

# RatingsDirect®

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## Summary:

# Kentwood, Michigan; General Obligation

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## Summary:

# Kentwood, Michigan; General Obligation

### Credit Profile

#### Kentwood go

*Unenhanced Rating*

AA(SPUR)/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services has affirmed its 'AA' long-term and underlying ratings (SPUR) on Kentwood, Mich.'s general obligation (GO) bonds outstanding issued by the city and by Kentwood Building Authority for the city. The outlook is stable.

The various outstanding bonds are secured by the unlimited and limited-tax GO pledge levied by the city.

The rating reflects our assessment of the following factors for the city:

- In our opinion, the city's budgetary flexibility is very strong, with the available reserves (including those of the property and building fund) for fiscal 2013 (June 30) at \$8.8 million or 35% of the expenditures and transfers out. For fiscal 2014, management states that it budgets conservatively but expects the available reserves to remain close to the 2013 results.
- Supporting the city's finances is liquidity we consider very strong, with total government available cash to total governmental expenditures debt service to be in excess of 100% for each. We believe the city has strong access to external liquidity.
- In our opinion, Kentwood's debt and contingent liabilities profile is very strong, with total governmental fund debt service at 7.9% of total governmental fund expenditures, and with net direct debt at 55.8% of total governmental fund revenue. The city's amortization is very rapid with more than 65% coming due in 10 years. The city's overall net debt is less than 3% of market value.
- The city administers a single employer defined-benefit pension plan (Kentwood Employee) for some of its employees with respect to pension benefits. The city has made its annual required contribution (ARC) for the past three years. The city also provides other post-employment health care benefits (OPEB) through a single-employer defined-benefit plan that is addressed on a pay-as-you-go basis and the city has made its ARC the last three years for its OPEB plan. The combined annual required contributions pension costs and OPEB pay-as you-go for fiscal 2013 were less than 10% of expenditures, and we do not expect these costs to increase substantially in the near term.
- We view Kentwood's management conditions as strong. We consider the city's financial management practices "good" under our Financial Management Assessment (FMA) methodology. An FMA of good indicates that financial management policies exist in most areas, although all of these may not be formalized or regularly monitored by district officials.
- The city's budgetary performance in our view has been adequate overall with a deficit reported in fiscal 2013 of about 0.4% and 5.4% in the general fund and the total governmental funds, respectively. Management believes that results for fiscal 2014 should be similar to that of fiscal 2013.
- We consider Kentwood's economy to be adequate with access to the Grand Rapids-Wyoming metropolitan

statistical area, which we consider broad and diverse. The city is approximately 22 square miles in Kent County along the south eastern border of Grand Rapids and serves a 2012 estimated population of 49,694. The average unemployment rate for the city in 2012 was 5.9%, which was materially lower than the state average of 9.1% for the same time period. (The average unemployment rate for Kent County in 2012 was 6.5%) The 2017 projected per capita effective buying income (EBI) is 89.9% while the 2012 per capita EBI is 90%. The market value per share in 2013 is \$78,815.

We consider the Institutional framework score for Michigan cities as strong. See Institutional Framework score for Michigan

## Outlook

The stable outlook reflects our view that Kentwood will maintain its very strong budget flexibility, liquidity, and debt profile. We do not expect the rating to change over the next two-years, but if the budget performance improves we could raise the rating as long as there are no changes to the economy. Conversely, if the budget performance worsens and materially affects the budget flexibility, we could lower the rating, but we do not think this will occur over the next two years.

## Related Criteria And Research

### Related Criteria

USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

### 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

### Ratings Detail (As Of April 21, 2014)

Kentwood GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<b>Kentwood Bldg Auth, Michigan</b>		
Kentwood, Michigan		
Kentwood Bldg Auth (Kentwood) GO		
<i>Long Term Rating</i>	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

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