

RatingsDirect®

Summary:

Springfield, Michigan; General Obligation

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Credit Profile

Springfield

Long Term Rating

AA-/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term rating to 'AA-' from 'A+' on Springfield, Mich.'s existing general obligation (GO) bonds, based on our local GO criteria released Sept. 12, 2013. The outlook is stable.

All of the city's outstanding debt is backed by its limited-tax GO pledge.

The rating reflects our assessment of Springfield's following credit factors:

- Strong management conditions, with "good" financial practices under our FMA methodology, indicating that practices exist in most areas although not all may be formalized or regularly monitored by governance officials. Management provides quarterly updates to the council on budget-to-actual and investment performance. During budget time, management annually updates a five-year capital improvement plan adopted by the council that identifies both costs and sources of funding. The city has its own debt management policy that addresses both debt and unfunded pension and other postemployment (OPEB) liabilities and sets limits on debt per capita, maturity length for new bond issuances, debt as a percentage of taxable value, and debt and pension/OPEB carrying charges as a percentage of revenues and expenditures. The city also has a formalized fund balance policy to keep undedicated reserves at a minimum of 20% of expenditures.
- Springfield's local economy is weak, in our view, with projected per capita effective buying income at 62% of the national average and per capita market value of about \$32,100. Springfield is in south-central Michigan in Calhoun County, about two miles west of downtown Battle Creek and 20 miles east of Kalamazoo, servicing an estimated 5,302 residents. Residents benefit, in our view, from access to the broad and diverse Battle Creek Metropolitan Statistical Area. Due to its proximity to Battle Creek, much of the local economy centers on automotive parts manufacturing and cereal production. The county unemployment rate was 7.6%, according to the U.S. Bureau of Labor Statistics, in 2013, below the state average of 8.1% and slightly above the national average of 7.4%. Taxable value has declined each year since 2009 by an average annual rate of 2.4%, and management thinks there could be another decline in 2015 before stabilizing in 2016.
- In our opinion, Springfield's budgetary performance is strong with a surplus of 2.8% for the general fund and a surplus of 8.3% for the total governmental funds at fiscal year-end June 30, 2013. Management has maintained consistently balanced operations despite its constrained revenue environment and tax base declines due to conservative budgeting and careful monitoring of expenditures, particularly personnel-related expenditures. Overall, management reports that the number of full-time funded positions in the city has decreased to 17 from 35 since 2008. In October of 2013, Springfield contracted with the Calhoun County Sheriff's Department for police services, decreasing wage and benefit costs by 39%; Springfield's public safety officers were transferred to either the county police department or the city of Battle Creek's police department. As a result, management anticipates that fiscal 2014 closed with an operating surplus of 10.9% and a total governmental funds surplus of 8.7%. The general fund

relies primarily on taxes for revenue (53%), followed by intergovernmental aid (30%), and transfers from the income tax revenue fund (21%).

- With available reserves at 33.7% of operating expenditures in fiscal 2013, or \$840,000, it is our view that Springfield's budgetary flexibility is very strong. Management anticipates that in fiscal 2014, general fund reserves increased to 37.1% of operating expenditures; general fund reserves remained essentially flat, but operating expenditures declined due to the consolidation of police services with the county. For fiscal 2015, management has budgeted for break-even operations without the use of reserves. We feel reserves are a credit strength as the available fund balance was above 30% for the most recently audited year, and we expect it to remain above 30% for the current and following years.
- Liquidity we consider very strong supports Springfield's finances, with total government available cash at 104% of total governmental fund expenditures and at 57.8x governmental debt service. Based on past issuance of GO debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs if necessary.
- We believe Springfield's debt and contingent liabilities profile is very strong. Net direct debt is 39% of total governmental fund revenue, and total governmental fund debt service is 1.8% of total governmental fund expenditures. Approximately 82% of the city's direct debt will be repaid over 10 years, which, in our opinion is a positive credit factor. Overall net debt as a percent of market value is 4.4%. We understand the city may issue an additional \$110,000 for an energy efficiency project sometime this year.
- Springfield participates in the Michigan Municipal Employees' Retirement System (MERS), which is an agent multiple-employer defined benefit pension plan that covers all full-time employees of the city. The obligation to contribute to and maintain the current system for these employees was established by negotiation with the city's competitive bargaining units and requires a contribution of 2% from city employees, except for the public safety division, which requires a contribution of 7% from employees. For fiscal 2013, the city contributed its full annual required contribution (ARC) of \$189,000, or 6.0% of governmental expenditures. Springfield's pension plan was 75% funded as of Dec. 31, 2012, the most recent actuarial valuation date. The city also provides certain retiree medical benefits as other postemployment benefits (OPEB) to all eligible employees upon retirement. The city contributed the cost of current premiums of \$120,000 in fiscal 2013, which was about 81% of the ARC. The OPEB plan was 13.6% funded as of fiscal year-end 2013. Management's goal is to have the OPEB plan fully funded by 2030.
- The institutional framework score for Michigan municipalities with a population greater than 4,000 is strong. See the Institutional Framework score for Michigan.

Outlook

The stable outlook reflects our expectation that Springfield will maintain very strong budgetary flexibility and liquidity, supported by strong budgetary performance and strong management conditions, throughout the two-year outlook period. If management is unable to maintain structural balance, driving deterioration of budgetary performance and reserves, we could lower the rating. A higher rating would require material improvement in income and wealth indicators, which we do not anticipate occurring within the two-year outlook period.

Related Criteria And Research

Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

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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