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Summary:

Oakland County, Michigan; General Obligation; General Obligation Equivalent Security

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Credit Profile

US\$5.43 mil wtr supply sys imp bn ds ser 2022 due 07/01/2052

<i>Long Term Rating</i>	AAA/Stable	New
Oakland Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
Oakland Cnty GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rating Action

S&P Global Ratings assigned its 'AAA' long-term rating to Oakland County, Mich.'s \$5.43 million series 2022 water supply system improvements bonds. We also affirmed our 'AAA' rating on existing debt issued by and on behalf of the county. The outlook on all ratings is stable.

Proceeds from the 2022 bonds will be used for the acquisition and construction of a water supply system improvements and facilities at the Knorrwood Pines Well House site. The bonds are secured and payable by the Charter Township of Oakland, which pledged its full faith and credit for the payments of its contract payments. Oakland County has also pledged its full faith and credit for the payment of principal and interest on the bonds (limited-tax general obligation [GO]). In addition, the county has many outstanding bond issues with structures whereby it pledges its limited-tax GO support to all of debt service, while additional underlying taxing units may also pledge limited-tax GO support to either portions or all of the debt service. In each case (including the series 2022 bonds), our rating is based solely on Oakland County.

The previously issued building authority debt is secured by lease contracts payable from the county's limited-tax GO pledge. Payments are not subject to abatement or appropriation.

The county's limited-tax GO pledge is payable from ad valorem taxes levied on all taxable property, subject to statutory limitations. Oakland County pledges to annually levy ad valorem taxes within authorized millages to fund its obligations and, to the extent that taxes are insufficient, all other available revenue sources are pledged for payment. We rate the limited-tax GO debt and the lease contract debt on par with our view of the county's general creditworthiness, given a lack of limitations on the fungibility of resources available for debt service.

Oakland County's GO debt is eligible to be rated above the sovereign because we believe the county can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria, "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013), U.S. local governments are considered to have moderate sensitivity to country risk.

Credit overview

Oakland County has an extremely broad, deep tax base that serves as an economic engine for not only southeast Michigan, but also much of the state. The county's economy continues to expand and diversify, but with its intricate connectedness to Detroit and the regional automobile industry, we believe it remains exposed to higher levels of potential vulnerability in an economic downturn or, more specifically supply-chain bottlenecks that could affect the county's manufacturing component. Despite this exposure, we believe the county is well positioned to operate in a more distressed economic climate, factoring in its very strong management and very strong flexibility, the latter reflecting extremely strong reserves and low fixed costs.

The 'AAA' rating also reflects the county's following strengths:

- It is one of the wealthiest counties in the state of Michigan, with a growing economy;
- Very strong management characteristics that continue to support a strong financial profile;
- Strong budgetary performance, robust liquidity and flexibility and balanced forward-looking budgets, as well as a strong institutional framework; and
- Relatively low debt costs and minimal pension pressures.

Environmental, social, and governance

We believe Oakland County's health and safety risks related to the COVID-19 pandemic are somewhat elevated due to the presence of large manufacturing facilities. We see governance as a strength given management's foresight with closing pensions in 1994 and strong cyber security mitigation planning and efforts.

While we note that Oakland County's infrastructure still requires significant investments and there is some exposure to acute flooding in the area, we do not consider there to be high environmental risk, especially given the county's leaders focus on environmental sustainability.

Stable Outlook

Downside scenario

We could lower the rating if there is a prolonged, severe contraction of the economy that weakens Oakland County's budget to the extent that management is not able to adjust and maintain balance and therefore must significantly draw on reserves.

Credit Opinion

One of the wealthiest counties in the state of Michigan with a growing economy

We consider the county's economy very strong. Oakland County, with an estimated population of 1.3 million, is part of the Detroit-Warren-Dearborn metropolitan statistical area, which we consider to be broad and diverse.

The county boasts a mostly residential tax base (76%) that is affluent and highly educated. At the same time, there is a substantial and growing local employment base that exceeds 650,000, with less than 10% coming from manufacturing

jobs. More than 420,000 workers commute into the county for employment. Oakland County residents' wealth and incomes far exceed national averages; the county reports one of the highest median household income levels in Michigan.

Oakland County is home to the corporate headquarters of Stellantis North America and several General Motors Co. facilities. The demand for all vehicles remains robust; supply chain shortages and onsite pandemic outbreaks slowed down production somewhat in 2020 and 2021, but overall, auto manufacturers have been doing well financially to date. General Motors is in the process of making the largest investment in its history (\$4 billion) in a brand new electric vehicle production line. The growth is not limited to vehicle manufacturing, as construction, health care, distribution and warehousing, as well as high-tech research and development, are growing sectors. Nearly 57% of Fortune 500 companies do business in Oakland County; the county has been successful in attracting national and global companies in emerging sectors most of which offer high-wage jobs.

Unemployment reached 20% in May of 2020 during the peak of the stay-at-home orders. At 3.8% in February 2022, the county's unemployment rate is currently below state and national levels. Unlike the rest of the region, Oakland County's population has remained stable in the past decade and continues to grow.

Taxable value (TV) and market value (MV) continue to increase, rising more than 20% since 2018. The county's taxpayer base is diverse, and the top ten taxpayers account for just 3.4% of TV.

Very strong management characteristics that continue to support a strong financial profile

In our view, Oakland County's very strong managerial characteristics are direct contributors to the county's very strong, stable, and predictable financial profile, and supports our expectation that the county is well-situated to navigate expected or unforeseen challenges.

The county annually produces a new triennial, rolling budget with what we view as well-founded revenue and expenditure assumptions. Budget documents also include detailed, rolling five-year financial forecasts. Each month, Oakland County reviews budget-to-actual results, as well as investment holdings and earning reports. Budget-to-actual reports are distributed monthly to elected officials and county management (as well as being published on the county's website), and there is also a formal forecast report prepared and presented quarterly to the entire board of commissioners. The investment holdings and earning reports are also published monthly on the website and are distributed quarterly to the board. There is a rolling long-term capital improvement plan, as well as formalized debt and investment management policies. The county forecasts capital needs and related costs for ten years, with detailed funding sources outlined for the first three years in the triennial budget. Oakland County recently updated its fund balance policy to maintain a minimum fund balance of 25% of annual general fund expenditures (previously it was 20%). County officials continue to informally target \$200 million in unrestricted net assets in the delinquent tax revolving fund (DTRF), a fund we consider available to support operations.

Strong budgetary performance, robust liquidity and flexibility, and balanced forward-looking budgets

Oakland County's budgetary performance is strong, in our opinion. The adopted budgets for fiscal years 2022 through 2024 show balanced and break-even operating results. Historically the county used to adopt budgets that called for the use of reserves and then, in most years, outperformed the expectations. The current management team worked on improving this budgetary practice by focusing on balanced budgets from the beginning of the budgetary process and

not just throughout the year.

The county could face budgetary challenges in the upcoming years; however, officials are committed to maintaining healthy finances and strong reserves and liquidity. Supply chain and procurement issues, infrastructure challenges, and inflationary pressures are the most identifiable challenges at present. Property taxes are the largest single source of revenue, accounting for about 54% of budgeted general fund revenues (as adjusted), followed by charges for service (27%) and state-shared revenues (local share of a statewide sales tax, 14%). Property taxes are tied to TV and, aside from new developments and property transfers, are subject to inflationary growth under Headlee limitations. Higher inflation allows the county to realize higher property tax revenues; officials are working to adjust employee compensation to ensure it is consistent with the market rates but simultaneously not detrimental to Oakland County's budget.

The general fund results were adjusted to include routine transfers in and out of the general fund as general fund revenues and expenditures. Total governmental funds results were adjusted to include revenue routine transfers in from the DTRF.

Oakland County is getting \$244 million in American Rescue Plan Act (ARPA) funding, and it does not plan to use ARPA funds to balance budgets but will use them to support environmental efforts, infrastructure, neighborhood and inclusivity programs, and residents' health and safety programs, among other priorities.

The county's budgetary flexibility is very strong, with reserves close to \$500 million at fiscal year-end 2021 (Sept. 30). The available fund balance includes reserves in the general fund and the unrestricted DTRF (57% and 43% of total available reserves, respectively). These DTRF reserves are legally available to support operations. We expect the available fund balance will remain above 75% of expenditures through the outlook period.

Oakland County also possessed very strong liquidity that is available in all operating funds. Weakening the county's liquidity position, in our assessment, is exposure to a nonremote contingent liability associated with 2013A series limited-tax GO refunding bonds that were sold to a single bank buyer with a continuing covenant agreement. There are several events of default in the agreement that could lead to immediate debt acceleration at the bank's demand (if not cured within 10-30 days, generally), most of which we consider unlikely, but that can still be unpredictable. Events of default include numerous covenant violations (including continuing disclosure), payment default or covenant violations on other debt outstanding, and downgrades below a 'BBB+' (or equivalent) level, as well other standard events. To manage the events of default, management instituted a legacy reminder system that prompts a specially designated team to monitor the events of default quarterly to help ensure compliance. The county has adequate liquidity to cover an (unlikely) acceleration, but we still consider the obligation representing a contingent liability risk.

As noted, Oakland County has pledged its limited-tax GO backing to a significant amount of debt that is funded by underlying taxing units or drainage system revenues. Generally, these obligations carry limited-tax GO pledges of the underlying taxing units, which pay their obligations 30 days in advance of the debt service due dates. In most cases, the county has the authority to withhold certain revenues from these units in the event of nonpayment. This debt constitutes a large portion of the overall debt profile and could place pressure on the county budget if a majority of the underlying taxing units were to default or become delinquent; however, we view nonpayment as unlikely and believe

that Oakland County's very strong liquidity position should allow the county to weather any payment disruptions should they occur.

Relatively low debt costs and minimal pension pressures

In our view, Oakland County's debt and contingent liability profile is strong. Weakening our view of the county's debt profile is exposure to speculative contingent liabilities associated with the 2013A issuance, discussed above.

The county will have slightly more than \$540 million in direct debt outstanding. Including overlapping debt, the overall net debt burden comes to 2.5% of MV. Oakland County has additional debt plans, but after factoring in maturing debt, we do not expect these will materially increase the debt burden. However, if overall net debt rises above 3% of MV, the debt and contingent liability profile could weaken. In addition, if the county had to begin funding portions of the currently self-supported debt out of its own resources, this could apply pressure on the budget and potentially weaken the debt ratios. The estimated annual debt service supported by other entities is about one-third of annual debt service.

Pension and other postemployment benefits

- We do not view pension and other postemployment benefits (OPEB) liabilities as a credit pressure, given the plans' extremely strong funded status and the subsequent low annual costs.
- Proactive management, strong funding discipline, and, in the case of OPEB, bonding out the liability, have each led to funded levels above 100%, and while there is some risk of cost escalation, we would not expect the effects to be significant.

The county participates in the following plans as of Sept. 31, 2021:

- Oakland County Public Employers' Retirement System (PERS), a single-employer, defined-benefit plan covering benefits for employees hired before July 1, 1994, and who did not elect to transfer to the county's defined-contribution plan: 110% funded, with a net pension asset of \$72 million.
- Oakland County Employees' Retirement System--Voluntary Employees' Beneficiary Association Trust, a single-employer, defined-benefit plan covering employees hired before Jan. 1, 2006: 165% funded, with a net asset of \$618 million.

The county also had a defined-contribution plan that started in 1994. Contributions to PERS ranged from \$4.5 million-\$5.7 million (less than 2% of total governmental funds adjusted expenditures) in fiscal years 2013 through 2015, but there have been no contributions since then, given that the plan continues to be overfunded. Retiree health care benefits for most new hires were closed in January 2006, when a defined-contribution plan was implemented. The county fully funded the retiree health care benefit liability in 2007 with proceeds from its series 2007 certificates of participation, which were called on April 1, 2014, with proceeds from the series 2013A limited-tax GO refunding bonds and available medical benefits funding trust assets. The county similarly did not have to make any contributions to this plan in recent years.

Strong institutional framework

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

Oakland County, Mich.--Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	136			
Market value per capita (\$)	141,718			
Population		1,266,403	1,258,912	
County unemployment rate(%)		9.3		
Market value (\$000)	179,471,510	162,390,790		
Ten largest taxpayers % of taxable value	3.4			
Strong budgetary performance				
Operating fund result % of expenditures		3.8	1.4	3.5
Total governmental fund result % of expenditures		6.2	(2.7)	3.3
Very strong budgetary flexibility				
Available reserves % of operating expenditures		87.8	90.0	107.7
Total available reserves (\$000)		496,089	472,184	451,229
Very strong liquidity				
Total government cash % of governmental fund expenditures		148	155	162
Total government cash % of governmental fund debt service		7,424	5,980	5,911
Very strong management				
Financial Management Assessment	Strong			
Strong debt & long-term liabilities				
Debt service % of governmental fund expenditures		2.0	2.6	2.7
Net direct debt % of governmental fund revenue	77			
Overall net debt % of market value	2.5			
Direct debt 10-year amortization (%)	82			
Required pension contribution % of governmental fund expenditures		0		
OPEB actual contribution % of governmental fund expenditures		0		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- Criteria Guidance: Assessing U.S. Public Finance Pension And Other Postemployment Obligations For GO Debt, Local Government GO Ratings, And State Ratings, Oct. 7, 2019S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- 2021 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of April 27, 2022)

Oakland Cnty swg disp sys north evergreen interceptor bnds		
Long Term Rating	AAA/Stable	Affirmed
Oakland Cnty (Rummell Relief Dr Dist)		
Long Term Rating	AAA/Stable	Affirmed
Bloomfield Twp CSO Dr Dist, Michigan		
Oakland Cnty, Michigan		
Bloomfield Twp CSO Dr Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Donohue Drainage Dist, Michigan		
Oakland Cnty, Michigan		
Donohue Drainage Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Franklin Subwatershed Drainage Dist, Michigan		
Oakland Cnty, Michigan		
Franklin Subwatershed Drainage Dist (Oakland Cnty) dr bnds GO ltd tax bnds (Franklin & 14 Mile Roads Proj) ser 2005 dtd 10/01/2005 due 04/01/2006-2025		
Long Term Rating	AAA/Stable	Affirmed
Franklin Subwatershed Drainage Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
George W. Kuhn Dr Dist, Michigan		
Oakland Cnty, Michigan		
George W. Kuhn Dr Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Jacobs Drainage Dist, Michigan		
Oakland Cnty, Michigan		
Jacobs Drainage Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Oakland Cnty Bldg Auth, Michigan		
Oakland Cnty, Michigan		
Oakland Cnty Bldg Auth (Oakland Cnty) bldg auth and bldg auth rfdg bnds (ltd tax GO)		
Long Term Rating	AAA/Stable	Affirmed
Oakland Cnty Bldg Auth (Oakland Cnty) bldg auth bnds		
Long Term Rating	AAA/Stable	Affirmed
Oakland Cnty Bldg Auth (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Tribute Drainage Dist, Michigan		
Oakland Cnty, Michigan		
Tribute Drainage Dist (Oakland Cnty) GO		
Long Term Rating	AAA/Stable	Affirmed
Rewold Drainage Dist, Michigan		
Oakland Cnty, Michigan		
Rochester Hills, Michigan		

Ratings Detail (As Of April 27, 2022) (cont.)

Rewold Drainage Dist (Oakland Cnty) GO

Long Term Rating

AAA/Stable

Affirmed

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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