

# Municipal Credit > Investment Grade



## State of Michigan

Updated: Oct 31, 2015

### Trade Idea:

- ▶ Buy state of Michigan general obligation bonds.

### Investment Rationale:

- ▶ Security: The bonds are general obligations to which the State of Michigan pledges its full faith and credit.
- ▶ The state's economy is improving. Since FY11, the State has seen 4 years of consecutive job growth, with FY14 showing growth of 2.23%. Unemployment has also recovered to be in line with the national average, after being elevated during the recession.
- ▶ The state has a historically conservative approach to fiscal management. For example, for FY15, the state identified a \$456mm shortfall, due largely to unanticipated certificated business credits. In January, the Governor enacted cuts to eliminate the shortfall, and used the new spending levels as a basis for the FY16 budget.
- ▶ The state's rainy day fund (RDF) was drawn down during the recession, but the state has begun rebuilding this balance. As of FY14 the RDF increased to \$386 million or 1.3% of general fund revenues, an increase from only \$2.2 million in FY11. This includes a slight drawdown to fund the Detroit Bankruptcy Settlement (~\$195mm). Additionally, the State is budgeting for the RDF to grow to \$611mm by FY16.
- ▶ Debt levels are low, with a debt per capita of \$758 (34<sup>th</sup> nationally per the 2014 Moody's State Debt Median Report) and debt as a percentage of personal income of 2.1% (33<sup>rd</sup> nationally per the 2014 Moody's State Debt Median Report).
- ▶ The state is less vulnerable to pension pressures when compared to other states, as only 32% of active state employees participate in a defined benefit pension plan. The remaining employees participate in a defined contribution plan per a 1997 reform measure.

### Recommendation(s):

View	Trade Horizon	Credit	Moody's/S&P /Fitch Ratings	Internal Rating	Cusip	Maturity	Par Amount of Selected Maturity	Last Trade to AAA Curve	Next Expected Issuance
Buy	12 Months	State of Michigan	Aa1/AA-/AA	A+/Positive	594612BR3	12/1/2028	\$18.1 million	+30	None planned at this time