MOODY'S AFFIRMS Aa3 RATING ON THE CITY OF LIVONIA'S (MI) OUTSTANDING GENERAL OBLIGATION DEBT

Aa3 RATING APPLIES TO $56 MILLION IN OUTSTANDING GO DEBT

Livonia (City of) MI
Municipality
Michigan

NEW YORK, September 21, 2009 -- Moody's Investors Service has affirmed the Aa3 rating on the City of Livonia's (MI) outstanding rated general obligation bonds. The rating applies to approximately $56 million in outstanding general obligation debt, as of November 30, 2008. The Aa3 rating reflects the city's substantial tax base with auto industry exposure, satisfactory financial operations supported by stable but relatively narrow reserves, and low debt burden that is expected to remain manageable.

SUBSTANTIAL SUBURBAN TAX BASE WITH AUTO INDUSTRY CONCENTRATION

The city is located approximately 25 miles northeast of the city of Ann Arbor and 20 miles west of the city of Detroit (GO rated Ba3 with negative outlook) in Wayne County (GOLT rated A3 with stable outlook). The city's strategic location midway between Detroit and Ann Arbor and its proximity to major arterial highways has contributed to the city's substantial $11.5 billion tax base. The city has been almost completely built out for many years, as reflected in a relatively stable population (down 5% since 1990) and a slow rate of growth in the tax base. The city had an average annual growth rate of 2.8% between 2003 and 2008 but then decreased over 6% in the past year. City officials expect to record another decrease in full valuation and taxable valuation in 2010 primarily due to the continued challenges in the residential housing market being experienced throughout the region.

The area retains strong income indices (per capita income is 127% of the US) but the region's residential housing market and job market have struggled as of recently. The area has a strong industrial presence related to the automotive industry. The City of Livonia's top two taxpayers are Ford Motor Company (Corporate Family rating Caa3/Negative Outlook) and General Motors (rating withdrawn). The Ford plant produces transmissions and employs approximately 4,200 people. The GM plant produces Cadillac engines and currently employs approximately 325 people. GM filed for bankruptcy protection on June 1, 2009 and while the full impact of the bankruptcy is yet to be determined, GM has announced the local plant will cease production during 2010. Wayne County unemployment as of July 2009 was 19%, well above state and national averages for the same time period, although the city's unemployment rate, at 7.7%, was well below both the state and national rates. Moody's will continue to monitor future auto industry trends and their impact on the city.

SATISFACTORY FINANCIAL OPERATIONS SUPPORTED BY STABLE BUT RELATIVELY NARROW RESERVES

Moody's expects the city's financial health to remain satisfactory, supported by expenditure controls that have kept reserve levels stable. The city has implemented staffing controls, cut most department budgets by 2% to 4%, reduced some services and implemented cost saving initiatives including more efficient energy management. However, Moody's notes that the fiscal 2008 General Fund balance of 11.6% of General Fund revenues is below the state median of 29.7% for Michigan cities. This relatively narrow reserve level poses some risk due to the city's dependence on the automotive industry in the region. A continued restructuring of the auto industry could adversely and significantly affect the city's property tax revenues (at 57%, the city's largest General Fund revenue stream). Favorably, the city has implemented cost-containment measures (including hiring freezes and deferring capital improvement projects) to avoid reducing reserves. As a result, the General Fund balance has grown steadily in recent years. The fiscal 2001 General Fund balance was $4.62 million, compared to the fiscal 2008 General Fund balance of $6.2 million. Officials expect to report balanced General Fund operations in fiscal 2009 and have budgeted for essentially balanced operations in fiscal 2010, although positive variances in budgeted results are expected. The city enjoys some additional liquidity in its Internal Service Funds and Capital Improvement Fund. The city has been budgeting for Other Post Employment Benefits (OPEB) since 1986, reserving approximately $55 million in assets against a $122 million liability.

LOW DEBT BURDEN EXPECTED TO REMAIN MANAGEABLE

Moody's believes the city's debt burden will remain manageable given a relatively low existing debt burden and limited future borrowing plans. At 0.5% and 1.3%, respectively, the city's direct and overall debt burdens are both below state and national medians. Additionally, approximately one-third of the city's debt is supported by tax increment and enterprise fund revenues, thereby reducing the impact on the general tax levy. Principal amortization is relatively slow, with just 58% of all principal retired in ten years. Officials have limited plans to issue additional debt in the near future as spending on larger capital projects is on hold until economic conditions become more predictable.

KEY STATISTICS:

2008 estimated population: 95,908 (decrease of 4.6% since 2000 Census)

1999 Median family income, a % of state: 136.0% (145.3% of US)

1999 Per capita income, as a % of state: 126.0% (129.4% of US)

Wayne County unemployment (July 2009): 19% (MI at 15.6%; US at 9.7%)

City of Livonia unemployment (July 2009): 7.7%

2009 full value: $11.5 billion

Full value per capita: $120,044

Top two taxpayers: Ford Motor Company and General Motors

Overall debt burden: 1.3% (0.5% direct)

Payout of principal (10 years): 57.5%

Fiscal 2008 General Fund balance: $6.2 million (11.4% of General Fund revenues)

Outstanding general obligation debt: $56 million

RATING METHODOLOGIES USED AND LAST RATING ACTION

The principal methodology used in rating the City of Livonia was Moody's "Local Government General Obligation and Related Ratings", published in December 2008 and available on www.moodys.com in the Rating Methodologies sub-directory under the Research & Ratings tab. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found in the Rating Methodologies sub-directory on Moody's website.

The last rating action was on December 5, 2008 when the Aa3 general obligation rating for Livonia, MI was affirmed.

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