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CREDIT OPINION
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Update

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Wayne County, MI

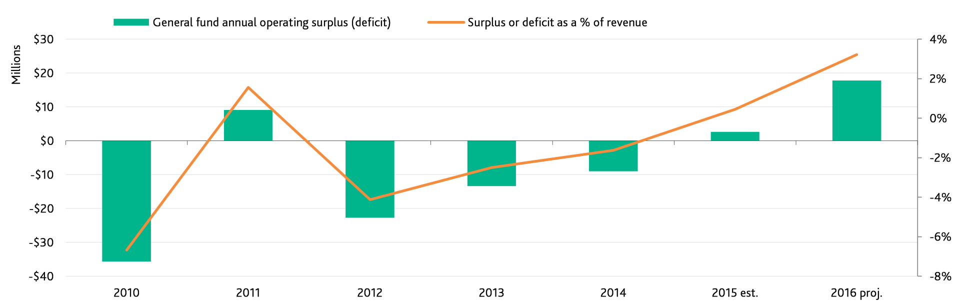
Update: Moody's affirms Ba3 on Wayne County, MI's GOLT debt; revises outlook to stable

Summary Rating Rationale

Moody's Investors Services has affirmed the Ba3 rating on the general obligation limited tax (GOLT) debt of Wayne County, MI. The county has a total of $518 million of long-term GOLT debt outstanding, of which $336 million is rated by Moody's. An additional $300 million of short-term GOLT delinquent tax anticipation notes (DTANs) are outstanding. Moody's does not have a rating on the county's DTANs.

The Ba3 rating incorporates a recovering but still comparatively weak economic profile, an overall narrow financial position that is expected to improve with expenditure cuts, recent reductions to long-term retirement liabilities and associated costs, high tax base leverage when considering liabilities of overlapping governments, and a manageable fixed cost burden. The rating further reflects the lack of a dedicated and unlimited levy to pay debt service, which is a first budget obligation of general county operations.

Exhibit 1
Expenditure Reductions Set Stage for Positive General Fund Operations
General Fund exclusive of Third Circuit Court



Excludes non-recurring DTRF transfers in 2014 and 2015; does not include operations of the Third Circuit Court, which was incorporated in the general fund in fiscal 2013
Source: Wayne County and county's comprehensive annual financial reports

Credit Strengths

» Significant expenditure reductions achieved through modification of retirement benefits, contraction of payroll and other operating efficiencies that correct a long-standing operational imbalance

» Consent agreement with the State of Michigan affords county leadership broad flexibility to adjust operations in an effort to rebuild financial reserves

Credit Challenges

» Michigan's statutory limits on taxable valuation and revenue growth cause revenue loss during times of tax base decline and slow recovery of revenue as valuations increase

» Wayne County's revenue structure is dependent upon property taxes and a limited tax levy in an economic environment of weak valuation growth

» Weak demographic and labor market trends will challenge long-term economic recovery

» Outstanding jail facility needs could raise new operating cost pressures

Rating Outlook

Revision of the outlook to stable from negative reflects diminished near-term fiscal challenges given reductions in retirement liabilities and other operating expenses. The negative outlook had incorporated substantial liquidity stress and the possibility of reserve depletion in the absence of structural adjustments. While the county's financial position remains vulnerable to economic conditions and statutory restraints on raising revenue, the expenditure adjustments put in place stabilize current liquidity and improve the county's capacity to accommodate additional budgetary pressure, particularly looming and yet unknown costs related to a stalled jail construction project.

Factors that Could Lead to an Upgrade

» Strengthened reserves across the county's operating funds, which could occur given recent financial recovery actions

» Sustained improvement in regional economic conditions that benefits revenue trends

Factors that Could Lead to a Downgrade

» Renewed challenges to cost control efforts that narrows financial reserves and liquidity

» Lack of improvement in regional economic conditions that stresses revenue and financial stabilization efforts

» Growth in leverage or fixed cost burden

Key Indicators

Exhibit 2

Wayne (County of) MI	2010	2011	2012	2013	2014
Economy/Tax Base					
Total Full Value ($000)	$ 101,296,707	$ 92,828,383	$ 87,115,013	$ 85,751,843	$ 85,003,496
Full Value Per Capita	$ 55,126	$ 51,511	$ 48,603	$ 48,303	$ 47,882
Median Family Income (% of US Median)	84.1%	84.1%	81.6%	81.6%	81.6%
Finances					
Operating Revenue ($000)	$ 678,833	$ 717,229	$ 688,425	$ 726,895	$ 802,653
Fund Balance as a % of Revenues	-17.2%	-16.4%	-5.4%	-6.3%	4.3%
Cash Balance as a % of Revenues	9.7%	11.0%	9.6%	13.6%	15.5%
Debt/Pensions					
Net Direct Debt ($000)	$ 731,754	$ 1,113,583	$ 1,048,583	$ 962,285	$ 1,026,666
Net Direct Debt / Operating Revenues (x)	1.1x	1.6x	1.5x	1.3x	1.3x
Net Direct Debt / Full Value (%)	0.7%	1.2%	1.2%	1.1%	1.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	N/A	1.7x	2.0x	1.8x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	N/A	1.3%	1.7%	1.7%

Sources: Wayne County's comprehensive annual financial reports; US Census Bureau; Moody's Investors Service

Recent Developments

On August 21, 2015, the county entered into a consent agreement with the State of Michigan pursuant to the state's Local Financial Stability and Choice Act (PA 436). The agreement provides county leadership with broad flexibility to adjust operating expenditures by, among other options, imposing changes to employee compensation outside of the collective bargaining process. Since signing the consent agreement, the county negotiated significant changes to labor contracts that include reductions to retiree healthcare coverage and slowing of future pension benefit accruals.

Actuarial estimates peg annual savings associated with retiree healthcare reforms at nearly $20 million. The county estimates another $13 million of annual savings associated with pension reforms that include a reduction in the benefit multiplier for future years of service and increased employee contributions. More than half of the annual savings will hit the county's general fund.

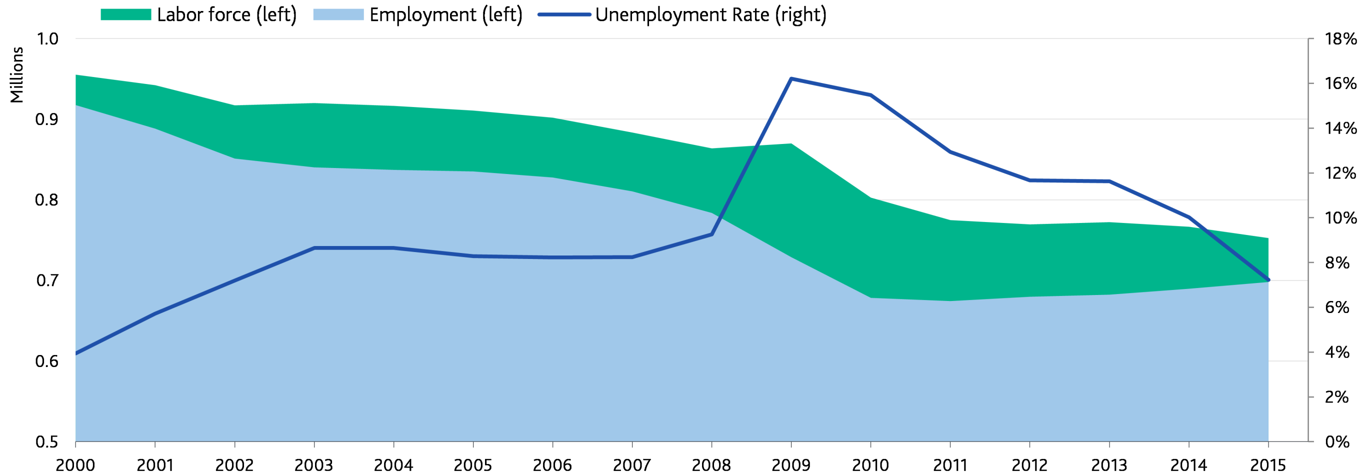
Along with other operating adjustments, including consolidation of facilities, renegotiation of service contracts, and reduction in personnel, county officials estimate a reduction in general fund costs of nearly $50 million for the current fiscal 2016 that began on October 1, 2015. Most operating adjustments, including modifications to retiree benefits, were effective December 1, granting the county ten months of savings in the current year. Full year savings of $66 million will be reflected in fiscal 2017.

Detailed Rating Considerations

Economy and Tax Base: County Continues Slow Recovery

The county's economic profile is showing signs of modest improvement, but ongoing recovery will likely continue at a slow pace. The 2015 annualized unemployment rate is estimated at 7.2% down from 10% in the prior year and a peak of 16.2% in 2009 (see exhibit). Improvement in the unemployment rate is in part due to a declining labor force, which is down nearly 14% relative to 2009 and fell almost 2% in 2015. However, the trend in job growth is modestly positive, as county-wide employment grew just over 1% in both 2014 and 2015.

Exhibit 3
County Labor Market Stabilizing in Wake of Significant Contraction

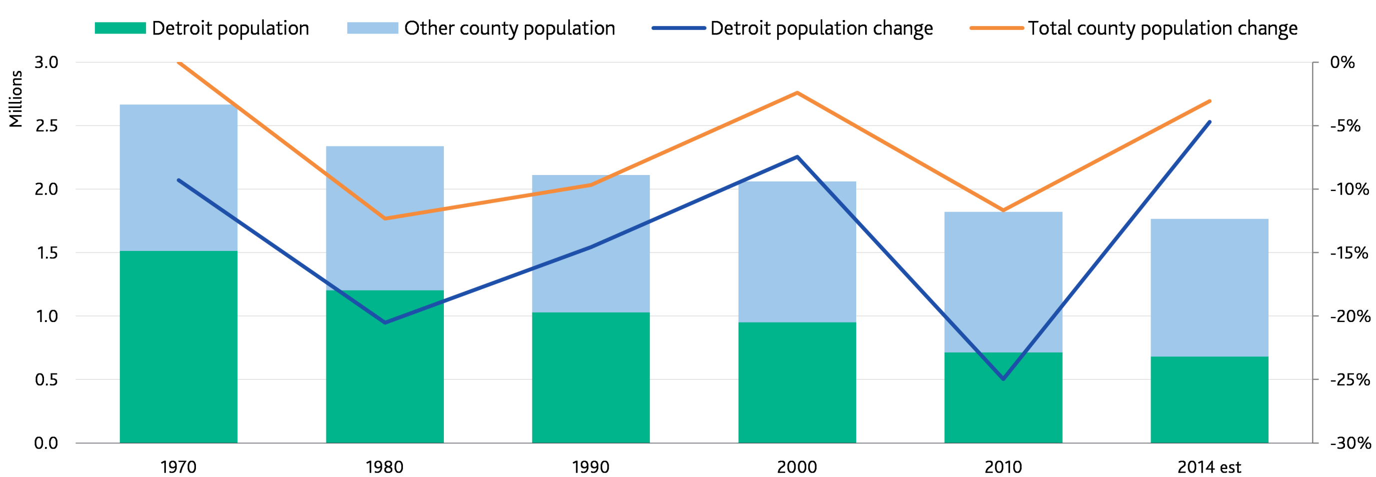


Source: US Bureau of Labor Statistics

Ford Motor Company (Baa2 stable), headquartered in the City of Dearborn (Aa3), is the county's largest employer and taxpayer, employing 39,000 people and accounting for 1.1% of taxable valuation. The county's other top employers are Henry Ford Health System and Detroit Medical Center, each of which employ approximately 11,500.

An estimated 39% of the county's current population resides in the City of Detroit (B2 positive), a significant shift since 1970, when the city was home to nearly 60% of county residents. Migration out of Detroit as well as other neighboring suburbs has driven county population down since 1970 (see exhibit). Census estimates for 2014 indicate a loss of 3% since 2010. Median family income in the county is estimated at a modest 81% of the national figure.

Exhibit 4
County population steadily declines



Source: US Census Bureau

The county recorded a very modest 0.5% growth in taxable valuation in 2015. This curbed a trend of depreciation that chipped away 24% of value from 2007 through 2014. Estimated full market valuation grew 4.5% in 2015 to $89 billion, but remains 33% below its peak of $132 billion. The City of Detroit accounts for approximately 19% of the county's taxable and full valuation.

Financial Operations and Reserves: Expense Reductions Significantly Aid Fiscal Profile

Wayne County significantly reduced expenses over the past six months, positioning itself for financial stabilization. The reductions were aimed at correcting an operational imbalance that the county endured for years in the face of rapidly falling property tax revenue. Notwithstanding the substantial operating adjustments, reserves remain comparatively narrow and revenue growth prospects are weak, suggesting limited operating margins going forward. But maintaining control over costs in the coming years could set the county on a path to replenish reserves.

The county's fiscal 2016 general fund budget assumes an operating surplus of $18 million and incorporates nearly $50 million of reduced expenses achieved with elimination or modification of retirement benefits, contraction of payroll, and other operating efficiencies. Retirement benefit changes that are outlined in a June settlement of a class action lawsuit as well as current collective bargaining agreements include elimination of retiree healthcare benefits for current employees, replacement of retiree healthcare coverage with a monthly stipend for a large class of current retirees, and pension plan adjustments that will slow future accrual of benefits and reduce annual normal cost.

While audited information for fiscal 2015 will likely not be available until March 2016, the county reports that it completely eliminated its accumulated deficit general fund balance that first materialized in fiscal 2010. This was primarily accomplished with a transfer of nearly $100 million of previously-restricted reserves held in the delinquent tax revolving fund (DTRF). The DTRF is managed by the county treasurer to account for the purchase of annual delinquent property taxes from underlying local governments and the collection of those taxes plus interest and fees. Reserves and collections in excess of those needed to repay short-term notes are available for any county purpose. The large transfer used to eliminate the deficit is nonrecurring, but the county expects continued annual transfers of up to $30 million to the general fund, based on annual net income of DTRF operations.

Wayne County's core operations are accounted for in its general, juvenile justice, parks and debt service funds. Over the last four years, the county increased its reliance on the annual transfer of excess DTRF reserves and collections to support operational spending. Despite the transfers, the county's financial operations remained largely negative through fiscal 2013. Inclusive of DTRF reserves, the county's fiscal 2014 year-end available operating fund balance was $34.6 million and a very slim 4.3% of operating fund revenue.

LIQUIDITY

The county's general fund net cash position was negative at the close of each of the past seven fiscal years. Annual cash flow was supported by regular issuance of tax anticipation notes (TANs) in the range of $75 million to $100 million. The transfer of cash from the DTRF to the general fund eliminated the need to issue TANs in fiscal 2015. Across the core operating funds and the DTRF, cash and investments were $125 million and 15.5% of revenue at the close of fiscal 2014, with over $100 million of that reported balance restricted in the DTRF for note repayment. Favorable delinquent tax collections and an increased use of borrowing to finance delinquent tax purchases in fiscal 2015 enabled the county treasurer to free up previously restricted liquidity in the DTRF for county operations.

Debt and Pensions: Debt Burden is Manageable and Retirement Liabilities Have Been Reduced

The county's debt and fixed cost burdens are manageable, but outstanding jail facility needs could raise new cost pressures. The county's gross direct debt burden is equivalent to 1.0% of full valuation and 1.1 times fiscal 2014 operating fund revenue. Debt service comprised 6.5% of 2014 operating fund revenue, while total fixed costs (combined debt service, pension and OPEB payments) were 17.5% of revenue. The recent retirement benefit reductions will bring the fixed cost burden down to an estimated 14% of revenue.

The county has no plans to issue long-term debt, but it is still assessing multiple options to address criminal justice needs. The county sold $200 million of bonds in 2010 to finance construction of a new jail and court facility in downtown Detroit, but cost overruns caused it to halt construction in 2013. The county has not yet decided whether to complete construction of the new facility or abandon the partially completed project and relocate its jail to a vacant state facility. Either option has the potential to introduce additional costs to the county while it continues to pay debt service on the existing 2010 jail bonds. Payment on the 2010 bonds is supported by a federal interest subsidy. In September 2015 the IRS selected the bonds for review of ongoing interest subsidy eligibility, but has made no determination as to whether a more in-depth investigation will be made.

Repayment of nearly 70% of the county's direct debt is supported by revenue other than current property taxes. This includes delinquent tax anticipation notes repaid with the county's collection of delinquent property taxes as well as interest and fees, $150 million of wastewater and drain commission bonds and $51 million of Detroit-Wayne County Stadium Authority bonds. The county's overall debt burden is an elevated 8.6% of full valuation and nearly 60% of overlapping debt is associated with the City of Detroit and Detroit Public Schools (Caa1 negative).

DEBT STRUCTURE

All tax-secured debt of the county is fixed rate, while a low 51% of long-term debt principal is scheduled to be repaid within ten years. Outstanding variable rate debt is limited to five series of airport revenue bonds issued by the Wayne County Airport Authority, a component unit of the county. The airport revenue bonds do not carry the GOLT pledge of the county.

DEBT-RELATED DERIVATIVES

The county is not party to any derivative agreements.

PENSIONS AND OPEB

According to an actuarial valuation as of September 2015, modifications to retiree healthcare coverage reduced the county's OPEB UAAL to $468 million from $1.3 billion reported as of October 2013. In fiscal 2014, the county's pay-go OPEB cost was $35.9 million, while the fiscal 2016 full actuarially required contribution (ARC) is estimated at $21 million. The county also estimates that adjustments to future pension accruals and increased employee contributions will reduce current year pension costs by $13 million. Net of payments from the Wayne County Airport Authority, required pension and pay-go OPEB contributions in fiscal 2014 were 11% of operating fund revenue. The county's modifications will bring actuarially required pension and OPEB contributions down to about 8% of revenue in 2016.

The county administers two single employer defined benefit pension plans: the Wayne County Employees' Retirement System (WCERS) that covers the majority of employees and a very small plan that covers circuit court bailiffs. As of September 30, 2013, the unfunded actuarial accrued liability (UAAL) of the WCERS was $910.5 million and the plan had a low funded ratio of 45.1%. The fiscal 2014 three-year average Moody's adjusted net pension liability for Wayne County was $1.5 billion, or 1.7% of full valuation and 1.8 times fiscal 2014 operating fund revenue. Our adjustments reflect the use of a market-based discount rate to value liabilities. They are not intended as a guide, but rather, to enhance the comparability of rated entities in our credit analysis.

Management and Governance: Enhanced Expenditure Flexibility Aids Operations Given Significant Revenue Constraints

The county entered into a consent agreement with the State of Michigan on August 21, 2015. Pursuant to the state's Local Financial Stability and Choice Act (PA 436), the agreement enhanced the county's bargaining position with employee groups. The majority of the county's employment contracts expired in September 2014 and the consent agreement eliminated the need for employee bargaining units to agree to new employment terms. The county struck new bargaining agreements with almost all employee groups in September 2015 that incorporated the changes to retiree healthcare and pension benefits discussed above.

The consent agreement also expanded the state's role and participation in the county's recovery. The county is required to provide the state monthly cash flow updates and quarterly financial reports detailing the status of expenditure reductions and operations relative to budget. The agreement also requires the county to develop a formal revenue forecast twice per year to aid in budgeting and empowers the state treasurer to adopt an official revenue forecast for the budget should county officials fail to achieve consensus.

Enhanced control over expenditures was key to addressing the county's fiscal concerns given limited options to raise revenue. Property taxes comprise nearly 50% of Wayne County's operating fund revenue and any increase in the operating tax rate would require voter approval. Furthermore, like other counties throughout the state, Wayne County faces limits on growth in taxable valuation (Proposal A) and tax revenue (Headlee Amendment). The Headlee Amendment creates a permanent reduction in the millage rate to offset valuation growth beyond a statutory cap, which the county can override only with the approval of voters. These statutes significantly limit the county's capacity to offset tax base depreciation with a higher tax rate as well as to capture the full benefit of future economic growth.

Legal Security

Wayne County's bonds are secured by its pledge and authority to levy property taxes within statutory and constitutional limitations to pay debt service. Debt service is not secured by a dedicated tax levy.

Use of Proceeds
Not applicable.

Obligor Profile
Wayne County is one of three southeast Michigan counties that together comprise the bulk of the Detroit metropolitan area. The county is home to the city of Detroit and a number of the largest suburban communities in the state including the cities of Livonia (Aa2) and Dearborn (Aa3). With a population of 1.8 million, the county remains one of the twenty largest in the country despite multiple decades of contraction.

Methodology
The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

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