

RatingsDirect®

Summary:

Hartland Township, Michigan; General Obligation

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Summary:

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Credit Profile

US\$1.035 mil wtr sys spl assess rfdg bn ds GO ltd tax ser 2017 dtd 04/01/2017 due 05/01/2021

Long Term Rating AA/Positive New

Hartland Twp GO

Unenhanced Rating AA(SPUR)/Positive Affirmed

Rationale

S&P Global Ratings revised its outlook to positive from stable and affirmed its 'AA' long-term and underlying rating (SPUR) rating on Hartland Township, Mich.'s previously issued general obligation (GO) bonds. The revised outlook reflects the maintenance of very strong budgetary flexibility and liquidity, coupled with our expectation that the continued expansion in the economy is likely to result in strengthened wealth and incomes.

At the same time, we assigned our 'AA' long-term rating and positive outlook on the township's series 2017 special assessment refunding bonds.

We understand that the township has pledged special assessment revenue from the Hartland Township water project special assessment district within the township toward repayment of the series 2017 bonds. Additionally, the bonds are secured by the township's full faith and credit and limited tax pledge, within statutory and constitutional tax limitations applicable to Hartland. We view the GO pledge as the stronger source of payment. While the ad valorem property tax levy is subject to statutory limitations, we believe the township possesses the financial stability and flexibility to sustain identical ratings on its unlimited- and limited-tax GO bonds. Proceeds from the bonds, in addition to funds available in the water fund, will be used to refund its outstanding series 2001.

We have also affirmed our rating on the township's series 2015 and 2016 limited-tax GO bonds. The bonds are secured by a pledge of revenue from a special 1.5-millage tax that voters approved in the November 2014 election for payment of principal and interest on the bonds. The millage was approved for 10 years for funding various road maintenance and improvement projects. We have based our rating on the township's limited-tax GO pledge as we view it as the stronger security. The rating reflects our view of the township's:

- Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 137% of operating expenditures;
- Very strong liquidity, with total government available cash at 2.8x total governmental fund expenditures and 14.1x governmental debt service, and access to external liquidity we consider strong;

- Weak debt and contingent liability position, with debt service carrying charges at 20.2% of expenditures and net direct debt that is 555.0% of total governmental fund revenue, and exposure to speculative contingent liabilities, but rapid amortization, with 67.9% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

Strong economy

We consider Hartland's economy strong. With an estimated population of 15,305, Hartland is 25 miles north of Ann Arbor and 50 miles northwest of Detroit in Livingston County. It is in the Detroit-Warren-Dearborn MSA, which we consider to be broad and diverse. It has a stable local economy and tax base. The population has been growing consistently, based on ongoing economic expansion both residentially and commercially. Management reports that a number of local enterprises are expanding, that three new residential subdivisions are being planned, and that new businesses are entering the community. Though the Wal-Mart had closed in 2016, another large retail chain, Rural King, opened in its place and brought back a majority of the jobs that were lost. The largest employers in the area include Hartland Consolidated Schools (778 employees), Meijer (450), and Target (200). The county unemployment rate was 4.9% in 2015.

The township has a projected per capita effective buying income of 126% of the national level and per capita market value of \$98,939. Overall, market value grew by 7.1% over the past year to \$1.5 billion in 2016. We expect that the township's economy will continue to strengthen given the ongoing development and the room for additional growth. Subsequently, should the market value per capita further increase, it could result in a higher rating.

Adequate management

We view the township's management as adequate, with "standard" financial policies and practices under our FMA methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Highlights of the township's financial management policies and practices include the use of three-to-eight years of historical data and analyses of state economic data to develop financial projections, monthly reporting on budget-to-actual performance to the board, maintenance of a formal investment policy supported by monthly reporting to the board on investment holdings, and adherence to a formal reserve policy requiring that at least 50% of general fund expenditures be kept on hand. The township's comprehensive capital improvement plan does not forecast five years and management does not maintain a formal long-term financial plan. While the township has a formal debt management policy, the policy is not significantly more restrictive than the state's guidelines.

Strong budgetary performance

Hartland's budgetary performance is strong, in our opinion. The township had operating surpluses of 16% of expenditures in the general fund and 24.6% across all governmental funds in fiscal 2016. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2016 results in the near term.

The township's budgetary performance has been revised from adequate to strong as we no longer consider that its charge-back on delinquent special assessment are likely to be deferred. It should be noted that we have made a number of adjustments to the township's financial data to better analyze its typical operations and facilitate comparisons with its peers. For instance, we have combined its general and fire operating funds and adjusted for recurring transfers out of the general fund to the cemetery fund and one-time capital expenditures in the municipal

street fund.

The combined general and fire fund has achieved consecutive operating surpluses over the past three audited years. According to management, this reflects its tight budgetary controls and frequent budget monitoring, coupled with favorable and stable revenues. The fiscal 2017 (March 31) budget features a nearly \$199,000 general fund deficit, while the fire operating fund budgeted a \$60,000 operating surplus. Based on current projections, management anticipates that the general fund will likely end with an operating surplus of about \$130,000 and about \$50,000 in the fire operating fund. We note that due to the smaller size of the township's budget, slight variations in operating results typically yield more dramatic swings in performance on a percentage basis.

Fiscal 2017-2018 general and fire operating fund budgets totals a combined \$3.5 million and is expected to end with a net operating surplus.

In prior years, officials had reported ongoing delinquency problems with special assessments collected to support debt service paid from the sewer fund. Livingston County had purchased the delinquent taxes from the township with the intention of charging them back with interest if the county were unable to collect the funds from either delinquent property holders or through a tax sale within three years. It is our understanding that the charge-backs payable to the county have been reduced significantly to \$422,000 in fiscal 2017 from \$2.1 million in 2016. Township management attributes the decline in charge-backs payable to the county to one of the largest delinquent taxpayers recently paying off its full outstanding obligation. In addition, the township sold additional sewer connections, increased sewer rates, and purchased some of the delinquent properties and paid assessments directly to reduce the risk of delinquency charges from the county. Township officials indicated that there is also enough cash in the sewer fund to pay this liability, and although we do not expect it to do so, it could use general fund reserves to pay the obligation. While the township has been prepared to use these reserves, it has not had to, and we do not expect that the outstanding charge-backs will place any burden on the governmental funds in future years.

Very strong budgetary flexibility

Hartland's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2016 of 137% of operating expenditures, or \$4.1 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 township's available fund balance includes both the general and fire operating funds. Both have been increasing consistently over the past three audited years and are expected to grow. Given that management is projecting positive results for 2017, and that it is dedicated to maintaining at least 50% of general fund expenditures on hand per the township's reserve policy, we believe that budgetary flexibility will remain very strong for the foreseeable future.

Very strong liquidity

In our opinion, Hartland's liquidity is very strong, with total government available cash at 2.2x total governmental fund expenditures and 15.0x governmental debt service in 2016. In our view, the township has strong access to external liquidity if necessary. Weakening Hartland's liquidity position, in our assessment, is its exposure to a nonremote contingent liability that could come due within 12 months.

We have based our assessment of the city's access to external liquidity on its recent history of debt issuances, which

includes a variety of debt vehicles. We have also confirmed that the city holds no privately placed debt or direct-purchase agreements that could pose a significant risk to its liquidity. We consider the remaining delinquent charge-back as nonremote, but we believe that the township has sufficient cash to absorb the costs given its very strong liquidity.

Weak debt and contingent liability profile

In our view, Hartland's debt and contingent liability profile is weak. Total governmental fund debt service is 20.2% of total governmental fund expenditures, and net direct debt is 555.0% of total governmental fund revenue. Weakening our view of the township's debt profile is its exposure to speculative contingent liabilities. Approximately 67.9% of the direct debt is scheduled to be repaid within 10 years, which is, in our view, a positive credit factor.

Township management is considering seeking approval for debt borrowing to support road paving projects. If approved, additional debt is likely to be issued in spring 2018. The township's overall debt and contingent liability improved from very weak, because we are no longer considering the township's special assessment charge-back as a contingent speculative liability. The amount of the liability has come down significantly and any remaining balance is expected to be resolved within the next fiscal year.

The township offers only defined-contribution retirement benefits, and the predictable nature of these costs leads us to anticipate that they will cause no budgetary stress in the medium term.

Strong institutional framework

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

Outlook

The positive outlook reflects our expectation that further economic expansion is likely to result in stronger wealth and incomes that could support a higher rating, as well as our expectation that the township will maintain its very strong budgetary flexibility and liquidity and strong budgetary performance. All else remaining the same or improving, we could raise the rating if the economy continues to improve and market value per capita rise to stronger levels. On the other hand, we would revise the outlook back to stable or lower the rating should economic growth slow or deteriorate and budgetary flexibility, budgetary performance, and liquidity weakens.

Related Research

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

Ratings Detail (As Of March 27, 2017)		
Hartland Twp san swr proj rfdg bnds		
<i>Long Term Rating</i>	AA/Positive	Affirmed
Hartland Twp GO (ASSURED GTY)		
<i>Unenhanced Rating</i>	AA(SPUR)/Positive	Affirmed
Hartland Twp GO		
<i>Long Term Rating</i>	AA/Positive	Affirmed

Ratings Detail (As Of March 27, 2017) (cont.)

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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