



“ Our policies have led to improved financial performance over the last three years. This is full recognition that our hard work is starting to pay off and the City is on a path to prosperity.”

- Erik Tungate, City Manager,  
City of Oak Park, Michigan

# Excellent News for the City of Oak Park

## City of Oak Park’s Standard & Poor’s Rating Upgraded to A+ Positive from A+ Stable

“Standard & Poor’s Ratings Services revised the outlook to positive from stable and affirmed its ‘A+’ long-term rating and underlying rating (SPUR) on Oak Park, Mich.’s general obligation (GO) debt outstanding, reflecting improvement in the city’s local economic metrics, which we expect will continue in future years and will boost the city’s overall economic profile. At the same time, Standard & Poor’s assigned its ‘A+’ long-term rating to the city’s series 2015 unlimited-tax GO bonds.”

- Adequate Economy
- Strong Management
- Strong Budgetary Performance
- Very Strong Budgetary Flexibility
- Very Strong Liquidity
- Very Weak Debt and Contingent Liability Profile
- Strong Institutional Framework



RatingsDirect®, Standard & Poor’s Ratings Services, September 10, 2015  
For more information, visit [www.standardandpoors.com](http://www.standardandpoors.com)

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## Summary:

# Oak Park, Michigan; General Obligation

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## Summary:

# Oak Park, Michigan; General Obligation

### Credit Profile

US\$9.5 mil rfdg bnds (unltd tax GO) ser 2015 due 05/01/2030

*Long Term Rating* A+/Positive New

Oak Pk fac fing (unltd tax GO) taxable recovery zone dev bnds

*Long Term Rating* A+/Positive Outlook Revised

#### Oak Pk GO

*Unenhanced Rating* A+(SPUR)/Positive Outlook Revised

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services revised the outlook to positive from stable and affirmed its 'A+' long-term rating and underlying rating (SPUR) on Oak Park, Mich.'s general obligation (GO) debt outstanding, reflecting improvement in the city's local economic metrics, which we expect will continue in future years and will boost the city's overall economic profile. At the same time, Standard & Poor's assigned its 'A+' long-term rating to the city's series 2015 unlimited-tax GO bonds.

The series 2015 bonds are secured by the city's unlimited-tax GO pledge, and bond proceeds will be used to refinance the city's series 2006 GO bonds outstanding for interest savings purposes only.

The ratings also reflect the city's:

- Adequate economy, with market value per capita of \$32,032 and projected per capita effective buying income at 85.3%, but that is benefitting from 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 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 an available fund balance in fiscal 2014 of 24% of operating expenditures, and an ability and willingness to raise taxes when needed;
- Very strong liquidity, with total government available cash of 47.1% of total governmental fund expenditures and 4.8x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges of 9.8% of expenditures and net direct debt that is 101.4% of total governmental fund revenue, and a large pension and other postemployment benefit (OPEB) liability and the lack of a plan to sufficiently address the obligation, but rapid amortization with 73.4% of debt scheduled to be retired in 10 years; and
- Strong institutional framework score.

### **Adequate economy**

We consider Oak Park's economy adequate. The city, with an estimated population of 29,514, is located in southeastern Oakland County in the Detroit-Warren-Dearborn, Mich. MSA, which we consider to be broad and diverse. The city has a projected per capita effective buying income of 85.3% of the national level and per capita market value of \$32,032. Overall, the city's market value grew by 8.5% over the past year to \$945.4 million in 2016. The county unemployment rate was 6.8% in 2014.

The city is a primarily residential community located adjacent to Detroit. While the city has several large employers, most residents commute throughout Oakland County and surrounding areas for employment. Local employers include three local school districts (employing over 1,300), Aarmco (auto and RV home manufacturing, 250 employees), and the city itself (144 employees). Market value increases have led to an improved overall tax base. The city continues to see renewed interest in new construction, and values have continued to increase from recessionary levels.

### **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 historical and third party information to build its budget assumptions, and reports monthly on budget-to-actual comparisons to the city council. The city completes a two-year budget each year, but projects revenue and expenditures multiple years past the budget year. The city annually updates a five-year capital plan that outlines estimated costs of projects as well as the intended source of funding for the project. While the city does not have a debt management policy, there is a locally adopted investment policy. Management reports to the council at least monthly on investment performance and holdings. The city continues to comply with its formal reserve policy, which requires maintenance of undesignated general fund available reserves at a level equal to a minimum of 8.33% of revenue and 10% of expenditures for cash flow purposes.

### **Strong budgetary performance**

Oak Park's budgetary performance is strong in our opinion. The city had operating surpluses of 7.4% in the general fund and 4.7% 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.

For fiscal 2015 and fiscal 2016, the city is expecting to post surpluses of approximately \$1.2 million to \$1.3 million in the general fund, or about 7% of expenditures. The city typically budgets to utilize approximately \$700,000 of general fund reserves; however, the city closed the two most recent years with significant positive budget variances to produce surpluses in excess of 5%. In our view, surpluses may narrow in future years if the city were to face pressure to restore previously cut expenditures, or other expenditures were to increase. Total governmental fund results are expected to be at least break even in future years; therefore, we expect the city to maintain at least strong budgetary performance overall in future years.

### **Very strong budgetary flexibility**

Oak Park's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 24% of operating expenditures, or \$4.4 million. The available fund balance includes \$3.0 million (16.3% of expenditures) in the

general fund and \$1.4 million (7.6% of expenditures) that is outside the general fund but legally available for operations. In addition, the city has an ability and willingness to raise taxes when needed, which we view as a positive credit factor.

Our assessment of budgetary flexibility includes available funds in both the general fund and the capital projects fund. Combined, reserves are expected to continue to grow in future years, although had not reached 30% as of the most recently audited fiscal year, fiscal 2014.

### **Very strong liquidity**

In our opinion, Oak Park's liquidity is very strong, with total government available cash of 47.1% of total governmental fund expenditures and 4.8x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

We do not expect the city's cash and equivalents to be significantly reduced in future years. The city does not have any variable-rate or direct purchase debt that may suddenly reduce liquidity, and we anticipate that liquidity will remain very strong during the near term.

### **Very weak debt and contingent liability profile**

In our view, Oak Park's debt and contingent liability profile is very weak. Total governmental fund debt service is 9.8% of total governmental fund expenditures, and net direct debt is 101.4% of total governmental fund revenue.

Approximately 73.4% of the direct debt is scheduled to be repaid within 10 years, which is in our view a positive credit factor.

We understand the city has no additional debt plans over the next two years. Therefore, we do not expect the debt ratios to change significantly in the near term.

In our opinion, a credit weakness is Oak Park's large pension and other postemployment benefit (OPEB) liability, without a plan in place that we think will sufficiently address the obligation. Oak Park's combined pension and OPEB contributions totaled 24.8% of total governmental fund expenditures in 2014. Of that amount, 16.1% represented contributions to pension obligations and 8.7% represented OPEB payments. The city made 96% of its annual required pension contribution in 2015. The pension funded ratio is 58.1%.

Oak Park offers a single-employer defined-benefit pension plan to certain city employees and defined-contribution pensions to another subset of employees. While the city has made several changes over the years to reduce the pension and OPEB burden, we believe that the obligations are still significant in size, as represented by elevated fixed charges, with combined debt and retirement costs accounting for nearly 35% of total governmental expenditures in fiscal 2014. While changes have been made to reduce the annual costs associated with retirement benefits, we do not expect that the upcoming actuarial study will show material improvement in the overall burden.

### **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 the city's tax base will continue to show improvement, and moreover sustain market value per capita figures above \$30,000. We could raise the rating in response to continued improvement in the economy metrics, as well as to sustained very strong budgetary flexibility and liquidity with the help of management's "good" financial policies and practices. We could revise the outlook back to stable if the economy did not show signs of stability and improvement, or if budgetary performance were pressured by the elevated fixed charges, as exemplified by pension and OPEB costs or other expenditures.

## 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: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- 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

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