# Detroit GO, Priority-Lien Ratings Raised To 'BB', 'BBB-' On Stronger Finances; Outlook Positive

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CHICAGO (S&P Global Ratings) March 14, 2022--S&P Global Ratings raised its rating on Detroit, Mich.'s unlimited-tax general obligation (GO) debt to 'BB' from 'BB-'. The outlook is positive.

At the same time, we raised our ratings to 'BBB-' from 'BB+' on the Michigan Finance Authority's Local Government Loan Program bonds (City of Detroit financial recovery income tax revenue and refunding local project bonds), series 2014F-1 and F-2, issued for Detroit and secured by its municipal income taxes, and on the authority's Local Government Loan Program bonds (Public Lighting Authority [PLA] local project bonds), series 2014B, issued for the Detroit PLA and secured by the city's user utility tax (UUT). The outlook on both ratings is positive.

"The upgrade reflects Detroit's growing revenues and improved budget position, sustained reserves, and overall increasing flexibility with substantial federal funds and a bolstered retiree protection fund (RPF)," said S&P Global Ratings credit analyst John Sauter. Detroit remains, in our view, on a trajectory to meet increasing pension costs in the near and long term within a balanced budget framework, and if it does so, we could raise the rating. We feel the city has fiscal discipline and flexibility that can keep it on track should it experience economic slowdowns or higher-than-forecasted pension increases.

The 'BBB-' ratings reflect application of our "Priority-Lien" criteria, which factors in both the strength and stability of the pledged revenues, as well as the general credit quality of the municipality where taxes are distributed and/or collected (the obligor's creditworthiness [OC]). The priority-lien rating on both pledges is limited by our view of Detroit's creditworthiness (BB/Positive). Therefore, the one-notch upgrade and positive outlook on the GO rating on Detroit result in the same actions on these income- and UUT-secured obligations.

We view Detroit as facing elevated social risks, specifically social capital risks. Commuting patterns changed significantly through the pandemic and more than 30% of nonresidents continue to work remotely. This translates to revenue losses directly from refunds, but also slowed recovery of jobs that rely on a regular course of business and leisure activity in the city. Detroit's population trend remains a risk, as do its high poverty levels, as these can limit revenue-raising abilities and increase service needs. The city's leadership views building up its residential tax base as fundamental to its future and invests significant resources in these efforts. Successes to date are reflected in increasing property values, improved public safety metrics, and reduced poverty rates; and substantial new job creation within the city likely reflects the private sector's recognition of an increasingly skilled labor force. Detroit reduced its poverty rate by nearly 9% from 2014 to 2019, lowering it to 31%, but 2020 Census figures show an increase to 35%.

We see governance as a strength, with strong fiscal controls, formal long-term forecasting, well-framed policies that are consistently met, and commitment to long-term goals that keeps the city's rebound moving forward. We do not consider there to be high environmental risk. Detroit is building a sustainability plan and continues to seek solutions to fight flooding of the Detroit River in certain pockets of the city. It also anticipates that federal infrastructure act funding will yield substantial investment in lead pipe removal, road repair, and broadband expansion.