Tagging Info

Fitch Affirms Kentwood, MI's Bonds at 'AA+'; Outlook Stable

Ratings Endorsement Policy
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Fitch Ratings-New York-16 December 2014: Fitch Ratings has affirmed the following Kentwood, MI (the city) bonds:

--$2.295 million limited tax general obligation (LTGO) bonds at `AA+';
--$1.645 million LTGO building authority bonds at 'AA+';
--Implied unlimited tax general obligation (ULTGO) rating at 'AA+'.

The Rating Outlook is Stable.

SECURITY
The LTGO bonds are secured by the city's full faith and credit and its ad valorem taxing power, subject to applicable charter, statutory and constitutional limitations.

The LTGO building authority bonds are secured by cash rentals under the lease between the authority and the city. The cash rentals constitute the city's full faith and credit general obligation and its ad valorem tax pledge, subject to applicable charter, statutory and constitutional limitations. The bonds are not subject to annual appropriation or subject to setoff or abatement for any cause.

KEY RATING DRIVERS

SOUND RESULTS: The city consistently maintains balanced operations, keeping fund balance at a healthy level.

MODERATE CARRYING COSTS: The debt burden is easily managed and principal amortization is rapid. Pension and other post-employment benefit (OPEB) costs are low.

STEADY ECONOMIC ENVIRONMENT: Residents benefit from employment opportunities both within the city and throughout the Grand Rapids metropolitan area.

LTGO ON PAR WITH IMPLIED ULTGO: The LTGO bonds are rated on par with the city's implied ULTGO rating on the basis of the financial flexibility provided by the city's elevated fund balance levels and the willingness of voters to approve a recent increase in the police and fire millage.

RATING SENSITIVITIES

The rating is sensitive to shifts in the city's fundamental credit characteristics. The Stable Outlook reflects Fitch's expectation that such shifts are unlikely.

CREDIT PROFILE

Kentwood encompasses a 22 square mile area located adjacent to the city of Grand Rapids.

SOLID SOCIOECONOMIC FUNDAMENTALS
In addition to a variety of employment opportunities throughout the Grand Rapids metropolitan area, the city's

local economy is anchored by Steelcase Corp. and Lacks Industries. While the regional economy has experienced some diversification in recent years, employment within the manufacturing sector is still 191% of the national norm.

As of September 2014, the city's unemployment rate (4.1%) was significantly below the state (6.7%) and national average (5.7%). Wealth levels are slightly below national averages and on par with state norms. After four consecutive years of declines in taxable valuation (TV), the city experienced a 1.9% increase in TV in the most recent year and further growth is projected.

STEADY OPERATING PERFORMANCE PROVIDES FINANCIAL FLEXIBILITY
The city has maintained balanced general fund operations after transfers for at least the past nine years. City officials exhibit strong management utilizing multi-year budget forecasts and capital improvement plans, which enables the city to proactively adjust its budget to changing economic conditions. The city ended fiscal 2014 (year ending June 30) with a $189,000 general fund surplus after transfers and a 17.7% unrestricted fund balance. The city routinely transfers out surplus funds to capital project funds to pay-go finance much of its capital needs, though these funds are also available for operations if necessary.

The city has budgeted balanced operations again for fiscal 2015, and based on the mid-year review, management is confident such results will be achieved. The city has offset declines in property tax revenues with increases in state aid and close management of expenditures. The city is at its maximum operating tax levy, but recently voters approved an increase to the police and fire millage, providing additional financial flexibility.

MODERATE CARRYING COSTS
Overall debt is easily managed at 2.7% of market value or $2,109 per capita, with the majority coming from overlapping school districts. Principal amortization is rapid with 88% repaid within 10 years. No additional debt is planned.

Long-term liabilities associated with employment benefits are low. The city provides pension benefits to legacy employees through a single employer pension plan that was 95% funded as of Jan. 1, 2014, using Fitch's 7% return assumption. For employees hired after 1999, the city annually contributes to a defined contribution benefit plan with no further obligation. OPEB costs are nominal. The city provides a fixed dollar amount towards the retiree's healthcare premium until the retiree reaches Medicare eligibility, and the plan is currently 131% funded. Overall carrying costs, including debt service, pension and OPEB costs are a moderately low 15% of governmental expenditures.

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In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, University Financial Associates, S&P/Case-Shiller Home Price Index and IHS Global Insight.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

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Tax-Supported Rating Criteria
U.S. Local Government Tax-Supported Rating Criteria

Additional Disclosure
Solicitation Status