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Chicago, IL 60601
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reference no.: 40382336

REVISED

September 1, 2015

County of Antrim
203 East Cayuga Street
Bellaire, MI 49615
Attention: Ms. Deb Haydell, County Accountant

Re: *Antrim County, Michigan, General Obligation Limited Tax Bonds*

Dear Ms. Haydell:

Standard & Poor's Ratings Services ("Ratings Services") has reviewed the rating on the above-listed obligations. Based on our review, we have raised our credit rating from "AA-" to "AA" while affirming the stable outlook. A copy of the rationale supporting the rating and outlook is enclosed.

This letter constitutes Ratings Services' permission for you to disseminate the above rating to interested parties in accordance with applicable laws and regulations. However, permission for such dissemination (other than to professional advisors bound by appropriate confidentiality arrangements) will become effective only after we have released the rating on standardandpoors.com. Any dissemination on any Website by you or your agents shall include the full analysis for the rating, including any updates, where applicable.

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Public Finance Department

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55 Water Street
New York, NY 10041-0003

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Ratings Services is pleased to have the opportunity to provide its rating opinion. For more information please visit our website at www.standardandpoors.com. If you have any questions, please contact us. Thank you for choosing Ratings Services.

Sincerely yours,

A handwritten signature in cursive script that reads "Standard & Poor's". The signature is written in dark ink and is positioned above the typed name of the organization.

Standard & Poor's Ratings Services

ep
enclosure

RatingsDirect®

Summary:

Antrim County, Michigan; General Obligation

Primary Credit Analyst:

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Secondary Contact:

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Summary:

Antrim County, Michigan; General Obligation

Credit Profile

Antrim Cnty GO ltd tax bnds

Long Term Rating

AA/Stable

Upgraded

Rationale

Standard & Poor's Ratings Services raised its rating on Antrim County, Mich.'s general obligation (GO) limited tax bonds outstanding one notch to 'AA' from 'AA-' based on the county's maintenance of very strong budgetary flexibility and liquidity as well as the county's very strong wealth levels. The outlook is stable.

The bonds are secured by the county's limited-tax GO pledge.

The rating reflects our view of the county's:

- Adequate economy, with projected per capita effective buying income at 92.3% of the national level and market value per capita of \$180,202;
- Adequate budgetary performance, with an operating surplus in the general fund in fiscal 2014 as well, but an operating deficit at the total governmental fund level;
- Very strong budgetary flexibility, with a high available fund balance in fiscal 2014 of 198% of operating expenditures after accounting for funds held in the delinquent tax fund that are available for use following board approval;
- Very strong liquidity, with total government available cash of 2.0x total governmental fund expenditures and 35.4x governmental debt service;
- Adequate management, with "standard" financial policies and practices under our Financial Management Assessment methodology;
- Strong debt and contingent liability position, with debt service carrying charges of 5.7% of expenditures and net direct debt that is 78.5% of total governmental fund revenue and low overall net debt at less than 3% of market value; and
- Strong institutional framework score.

Adequate economy

We consider the Antrim County's economy adequate. The county has an estimated population of 23,333. The county has a projected per capita effective buying income of 92.3% of the national level and per capita market value of \$180,202. Overall, the county's market value grew by 1.8% over the past year to \$4.2 billion in 2015. The county unemployment rate was 9.4% in 2014.

Antrim County encompasses 475 square miles in northwestern Michigan's lower peninsula. The county's economy is mainly recreation-based, given its natural resources, which include part of the Mackinaw State Forest and numerous inland lakes, rivers, and the Lake Michigan shoreline. Within Antrim County, there are four skiing and resort facilities, seven golf courses, and a convention center. Smaller manufacturing firms are engaged in food processing, metal fabrication, and armored car services. Both county residents and tourists have access to nearby Traverse City, a larger

regional economic center, for additional employment and recreational opportunities.

The county's tax base has seen slight increases in recent years, increasing by a modest 3.8% since fiscal 2012. Antrim County's very strong market value per capita reflects the high value of second homes, particularly the lake-front properties. Also, the county's top taxpayers account for only 3.7% of total taxable value, which we consider very diverse.

Adequate budgetary performance

Antrim County's budgetary performance is adequate in our opinion. The county had surplus operating results, after transfers, in the general fund of 5.1% of expenditures, but a deficit result across all governmental funds of negative 5.3% in fiscal 2014.

The county has a history of generating operational surpluses in the general fund. We understand that the fiscal 2015 budget shows the use of roughly \$1.2 million in reserves. However, the county has a history of budgeting conservatively and ending the year with at least breakeven operations.

Property tax revenue accounts for about three-fourths of general fund revenues. The county is operating at its maximum allowable tax rate for operating purposes, which limits its revenue-raising flexibility.

Very strong budgetary flexibility

Antrim County's budgetary flexibility is very strong, in our view, with a high available fund balance in fiscal 2014 of 180% of operating expenditures, or \$23.1 million. We expect the available fund balance will remain above 75% of expenditures for the current and next fiscal years, which we view as a positive credit factor. The available fund balance includes \$10.2 million (88.5% of expenditures) in the general fund as well as \$12.6 million (109% of expenditures) that is outside the general fund but legally available for operations with board approval.

Very strong liquidity

In our opinion, Antrim County's liquidity is very strong, with total government available cash of 2.0x total governmental fund expenditures and 35.4x governmental debt service in 2014. In our view, the county has strong access to external liquidity if necessary. The county's investments are primarily in money market and mutual funds.

Adequate management

We view the county's management as adequate, with "standard" financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Antrim County uses historical trend analysis in projecting revenues and expenditures for its budget and monitors budget-to-actual performance monthly. Management does not have a long-term financial plan but maintains a list of upcoming capital projects. Management follows state guidelines regarding investments and debt, and reports investment holdings and performance monthly. The county targets to maintain adequate reserves to avoid any potential cash-flow issues.

Strong debt and contingent liability profile

In our view, Antrim County's debt and contingent liability profile is strong. Total governmental fund debt service is

5.7% of total governmental fund expenditures, and net direct debt is 78.5% of total governmental fund revenue. Overall net debt is low at 1.0% of market value, which is in our view a positive credit factor.

County employees participate in the Michigan Municipal Employee Retirement System pension plan for which Antrim County makes annually required contributions. The county does not offer retiree health care benefits except for a small stipend to retired sheriffs, which is capped at 10 years, and accounts for a small \$325,000 unfunded actuarially accrued liability. Antrim County's combined pension and other postemployment benefits contributions totaled \$1.2 million, or 7.5% of total governmental fund expenditures in 2014. The county made its full annual required pension contribution in 2014.

Strong institutional framework

The institutional framework score for Michigan counties with a population greater than 4,000 is strong.

Outlook

The stable outlook reflects our expectation that management's conservative budgeting practices will lead to continued balanced operations and the continued maintenance of very strong reserves that are in line with management's desire to minimize cash flow issues. The rating could be pressured by a prolonged period without tax base growth or by state funding fluctuations. However, given management's demonstrated historical ability to balance budgets amid stagnant revenue climates, and reserve levels that currently, in our view, are very strong, we do not expect to change the rating within the two-year parameter of the outlook. If the county's economic metrics improve or if the county formalizes more of its financial policies and practices, we could raise the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002

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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