

# RatingsDirect®

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## Summary:

## Ecorse, Michigan; Miscellaneous Tax

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## Summary:

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### Credit Profile

Ecorse fincl recovery bnds (dedicated tax)

*Long Term Rating*

A/Stable

Affirmed

## Rationale

Standard & Poor's Ratings Services affirmed its 'A' rating on Ecorse, Mich.'s series 2011 financial recovery bonds. The outlook is stable.

The rating is based on the following factors:

- Good maximum annual debt service (MADS) coverage;
- A legal mechanism to segregate and pledge, via a statutory lien, a dedicated judgment levy and a portion of operating property taxes to support debt service on the bonds;
- A lockbox structure that ensures that 100% of pledged revenues will be held with the trustee until debt service obligations are met;
- Inability to file for bankruptcy without state approval;
- Projected coverage of at least 3x MADS with an identified process to ensure that coverage stays at 3x or higher, regardless of fluctuations in the tax base; and
- A closed lien for issuing additional parity or senior bonds secured by pledged revenues.

Offsetting factors include our view of:

- The substantial decline in the city's taxable value in recent years;
- Uncertainties associated with a city that remains in state receivership; and
- A very concentrated tax base.

The financial recovery bonds are secured by a pledge of property taxes from the city of Ecorse with millage from two separate levies: a judgment millage, which we consider to be an unlimited tax GO pledge, and its operating millage, a limited-tax pledge. However, the city structured this transaction in a manner such that the pledge of a portion of its operating millage constitutes a statutory lien, and as such Standard & Poor's considers this to be a revenue stream, rather than solely a GO pledge. With this structure, it was rated under our special tax criteria.

To effect this, a third-party depository bank, via a lockbox, will receive all property taxes the city levies. To ensure that the levy is properly sized to maintain at least 3x coverage on the bonds, the city has hired a verification agent to verify levy sufficiency. Monies will move from the depository bank to the trustee at the trustee's direction; the trustee has a security interest in the depository bank account. The trustee will hold taxes collected for all taxing entities (the city, county, school district, etc.), until making deposits to the debt service fund and dispersing to the other municipalities.

The primary repayment source on the bonds is the city's judgment levy, which will generate 1x coverage annually. The

city intends to adjust the levy to compensate for any delinquent taxes. In actuality, delinquent taxes paid out by Wayne County from any late taxpayers are also pledged to the bonds. In addition to the judgment levy, the verification agent for the transaction will annually determine a millage amount, which will be applied as part of the general operating millage of the city, but will be statutorily dedicated solely to these bonds. In the bond documents, revenues from these two levies are considered the pledged revenues of the transaction. The verification agent will annually verify the calculation of the amount of millage necessary to levy that will generate an additional 2x coverage on the bonds. Should the operating levy fall below its expected coverage level (2x), the judgment levy will be adjusted upward so that the total levy will always equal at least 3x coverage. The millage amount for the judgment levy will be determined after the assessor has set the taxable value of the city's tax base. For fiscal 2013, the city reported \$798,085 of judgment levy revenues and about \$4 million of general fund operating revenues, which covered MADS 6.2x.

Ecorse's taxable value was \$213 million for 2014, a 24% decrease from \$282 million in 2009. The city's tax base is very concentrated with the largest taxpayer, USX, making up 66% of taxable value. USX recently settled its tax appeal with the city and paid \$4.3 million for fiscal 2012 and 2013. Management reports that there are no other USX tax appeals pending.

The statutory lien on the property tax millage dedicated to the bonds cannot be pledged to any parity or senior bonds, effectively making the pledge a closed lien. While there is no debt service reserve on the bonds, any excess judgment levy dollars not used for debt service (i.e., anything levied over 1x coverage not used for debt service in the current year), will be placed in a reserve fund and used to offset future judgment levies or redeem bonds that are callable.

Ecorse came under state receivership under the state's fiscal emergency act (Michigan Act 4). Due to improved finances, the emergency manager who was appointed in October 2009 was replaced in April 2014 by a transition advisory board to oversee the city's finances. The city's general fund balance improved to \$3.76 million (43% of expenditures) at the end of fiscal 2013 (June 30), from negative \$13.5 million (negative 105%) at the end of fiscal 2010. The unassigned general fund balance improved to \$956,653 (11%) at the end of fiscal 2013, from \$343,427 (2%) at the end of 2011. The general fund balance improved to a positive position due mostly to the receipt of USX's \$4.3 million tax settlement payment for fiscal 2012 and 2013, \$9.5 million in proceeds from the financial recovery bonds received in 2011, and a \$2 million emergency loan from the state, also received in 2011. Since the city no longer has a negative general fund balance, it is no longer required to file a deficit elimination plan with the state.

Ecorse is located in Wayne County, 10 miles southwest of downtown Detroit. The 2010 U.S. Census showed a 16% drop in its population since 2000. The population fell about 5% to 8,963 in 2013. Income levels in the city, as measured by median household effective buying income, are low at approximately 64% of state and 57% of national levels. However, with the presence of a sizable commercial and industrial component, market value per capita of \$52,400 is, in our view, adequate.

## Outlook

The outlook on the bonds is stable. Given the relative stability of the tax base, the presence of the transition advisory board, and the coverage provided by two different tax levies, Standard & Poor's expects the rating to remain

unchanged in the next two years despite the city's ongoing financial challenges. The stable outlook reflects our expectation that Ecorse will maintain coverage of MADS at 3x or more regardless of any potential changes in the tax base or the financial condition of the city. However, if the city's tax base continues to significantly deteriorate, causing coverage to fall below 3x, the rating would be pressured. A higher rating is predicated upon the city successfully leaving state receivership and maintaining positive general fund operations.

## Related Criteria And Research

### **Related Criteria**

USPF Criteria: Special Tax Bonds, June 13, 2007

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