

Rating Update: Wixom (City of) MI

MOODY'S AFFIRMS A1 RATING ON CITY OF WIXOM'S (MI) GO DEBT

RATING APPLIES TO \$24 MILLION OF TOTAL RATED DEBT

Municipality
MI

Opinion

NEW YORK, May 27, 2009 -- Moody's Investors Service has affirmed the A1 rating on the City of Wixom's (MI) outstanding general obligation debt. The A1 rating applies to \$18.3 million of outstanding general obligation unlimited tax debt and \$5.7 million of outstanding general obligation limited tax debt. The parity rating on the unlimited and limited tax debt reflects the city's remaining levying authority under its levy ceiling. The affirmation of the A1 rating reflects the city's suburban tax base located in Oakland County (GO rated Aaa/stable outlook), sound financial operations characterized by healthy reserves, prudent fiscal management which has dealt with the loss of a major taxpayer in recent years, and modest debt levels with no future borrowing expected.

SUBURBAN TAX BASE LOCATED IN OAKLAND COUNTY; FORD PLANT CLOSED IN SPRING 2007

Moody's expects Wixom's \$1.9 billion tax base to remain stable in the near term. The city is located in Oakland County, an affluent county in suburban Detroit (GOULT rated Baa2/rating under review). Though Detroit's economy continues to face substantial challenges, Oakland County remains a more diverse and stable actor in the regional economy. Located north of downtown Detroit, Oakland County is dominated by the automotive industry which continues to face substantial pressures and declining labor forces. While the auto industry experiences ongoing cutbacks of North American operations, the presence of several health-related and government institutions diversify and stabilize the local economy. The county continues to be proactive in its effort to diversify its tax base through its emerging sectors initiative which officials report has added approximately \$298 million in investment to the county since 2004.

Despite its strengths and relative diversity, unemployment levels in Oakland County are elevated and track well above national trends (11.1% in February 2009 compared to 8.9% in the U.S.) though they remain below the state (12.8%). Wixom reports that while property values are expected to decline throughout the Detroit metro area, the city expects to see far less of a decline than many peers with total assessed valuation only estimated to decline by 2%. The city also has one of the lowest foreclosure rates in the region and reports that building permits are still being filed, though at a slower pace than historical levels. City officials project that approximately 30% of the city's land mass remains undeveloped, leaving ample land for future growth. The city experienced rapid growth in recent years, with population levels increasing from just over 2,000 in 1970 to nearly 15,000 in 2008. Resident income levels track above national and state averages with per capita and median family income at 128% and 129% of the nation, respectively. The median home value in Wixom is approximately 163% of the national level, providing evidence of the high quality nature of construction in the city.

Ford (probability of default rated Caa3/negative outlook), which closed an assembly plant in May 2007, was a major taxpayer and local employer. Favorably, the city has largely dealt with the financial impact of Ford's closure and reports that nearly all Ford employees commuted to the plant from other communities. The plant, which last produced Lincoln and Mercury luxury sedans, covers 318 acres and over 4.5 million square feet making it one of the largest auto plants in the world. The site is currently being looked at for a mixed use development known as Energy Park which would potentially include an indoor arena, minor league baseball park, water park and boutique hotel along with a research and development office campus. The current proposals for the development estimate a \$750 million to \$1 billion project. To date, Ford has not agreed to any proposals to sell the site, and Moody's notes that should Ford agree to the sale it would be responsible for significant clean-up and remediation costs. The city is actively working with the federal government to pursue policies that would encourage Ford to sell the property.

FINANCIAL OPERATIONS REMAIN SOUND; CITY ENACTED 5 YEAR PLAN TO ADJUST BUDGET FOR FORD CLOSURE

Moody's believes the city's financial operations will remain sound due to the presence of healthy reserves - including liquidity that is outside of the General Fund - and prudent fiscal management. In FY2008, the city

posted a modest \$150,000 General Fund shortfall, reducing the General Fund reserves to \$2 million or a sound 21% of revenues. The city currently expects to reduce the General Fund balance to \$1.5 million in FY2009 and is budgeting for an additional \$300,000 draw on reserves in FY2010. While the city has reduced General Fund reserves since FY2006 and plans to continue to reduce General Fund equity in the near term, this is due in large part to transfers to the Budget Stabilization Fund which ended FY2008 with a \$2.6 million balance (a \$1.9 million increase from FY2007 following a \$1.8 million transfer from the General Fund). Wixom enacted a 5 year budget action plan shortly after learning that the Ford plant would cease operations. As part of the plan, the city intends to build up the Budget Stabilization Fund and draw on the fund in coming years to deal with lost revenues. The city is currently budgeting for the fund to begin FY2010 with a \$3.8 million balance, but expects to begin drawing on the reserves over the next 5 years beginning in FY2010. The city's enactment of a 5 year plan also addressed annual expenditures, with city staffing levels declining from a peak in FY2004; the city's FY2009 and FY2010 budgets do not include any new staffing positions and the city's FY2010 projects a 0.4% decline in General Fund expenditures.

The city faces a challenging revenue environment with its two largest revenue sources both experiencing continuing pressure: property tax revenues (72% of FY08 General Fund revenues) are expected to remain stagnant or decline as taxable valuation levels fall in the near term and state-shared revenues (12% in FY08) have declined annually since FY2001. While Ford remains the city's largest taxpayer, accounting for 3.1% of 2008 assessed valuation, the effects of the plant closure have largely impacted past fiscal years. In FY2007, Ford accounted for approximately \$640,000 of operating revenues. In FY2009, Ford's contribution to operating revenues had declined to \$175,000. The city currently expects Ford's property tax payments to decline by \$20,000 in FY2010.

Moody's notes that the city maintains several measures of flexibility beyond reserves in the Budget Stabilization Fund including: additional margin underneath its property tax ceiling which could generate an estimated \$680,000 annually should it be levied; and, the city budgets sizable transfers out of the General Fund for capital improvements each year which can be adjusted should the need arise (\$540,000 was budgeted for transfers for capital outlay in FY09).

MODEST DEBT LEVELS; NO FUTURE BORROWING EXPECTED

Moody's believe Wixom's debt levels will remain modest, as current direct debt levels are below average and the city has no future borrowing planned at this time. Direct debt is a low 0.8% of estimated full market valuation (overall debt is a slightly higher 2.7% due primarily to overlapping school district borrowing) and principal retirement is rapid with 80% repaid in 10 years. City officials currently report no expectation of future borrowing needs. All of Wixom's outstanding debt is fixed rate and the city is not party to any interest rate swap agreements.

KEY STATISTICS:

2008 estimated population: 14,500 (9.3% increase from 2000)

2000 population: 13,263 (55% increase from 1990)

2008 full valuation: \$1.9 billion

Estimated full value per capita: \$129,277

Average annual increase in assessed value (2003-2008): 0.2%

Per capita income as % of U.S.: 128%

Median family income as % of U.S.: 130%

Oakland County unemployment rate (Feb 2009): 11.1%

FY08 General Fund balance: \$2 million (21% of revenues)

FY08 General Fund and Budget Stabilization Fund balance: \$4.6 million (49% of General Fund revenues)

Principal retirement (10 years): 80%

Total rated debt outstanding: \$24 million

The principal methodology used in rating this issue was Local Government General Obligation and Related Ratings, which can be found at www.moodys.com in the Credit Policy & Methodologies directory, in the Ratings Methodology subdirectory. Other methodologies and factors that may have been considered in the

process of rating this issue can also be found in the Credit Policy & Methodologies directory.

The last rating action with respect to the City of Wixom (MI) was on February 6, 2006 when its underlying A1 rating was affirmed.

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