2014. The fiscal 2014 budget was structured with a $34 million general fund deficit, yet actual results yielded an $11 million surplus. Unaudited fiscal 2015 results from management indicate a $6.2 million general fund surplus (1.6%), comparing favorably against an originally budgeted $34 million deficit and a projected deficit of $14.9 million after the third quarter of the fiscal year. The adopted budget for fiscal years 2016 through 2018 shows annual deficits ranging from $26 million to $31 million, a slight improvement from the budgeted deficits in the fiscal year 2015-2017 budget. The county has a history of annually far outperforming its budget, and we expect this will continue to be the case, but the size of the surpluses has been diminishing, and it is not clear if the surplus results experienced in fiscal years 2014 and 2015 will continue at similar levels, which is generating our assessment of adequate budgetary performance as opposed to strong.

Despite the only adequate score, we recognize that the budgeted deficits are due in part to Oakland County's effort to better align reserves with targeted policy levels, given how far above targets they currently are, as opposed to a sign of financial stress. We do not anticipate the budgeted deficits (if realized) being a long-term challenge or an indication of operational imbalance. In our view, the county has the capacity to make budget adjustments to quickly restore or maintain balanced results. Over the longer term, once reserves are closer to management's targeted levels, we anticipate an improvement in the budgetary performance score. Also, if actual results continue to far exceed the county's conservative estimates and results stay consistently positive, we may revise the score positively.

The fiscal 2014 general fund results were adjusted to include routine transfers in and out of the general fund as general fund revenues and expenditures, respectively. Total governmental funds results were adjusted to exclude expenditures whose source was bond proceeds and include as revenue both routine transfers in from the delinquent tax revolving fund and routine draws from the revenue-sharing reserve fund.

Very strong budgetary flexibility

Oakland County's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2014 of 115% of operating expenditures, or $430.8 million. We expect the available fund balance to remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The available fund balance includes $225.3 million (60.2% of expenditures) in the general fund and $205.5 million (55% of expenditures) that is

outside the general fund but legally available for operations.

Despite the planned spending of reserves over the next several years, we anticipate the combined available reserve position will remain above a level equal to 75% of expenditures, and subsequently for budgetary flexibility to remain very strong. Our calculation of operating expenditures includes general fund expenditures, as well as routine transfers out of the general fund. Legally available reserves outside of the general fund are found in the delinquent tax revolving fund.

Very strong liquidity

In our opinion, Oakland County's liquidity is very strong, with total government available cash at 121.2% of total governmental fund expenditures and 39.0x governmental debt service in 2014. In our view, the county has strong access to external liquidity if necessary. Weakening Oakland County's liquidity position, in our assessment, is the county's exposure to a non-remote contingent liability that could come due within 12 months.

The county is a frequent issuer of GO debt, supporting our view of strong access to external liquidity. It issued $316 million of its series 2013A limited-tax GO refunding bonds to a single bank buyer with a continuing covenant agreement. There are a number of events of default in the agreement that could lead to debt acceleration at the bank's demand, many of which we consider unlikely but unpredictable. To manage the events of default, management instituted a legacy reminder system that prompts a specially designated team to monitor the events of default quarterly, to help ensure compliance. The county has adequate liquidity to cover an acceleration, but we still consider the obligation representing a contingent liability risk.

Adequate debt and contingent liability profile

In our view, Oakland County's debt and contingent liability profile is adequate. Total governmental fund debt service is 3.1% of total governmental fund expenditures, and net direct debt is 105.4% of total governmental fund revenue. Approximately 71.1% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor. Negatively affecting our view of the county's debt profile is its exposure to speculative contingent liabilities.

The county has $349 million of direct debt that is fully backed by its full faith and credit GO pledge, but with additional revenue pledges from underlying taxing units. Netting out portions of this debt that we consider self-supporting, given the county is not using its direct resources to repay the debt, and also netting out state-reimbursed and cash flow debt, but including direct county debt with no underlying taxing unit pledges, the county's net direct debt is $510 million. Including overlapping debt, which also includes the portion of county direct debt that is self-supported, the overall net debt burden comes to 3.3% of market value. There are no significant additional debt plans.

As previously noted, we consider the county's series 2013A limited-tax GO refunding bonds (sold to a single bank buyer with a continuing covenant agreement) representing a speculative contingent liability, though management has a plan in place to help ensure compliance with all covenants that could trigger a default and subsequent acceleration of debt.

Oakland County maintains a defined-benefit single-employer pension plan (Oakland County Public Employers' Retirement System [PERS]) which covers benefits for employees hired before July 1, 1994, and who did not elect to

transfer to the county's defined-contribution plan (Oakland Performance Retirement System [OPRS] started in 1994). Contributions to PERS totaled 1.2% of total governmental fund expenditures in 2014, and were equal to the full annual required pension contribution. The plan was 106% funded as of Sept. 30, 2014. Retiree health care benefits for most new hires were closed at the end of 2006, and those with existing benefits were switched to a defined-contribution plan. The county fully funded the retiree health care benefit liability in 2007 with proceeds from its series 2007 certificates of participation, which were called on April 1, 2014, with proceeds from the series 2013A limited-tax GO refunding bonds and available medical benefits funding trust assets.

Strong institutional framework

The institutional framework score for Michigan counties with a population greater than 4,000 is strong.

Outlook

The stable outlook reflects our expectation that the rating will not change within the two-year outlook horizon. We expect that budgetary flexibility will remain very strong, supported by reserve targets and policies that effectively call for reserves of 75%, and that the economy will remain strong, supported by the deep employment base with improving unemployment and stabilizing property values.

We also anticipate the debt and contingent liabilities remaining adequate, as there are no significant debt plans that would increase debt as a percent of revenues or debt service as a percent of expenditures. Well-founded budget assumptions and detailed long-term planning by management, which we anticipate continuing, are additional stabilizing factors.

If there was an event of default and acceleration triggered on the county's direct-purchase obligation, leading to a significant decline in liquidity or increase in debt service expenses, it could negatively pressure the rating. However, we expect the county's detailed monitoring program to prevent this from happening.

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
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013
- 151. Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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

Ratings Detail (As Of February 8, 2016)

Ratings Detail (As Of February 8, 2016) (cont.)		
Oakland Cnty go ltd tax dr bnds (Rummell Relief Dr Dist) ser 2003 dtd 08/01/2003 due 05/01/2004-2023		
Long Term Rating	AAA/Stable	Affirmed
Oakland Cnty retirees hlth care rfdg bnds (ltd tax GO) ser 2013 due 04/01/2026		
Long Term Rating	AAA/Stable	Affirmed
Oakland Cnty well wtr supp sys bnds ser 2010 dtd 12/30/2010 due 11/01/2011-2020 2025 2030		
Long Term Rating	AAA/Stable	Affirmed
Oakland Cnty Evergreen-Farmington swg disp sys taxable recov zone econ dev bnds ser 2010 dtd 12/01/2010 due 04/01/2012-2021 2026 2031		
Long Term Rating	AAA/Stable	Affirmed
Oakland Cnty Rochester Hills wtr supp & swg disp sys rfdg bnds ser 2012 dtd 09/01/2012 due 04/01/2013-2022		
Long Term Rating	AAA/Stable	Affirmed
Birmingham CSO Dr Dist, Michigan		
Oakland Cnty, Michigan		
Birmingham CSO Dr Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Bloomfield Hills CSO Drainage Dist, Michigan		
Oakland Cnty, Michigan		
Bloomfield Hills CSO Drainage Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Bloomfield Twp CSO Dr Dist, Michigan		
Oakland Cnty, Michigan		
Bloomfield Twp CSO Dr Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Bloomfield Vill CSO Drainage Dist, Michigan		
Oakland Cnty, Michigan		
Bloomfield Vill CSO Drainage Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Donohue Drainage Dist, Michigan		
Oakland Cnty, Michigan		
Donohue Drainage Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Franklin Subwatershed Drainage Dist, Michigan		
Oakland Cnty, Michigan		
Franklin Subwatershed Drainage Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
George W. Kuhn Dr Dist, Michigan		
Oakland Cnty, Michigan		
George W. Kuhn Dr Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Jacobs Drainage Dist, Michigan		
Oakland Cnty, Michigan		
Jacobs Drainage Dist (Oakland Cnty) GO		

Ratings Detail (As Of February 8, 2016) (cont.)		
Long Term Rating	AAA/Stable	Affirmed
John Garfield Dr Dist, Michigan		
Oakland Cnty, Michigan		
John Garfield Dr Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Oakland Cnty Bldg Auth, Michigan		
Oakland Cnty, Michigan		
Oakland Cnty Bldg Auth (Oakland Cnty) bldg auth bnds		
Long Term Rating	AAA/Stable	Affirmed
Oakland Cnty Bldg Auth (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Pontiac Wastewtr Treatment Fac Drainage Dist, Michigan		
Oakland Cnty, Michigan		
Pontiac Wastewtr Treatment Fac Drainage Dist (Oakland Cnty) dr bnds		
Long Term Rating	AAA/Stable	Affirmed
Rewold Drainage Dist, Michigan		
Oakland Cnty, Michigan		
Rewold Drainage Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Tribute Drainage Dist, Michigan		
Oakland Cnty, Michigan		
Tribute Drainage Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed

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