

RatingsDirect®

Summary:

Muskegon County, Michigan Schwemer Drain Drainage District; General Obligation

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Summary:

Muskegon County, Michigan Schwemer Drain Drainage District; General Obligation

Credit Profile

US\$1.19 mil drain bnds (ltd tax GO) (Muskegon County) ser 2023 due 05/01/2038

Long Term Rating AA/Stable New

Black Creek Consolidated Drain Drainage District, Michigan

Muskegon County, Michigan

Black Creek Consolidated Drain Drainage District (Muskegon Cnty) drainage dist bnds ser 2021 dtd 01/28/2021 due 05/01/2051

Long Term Rating AA/Stable Affirmed

Montague Drain Drainage District, Michigan

Muskegon County, Michigan

Montague Drain Drainage District GO ltd tax

Long Term Rating AA/Stable Affirmed

Muskegon County Building Authority, Michigan

Muskegon County, Michigan

Muskegon Cnty Bldg Auth (Muskegon Cnty) bldg auth comnty mental health bldg rfdg bnds

Long Term Rating AA/Stable Affirmed

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Schwemer Drain Drainage District, Mich.'s \$1.19 million series 2023 limited-tax general obligation (GO) drain bonds issued on behalf of Muskegon County.
- At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the county's GO bonds outstanding.
- The outlook is stable.

Security

The series 2023 GO drain bonds, as well as other outstanding obligations, are ultimately secured by a pledge of Muskegon County's full faith and credit and an agreement to levy ad valorem property taxes within state limitations. Management expects to pay debt service on the series 2023 GO drain bonds through special assessments assessed against properties in the district. We have not evaluated the special assessment pledge and rate these bonds to the county's GO pledge.

We rate the limited-tax debt at the same level as our view of the county's general creditworthiness given that ad valorem taxes are collected from the county's entire tax base and there are no limitations on the fungibility of resources available for debt service.

Bond proceeds will be used for various drainage district construction and improvement projects.

Credit overview

The rating reflects our view of the county's strong management practices and growing tax base, which have contributed to positive general fund operating performance in recent years, as well as its manageable debt and long-term liability levels. The rating is offset by weak economic metrics compared to those of peers.

The county posted its fourth consecutive general fund operating surplus in 2022, growing adjusted available reserves to \$16.5 million, or 31% of operating expenditures. The positive results are attributable to reduced spending as the result of the COVID-19 pandemic, unfilled vacancies, and a number of structural changes made in 2019 to balance finances in the longer term (see report on Muskegon County published Nov. 10, 2022 on Ratings Direct). Over the next several years, the county plans to draw down reserves to remain in compliance with its formal reserve policy of 14% to 19%. In 2023, the estimated draw is 3% to 4% of budgeted expenditures. Despite this planned decline in reserves, we anticipate healthy performance over the long term given the county's track record of controlled expenditures and conservative budgeting.

The 'AA' rating further reflects our view of the county's:

- Expanding tax base, as reflected in the 4.1% average annual assessed value growth between 2017 and 2022 and the 7.9% increase in 2023. Management reports a general boost in economic activity, including mixed-use development in the downtown area and industrial investments that are expected to bring new jobs. Despite these trends, economic metrics remain below those of similarly rated peers, with below-average resident wealth levels and historically elevated unemployment rates;
- Proactive management team with good financial management assessment (FMA) score and conservative budgeting practices. Highlights include a formal reserve policy, rolling five-year capital improvement plan, and annually updated five-year general fund financial projections. In 2019, the county made a number of structural changes, reflecting its strategic and forward-looking planning;
- Adequate debt burden and low fixed costs, as a large portion of the county's debt is self-supported. Its only debt plans are to issue an additional \$18 million in limited tax bonds in 2024 or 2025 to support a landfill expansion. Longer term, the county is making an effort to fund capital projects through pay-go spending as opposed to bonds; and
- Stable operating performance in the general fund despite weak budgetary performance in total governmental funds driven by the county's community health (CMH) agency, HealthWest. This negative reserve position is primarily attributable to unreimbursed medical expenditures from 2018 and 2019. A recent court of claims decision will allow the Lakeshore Regional Entity, which contracts with the state to provide behavioral health services through CMHs in Western Michigan, to use surplus funds to resolve liabilities associated with HealthWest. While the timeframe is uncertain, the county expects the \$11.8 million in costs to be settled within the next several months. In the unlikely event that these funds are not received, the deficit will be contained within the HealthWest special revenue fund and it would be required to undergo a multi-year restructuring.

Environmental, social, and governance

We have analyzed Muskegon County's environmental, social, and governance risks relative to its economy, management, financial measures, and debt and liability profile and view them as neutral within our credit analysis.

Outlook

The stable outlook reflects our view that the county's strong management practices and very strong reserves will be maintained over the outlook horizon.

Downside scenario

We could lower the rating if operations become imbalanced, leading to a materially weakened reserves and liquidity position, or if concerns with the county's health fund result in unexpected liquidity pressures for the general fund.

Upside scenario

We could raise the rating if the county's economic metrics improve while it maintains structural balance and very strong reserves.

Muskegon County, Michigan--key credit metrics				
	Most recent	Historical information		
		2022	2021	2020
Weak economy				
Projected per capita EBI % of U.S.	75.2			
Market value per capita (\$)	79,507			
Population		173,787	173,980	
County unemployment rate (%)		7.5		
Market value (\$000)	13,817,316	12,651,566	11,911,700	
Ten largest taxpayers % of taxable value	5.8			
Weak budgetary performance				
Operating fund result % of expenditures		0.8	6.8	3.4
Total governmental fund result % of expenditures		(1.5)	0.6	(0.7)
Very strong budgetary flexibility				
Available reserves % of operating expenditures		31.0	30.0	24.3
Total available reserves (\$000)		16,483	14,926	11,712
Very strong liquidity				
Total government cash % of governmental fund expenditures		33.5	64.8	47.1
Total government cash % of governmental fund debt service		812.2	1,328.6	920.8
Very strong management				
Financial Management Assessment	Strong			
Adequate debt & long-term liabilities				
Debt service % of governmental fund expenditures		4.1	4.9	5.1
Net direct debt % of governmental fund revenue	64.1			
Overall net debt % of market value	5.2			
Direct debt 10-year amortization (%)	53.2			
Required pension contribution % of governmental fund expenditures		3.0		
OPEB actual contribution % of governmental fund expenditures		0.0		

Muskegon County, Michigan--key credit metrics (cont.)

	Most recent	Historical information		
		2022	2021	2020
Strong institutional framework				
EBI--Effective buying income. OPEB--Other postemployment benefits.				

Data points and ratios may reflect analytical adjustments.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

Ratings Detail (As Of May 17, 2023)

Muskegon Cnty rfdg bnds			
<i>Long Term Rating</i>	AA/Stable		Affirmed
Muskegon Cnty GO			
<i>Long Term Rating</i>	AA/Stable		Affirmed
Muskegon Cnty Muskegon cnty wtr supply sys rev bnds (GO ltd tax) ser 2021 due 07/01/2047			
<i>Long Term Rating</i>	AA/Stable		Affirmed
Muskegon County Building Authority, Michigan			
Muskegon County, Michigan			
Muskegon Cnty Bldg Auth (Muskegon Cnty) bldg auth jail and juvenile transition ctr bnds			
<i>Long Term Rating</i>	AA/Stable		Affirmed
Pierson Swamp Drain Drainage District, Michigan			
Muskegon County, Michigan			
Pierson Swamp Drain Drainage District (Muskegon Cnty) dr bnds (ltd tax GO)			
<i>Long Term Rating</i>	AA/Stable		Affirmed

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