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Ratings

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Summary:
Bay County, Michigan; General Obligation

Primary Credit Analyst:
Diana Cooke, Chicago +1 3122337052; diana.cooke@spglobal.com

Secondary Contact:
Moreen T Skyers-Gibbs, New York + 1 (212) 438 1734; moreen.skyers-gibbs@spglobal.com

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Credit Profile		
US$6.4 mil Michigan transp fd bnds ser 2024 due 05/01/2039		
Long Term Rating	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Bay County, Mich.'s $6.4 million series 2024 Michigan transportation fund (MTF) bonds.
- The outlook is stable.

Security

The bonds are secured by MTF revenues, and to the extent that pledged revenues are insufficient, by the county's limited-tax general obligation (GO) pledge. We rate Bay County's MTF bonds under our priority-lien tax revenue debt criteria (published Oct. 22, 2018 on RatingsDirect), which factor in both the strength and stability of the pledged revenue as well as the general credit quality of the county. The rating is based on our view of the MTF revenue pledge, in turn based on our multiple revenue streams criteria, which we view as stronger than Bay County's GO pledge. Bond proceeds will be used to finance various roadway infrastructure improvements within the county.

Credit overview

The rating is supported by a very strong statewide economy, historically stable pledged revenues, and very strong coverage with no expectation of deterioration. Despite population declines in Bay County, which affect the distribution of MTF revenues, county-pledged revenues increased at an average annual rate of 6% over the past five years. The county has no debt plans on the horizon, and we expect coverage will stay at or above current levels; using 2023 pledged revenues, maximum annual debt service (MADS) coverage is 17.8x.

The rating is constrained by a close linkage to the obligor's creditworthiness (OC) in accordance with our criteria. Therefore, movement in the priority-lien rating could be dictated by any change to our view of the county's general creditworthiness.

The 'AA' rating reflects:

- A very strong statewide economic base, with a population of about 10 million generating consistently stable pledged revenues;
- Our view that the motor vehicle-related tax revenue securing the bonds has demonstrated low volatility, with some historical declines but overall growth in the past 10 years; and
- Bay County's very strong MADS coverage, supported by consistently stable gas and weight tax revenue, and strong borrowing limitations with an additional bond test (ABT) at 2x.

Environmental, social, and governance

We view the county's environmental, social, and governance risks as neutral within our analysis.

Outlook

The stable outlook reflects our expectation that, while pledged revenues will continue to fluctuate with economic cycles, population loss, and debt issuance, Michigan's tax base will likely continue to provide very strong debt service coverage. We do not expect to change the rating within the next two years.

Downside scenario

We could lower the rating if we lower our OC rating on Bay County or if there is a weakening of MADS coverage because of declining gas and weight tax receipts, local population decline, or a significant increased debt borrowing.

Upside scenario

We could raise the rating if there is improvement in the OC, specifically the local economic profile and implementation of long-term planning practices, which we currently believe do not compare favorably with those of higher-rated peers.

Credit Opinion

Economic fundamentals: Very strong

The pledged revenues are derived from Michigan's statewide tax base, which we consider very strong given the large and diverse economy, with about 10.03 million residents with relatively strong income levels. The state's per capita effective buying income is 93% of the national level.

Michigan has experienced cyclical economic performance in the past, influenced by underperforming long-term economic and demographic trends. State population has decreased in the past three years and shown slower growth than that of the nation for the past 10 years, at 0.11%, compared with the national growth of 0.6%. We believe that an employment concentration in manufacturing has contributed to economic cyclicality. However, manufacturing has dropped from the largest employment sector in 2000, at 19% of state employment, to the fifth largest in 2022, at 13.8% of state nonfarm employment.

We expect the state's reliance on manufacturing will continue to support economic growth in the short term, but over time it could limit Michigan's long-term growth potential, as will low or negative population growth.

Revenue volatility: Low

Revenue derived from a portion of motor fuel taxes, vehicle registration fees, and other transportation-related miscellaneous fees, as described by state statutory Act 51, secures the bonds. State legislation provides for motor fuel tax rates (which is a major component of MTF's constitutionally dedicated revenue) to automatically increase with inflation, capped at 5% without additional legislation. In our view, this somewhat moderates the volatility.

The funding formula for the county to receive MTF revenues considers the amount of registration taxes collected in said county, along with population, primary and local, and urban and nonurban mileages. Act 51 specifically provides that any changes in the distribution formula enacted into law will not weaken the ability of the county to pay debt service on its bonds.

At the local level, county MTF revenues have increased on a historical basis despite Bay County's declining population. From 2018-2023, pledged revenues increased at an average annual rate of 6%. Projections suggest that pledged revenues will continue to increase, although at a slower rate (1% annually).

Coverage and liquidity: Very strong

Bay County has been receiving an increasing amount of MTF revenues, and has no additional bonds secured by pledged revenues outstanding, resulting in very strong MADS coverage.

Fiscal 2023 gas and weight tax revenues available for debt service for the county totaled $14.9 million, covering MADS of $842,000 by 17.8x. We understand the county has no plans to issue additional MTF bonds. With the county's expectation of continued, albeit slow, growth in pledged revenues, we expect coverage will remain very strong.

In our view, state law creates an effective ABT of 2x. Provisions of Acts 51 and 175 state that the county cannot pledge more than 50% of its previous fiscal year's distributions to MTF obligations. Therefore, on issuance, total revenues would always have to be at least 2x annual debt service.

Obligor linkage: Close

We believe the priority lien of pledged revenue provides some protection from operating risk; however, because taxes are distributed to the county from the state each month, and Bay County is then responsible for transferring the money to the trustee, we consider the flow of pledged revenue to be within the county's direct control. Under our criteria, this narrows the linkage between the priority-lien pledge and the OC, as we believe pledged revenue has some degree of exposure to operating risk.

Rating linkage to Bay County

We assess Bay County's general operations because we view overall creditworthiness as a key determinant of an obligor's ability to pay all its obligations, including bonds secured by a special tax. In our view, the county's below national-average economic and demographic trends, as well as just standard financial management policies, constrain general creditworthiness. For more information on the county's general creditworthiness, see our summary analysis on Bay County's GO debt, published Oct. 19, 2021. Despite this, its stable budgetary performance, very strong budgetary flexibility, and limited pressure from long-term liabilities supports the rating.

Related Research

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