

RatingsDirect®

Summary:

Romulus, Michigan; General Obligation

Primary Credit Analyst:

Kathryn A Clayton, Chicago (1) 312-233-7023; kathryn.clayton@spglobal.com

Secondary Contact:

Benjamin D Gallovic, Chicago 312.233.7070; benjamin.gallovic@spglobal.com

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Credit Profile

US\$11.05 mil cap imp bnds (ltd tax GO) ser 2017A due 11/01/2033

<i>Long Term Rating</i>	AA-/Stable	New
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Romulus GO

<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
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Rationale

S&P Global Ratings raised its underlying rating (SPUR) to 'AA-' from 'A+' on Romulus, Mich.'s existing general obligation (GO) bonds. At the same time, we assigned our 'AA-' long-term rating to the city's series 2017A limited-tax GO capital improvement bonds. The outlook is stable.

The raised rating reflects our view of city's growing economy with strengthened indicators and its improved financial management practices.

The series 2017A bonds and certain other outstanding debt are secured by and expected to be paid from pledged tax-increment revenue. As additional security, the city has pledged its full faith, credit, and resources and an agreement to levy ad valorem property taxes within Michigan limitations as to rate and amount as the bonds become due. Our rating is based on the city's full-faith-credit-and-resource limited-tax GO pledge, which we consider the stronger pledge on these bond issues. While the ad valorem property tax levy is subject to statutory limitations, we believe the city possesses the financial stability and flexibility to sustain identical ratings on its unlimited- and limited-tax GO bonds.

The series 2017A bond proceeds will be used to finance public infrastructure improvements necessary to facilitate access to and the development of a new Amazon fulfillment center.

The rating reflects our view of the city's:

- Adequate economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Strong management, with "good" 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 33% of operating expenditures;
- Very strong liquidity, with total government available cash at 69.8% of total governmental fund expenditures and 37.4x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges at 1.9% of expenditures and net direct debt that is 222.4% of total governmental fund revenue, as well as a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address it; and

- Strong institutional framework score.

Adequate economy

We consider Romulus' economy adequate. The city, with an estimated population of 24,129, is in Wayne County just 20 miles southwest of Detroit. It is in the Detroit-Warren-Dearborn MSA, which we consider to be broad and diverse. It has a projected per capita effective buying income of 76.2% of the national level and per capita market value of \$89,793. Overall, market value grew by 7.8% over the past year to \$2.2 billion in 2018. The county unemployment rate was 6.4% in 2016.

The city is home to the Detroit Metropolitan Airport. The airport encompasses about 7.5 miles in the center of the city's roughly 36 square miles. It employs approximately 18,000 people, and multiple airlines are positioned on the city's leading taxpayer list. Additionally, the city is home to a General Motors Corp. manufacturing plant which employs 1,425. The city's tax base is diverse with 31% of the taxable value in residential, 27% industrial, and 20% commercial properties. Currently, the city economy is growing, with various businesses expanding operations and attracting new businesses. Additionally, Amazon recently committed to opening the state's second fulfillment center, which could employ up to 2,500 within a year and a half after opening. While we expect economic indicators to continue to grow with the new development underway, we don't expect that growth will be material enough to improve the overall economic score. While the county's population has continued to decline, Romulus' population has grown in recent years, so we do not consider the countywide trend as a negative credit factor for the city.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our FMA methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The city uses both internal and external sources of information to build its revenue and expenditure assumptions for the budget. Management currently updates the city council quarterly on budget-to-actual performance, and amendments to the budget may occur any time throughout the year. The city maintains a five-year financial forecast for the general fund that is updated annually. It has its own investment policy and reports quarterly to the city council on investment performance and holdings. Romulus is in the process of creating a capital improvement plan but does not currently have a long-term projection of capital projects. It follows state guidelines on debt management. While not formal, the city has a target to maintain available general fund reserves at no less than 15%-20% of expenditures, for cash flow purposes.

Strong budgetary performance

Romulus' budgetary performance is strong, in our opinion. The city had operating surpluses of 16% of expenditures in the general fund and 12.6% 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.

Our calculations are made after adjusting the general fund expenditures to include recurring transfers and adjusting out one-time costs from total governmental fund expenditures.

The size of the city's fiscal 2016 surplus in the general fund and across total governmental funds was significant when

compared to prior years. However, we expect fiscal year 2017 and 2018 results to be more in line with prior-year results. Currently, management expects a slight surplus of about 1% in the general fund for fiscal 2017. Fiscal 2018 general fund operations are expected to break even. Based on the city's projected performance across the general fund and total governmental funds, we expect overall budgetary performance to be strong in future years.

Very strong budgetary flexibility

Romulus' budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 33% of operating expenditures, or \$6.0 million. We expect the available fund balance to remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor.

Budgetary flexibility has been calculated after adjusting general fund expenditures to include recurring transfers. Given the city's financial projections, we expect available reserves to be maintained in excess of 30% of expenditures. Therefore, we expect that budgetary flexibility will remain very strong in future years.

Very strong liquidity

In our opinion, Romulus' liquidity is very strong, with total government available cash at 69.8% of total governmental fund expenditures and 37.4x governmental debt service in 2016. In our view, the city has strong access to external liquidity if necessary.

We believe that the city has strong access to external liquidity because it has issued GO debt, which demonstrates access to capital markets. We do not expect its cash position, with respect to its total governmental expenditures and debt service, to significantly change during the next two years, and expect it will remain very strong. We understand that the city privately placed its series 2015 limited-tax GO tax-increment development and refunding bonds directly with a local bank, but the bond documents contain no permissive provisions nor an ability for the bank to accelerate payment on the bonds. Given that there are no contingent liabilities outstanding for the city, we expect the liquidity position to remain level in future years.

Very weak debt and contingent liability profile

In our view, Romulus' debt and contingent liability profile is very weak. Total governmental fund debt service is 1.9% of total governmental fund expenditures, and net direct debt is 222.4% of total governmental fund revenue.

We have included the city's authorized issuance of up to \$17 million in GO bonds to finance improvements and renovations of the district court facility. We do not expect the debt profile to change significantly within the next two years.

In our opinion, a credit weakness is Romulus' large pension and OPEB obligation, without a plan in place that we think will sufficiently address it. Romulus' combined required pension and actual OPEB contributions totaled 17.4% of total governmental fund expenditures in 2016. Of that amount, 7.4% represented required contributions to pension obligations, and 10.0% represented OPEB payments. The city made its full annual required pension contribution in 2016. The funded ratio of the largest pension plan is 39.8%.

The city's overall pension and OPEB obligations remain a long-term credit consideration. The city participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiemployer defined-benefit plan, which is available to police and fire employees, and a former mayor. The plan's net pension liability as of Dec. 31, 2015, was

\$31.215 million, which represented a funded ratio of just 37.5%. The plan is significantly underfunded, and as such, we do not expect the burden to dissipate within the next few years.

The city maintains a defined-contribution plan for employees not covered under the defined-benefit plan. OPEBs offered to certain eligible retirees (new hires are not eligible) carry an unfunded actuarially accrued liability of \$57.273 million, which represents a 4.7% funded ratio as of June 30, 2013, the most recent actuarial valuation date.

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 Romulus will maintain its very strong budgetary flexibility, so we do not expect to revise the ratings within the two-year outlook period. The city has been able to attain several consecutive operating surpluses, thereby increasing fund balance to levels we view as very strong, so we expect that it will continue to successfully address any potential budgetary pressures to maintain fiscal balance.

Downside scenario

A lower rating is possible if elevated retirement costs or other budgetary pressures result in weakened financial performance thereby causing a material deterioration in the city's budgetary flexibility, or if the economy profile were to weaken.

Upside scenario

Should the city's economic indicators improve significantly amid continued development to a level we consider commensurate with peers, and its overall pension and OPEB obligations are moderated, we could consider a higher rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Alternative Financing: Disclosure Is Critical To Credit Analysis In Public Finance, Feb. 18, 2014
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015

Ratings Detail (As Of October 18, 2017)		
Romulus GO (AGM) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
Romulus GO (BAM) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded
Romulus Tax Incre Fin Auth, Michigan		
Romulus, Michigan Romulus Tax Incre Fin Auth (Romulus) GO (BAM) <i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Upgraded

Ratings Detail (As Of October 18, 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.capitaliq.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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