

MOODY'S

INVESTORS SERVICE

Rating Update: **Moody's upgrades Cascade Charter Township, MI's GOLT to Aa1 from Aa2**

Global Credit Research - 27 Feb 2015

Aa1 applies to \$3.9M of outstanding GO debt

CASCADE CHARTER (TOWNSHIP OF) MI
Cities (including Towns, Villages and Townships)
MI

NEW YORK, February 27, 2015 --Moody's Investors Service has upgraded Cascade Charter Township, MI's general obligation (GO) rating to Aa1 from Aa2. The Aa1 applies to \$3.9 million of Moody's rated general obligation limited tax (GOLT) debt.

SUMMARY RATING RATIONALE

The Aa1 rating reflects the township's very strong reserve position, solid budgetary flexibility and local voter support of supplemental property tax levies. The Aa1 also incorporates the township's moderately sized tax base that is experiencing growth, affluent resident profile, manageable pension burden and low debt.

OUTLOOK

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

WHAT COULD MAKE THE RATING GO UP

- Substantial expansion of local tax base

WHAT COULD MAKE THE RATING GO DOWN

- Material narrowing of reserves
- Declining tax base valuations
- Large increase in debt

STRENGTHS

- Very strong reserve position and financial trends
- Low debt and pension burdens
- Growing tax base with affluent resident profile
- Voter support of additional operating levies
- Solid budgetary flexibility

CHALLENGES

- The township's tax base is smaller than the median for its rating category

RECENT DEVELOPMENTS

Recent developments are incorporated in the Detailed Rating Rationale.

DETAILED RATING RATIONALE

ECONOMY AND TAX BASE: MODERATELY SIZED BASE OUTSIDE GRAND RAPIDS EXPERIENCING

GROWTH; AFFLUENT RESIDENT PROFILE

Cascade Charter Township is located in Kent County (Aaa Stable), approximately 10 miles southeast of Grand Rapids (Aa2 Stable). The township has a moderately sized tax base of \$2.9 billion that has experienced growth in recent years, with valuations increasing by 5.3% in 2014. Officials report that ongoing residential appreciation and the recent construction of two large multifamily developments are driving continued growth. Preliminary estimates indicate that the township's full valuation will increase by 7.8% in fiscal 2015. The tax base is primarily residential and has low concentration, with the top ten taxpayers making up 5.7% of valuations. The township had 17,100 residents in the 2010 US Census, marking a 13.4% increase from 2000. Unemployment in Kent County, which stood at 3.4% in December 2014 is below the state and national rates of 5.6% and 5.4%, respectively, during the same period. Township residents benefit from proximity to employment opportunities in and around Grand Rapids, and officials report that major local employers such as General Electric Company (Aa3 Stable) and Lack Industries are stable. Residents of the township are affluent with median family income at 170.4% of the national median, according to the 2008-2012 American Community Survey. Estimated full value per capita is a robust \$170,000.

FINANCIAL OPERATIONS AND RESERVES: SOLID RESERVE POSITION FOLLOWING YEARS OF SURPLUS OPERATIONS

We expect the township's reserve position to remain strong over the near to medium term given a multi-year trend of operating surpluses and minimal future capital needs. In fiscal 2013, the township's available Operating Fund balance, which includes the General, Police, Fire and Debt Service Funds, totaled \$9.2 million or an ample 148.7% of revenues. This represents a notable increase from fiscal 2011 when available operating fund balance totaled \$6.2 million or a still healthy 99.2% of revenues. The township's favorable operating results were driven by stable tax revenues and ongoing personnel cost controls. The township's largest operating revenue source is property taxes, which comprised 58% of fiscal 2013 revenues. Other major revenue streams, including state aid (18% of fiscal 2013 revenues) and licenses and permits (5%), have remained stable.

Unaudited fiscal 2014 results indicate that the Operating Fund balance will increase by \$400,000. The township has consistently exceeded budget expectations each year, indicative of conservative budgeting assumptions. For fiscal 2015, officials have budgeted for a \$140,000 Operating Fund surplus, increasing the available operating fund balance to approximately \$6.3 million. Additionally, in fiscal 2015, the township expects to spend down its Downtown Development Authority fund balance from \$1.6 million in fiscal 2014 to \$70,000 for capital purposes. Outside this fund, however, officials report modest major capital needs in the near to medium term. Over the long term, the township may spend up to \$2 million to \$3 million to remodel its town hall, though specific plans are not in place at this time.

Liquidity

The township's liquidity position is very strong with operating cash of \$11 million or a healthy 177% of revenues at the close of fiscal 2013.

DEBT AND PENSIONS: LOW DEGREE OF LEVERAGE

The township's debt burden is a low 0.2% of full value. We expect the township's leverage to remain low in the coming years based on a lack of plans for additional borrowing. In fiscal 2013, debt service comprised an above average 23.1% of operating expenditures.

Debt Structure

The township has \$6.5 million in GOLT debt outstanding, of which \$3.9 million is rated by Moody's. All of the township's outstanding debt is fixed rate. Principal amortization is average with 71% of GOLT debt repaid in the next ten years.

Debt-Related Derivatives

The township is not party to any swap agreements.

Pensions and OPEB

The township's exposure to a state multi-employer agent pension plan, the Michigan Municipal Retirement System (MERS) is expected to remain manageable. The township's contribution to MERS in fiscal 2013 totaled \$220,000, or 3.6% of operating expenditures. Moody's adjusted net pension liability (ANPL) for the city, under our

methodology for adjusting reported pension data, was \$5 million for fiscal 2013, or 1.1 times Operating Fund (General, Police, Fire and Debt Service Fund) revenues, or 0.1% of full value. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the township's reported contribution information, but to improve comparability with other rated entities.

MANAGEMENT AND GOVERNANCE: MODERATE INSTITUTIONAL FRAMEWORK

Michigan cities have an institutional framework score of "A", or moderate. The growth in cities property tax receipts is restricted by statutory and constitutional limitations on increases in taxable values (Proposal A) and total receipts (the Headlee Amendment). Cities have the flexibility to ask voters to override the Headlee limitation or request a special dedicated operating levy for specific functions. In addition, a small number of cities have tax rates that are under tax caps and maintain a modest ability to increase taxes without voter approval. Many cities have made substantial expenditure cuts. Continued expenditure reductions may be difficult for some cities given already reduced service levels.

Favorably for Cascade Charter Township, voters renewed three of the township's eight dedicated levies in 2013; no levies will require a voter authorized renewal at least until 2018. The township is afforded a great deal of budgetary flexibility from its lack of employee collective bargaining agreements. The township's personnel manual dictates employee pay grades and provides management with the flexibility to make mid-year cuts to positions or wages.

KEY STATISTICS

Full valuation: \$2.9 billion

Estimated full value per capita: \$170,000

2008-2012 American Community Survey median family income: 170.4% of US

Fiscal 2013 Available Operating Fund balance: 130.3% of revenues

5-Year Dollar Change in Operating Fund Balance as % of Revenues: 52.6%

Fiscal 2013 Net operating cash balance: 155.4% of revenues

5-Year Dollar Change in Cash Balance as % of Revenues: 81.9%

Institutional Framework: A

Operating History: 5-Year Average of Operating Revenues / Operating Expenditures: 1.19x

Net Direct Debt / Full Value: 0.2%

Net Direct Debt / Operating Revenues: 0.9x

3-Year Average of Moody's ANPL / Full Value: 0.1%

3-Year Average of Moody's ANPL / Operating Revenues: 0.5x

OBLIGOR PROFILE

Cascade Charter Township is located in Kent County, about ten miles southeast of Grand Rapids, and has a population of 17,134.

LEGAL SECURITY

The township's GOLT bonds are secured by the township's GO tax pledge subject to applicable constitutional, statutory, and charter tax rate limitations.

USE OF PROCEEDS

Not applicable.

PRINCIPAL METHODOLOGY

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

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