STANDARD & POOR'S RATINGS SERVICES

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Summary:

Tecumseh, Michigan; General Obligation

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Summary:

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Credit Profile		
Tecumseh GO		
Long Term Rating	AA/Stable	Upgraded
Tecumseh GO		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) on Tecumseh, Mich.'s, outstanding general obligation (GO) bonds to 'AA' from 'A+', based on our recently released local GO criteria. The outlook is stable.

The city's limited-tax full faith GO pledge secures the outstanding bonds.

The rating reflects our assessment of the following factors for the city, specifically its:

- In our opinion Tecumseh's budgetary flexibility remains very strong with reserves above 15% of expenditures for the past three years. The city is projecting near-balanced operations in fiscal years 2013 and 2014 for its general fund. Audited fiscal 2012 (Dec. 31) reserves were $1.2 million or 30.9% of expenditures. However, as of fiscal 2012, the city has an interfund receivable of $470,793 from the Tecumseh Center for the Arts fund which accounts for 38% of its available fund balance for fiscal 2012, which we consider a limiting factor. After adjusting for the interfund receivables, reserves drop to $766,000 or 16.1% of expenditures. Management indicates these receivables would be repaid using the investment balance of $489,193 as of fiscal 2012 in the Tecumseh Center for the Arts fund but the timeframe for this repayment is currently uncertain.
- The city's budgetary performance, in our view, has been adequate with a surplus of 0.4% in the general fund and 3.4% in the total governmental funds for fiscal 2012. The city makes routine annual $600,000 transfers largely to the major and local streets, development, and the Tecumseh Center for the Arts fund. The city is projecting balanced general fund operations fiscal 2013; however, we expect the city to report a deficit in the total governmental funds for fiscal years 2013 and 2014.
- Supporting Tecumseh's finances is what we consider very strong liquidity, with total government available cash being at 46% of total governmental fund expenditures and at 1539% of debt service. We believe the city has strong access to external liquidity.
- In our opinion, the city's debt and contingent liabilities profile is very strong with total governmental funds debt service at 3% of total governmental funds expenditures and with net direct debt at 53.2% of total governmental funds revenue for fiscal 2012.
- We view Tecumseh's management conditions as strong. We consider the city's financial management practices "good" under our Financial Management Assessment methodology, indicating our view that practices exist in most key areas, although not all may be formalized or regularly monitored by governance officials.
- We consider Tecumseh's economy weak, with a projected per-capita effective buying income 101% of the U.S. and

per-capita market value of $58,602. The city, with an estimated 8,433 residents, is in Lenawee County, 27 miles south of Ann Arbor, home to the University of Michigan. The county's unemployment rate for August 2013 was 8.6%.

- Tecumseh administers a single-employer defined-benefit pension plan as its employment retirement system. The city has contributed 100% of the annual required contributions (ARCs) to the plans in each of the past three years. The city also provides postemployment health care benefits plan, which it funds on a pay-as-you-go basis. The combined ARC pension and other postemployment benefit costs for fiscal 2012 were about 8.6% of expenditures, and these costs are not anticipated to increase substantially in the near term.
- We consider the institutional framework score for Michigan cities with a population greater than 4,000 as strong. (See the Institutional Framework score for Michigan.)

Outlook

The stable outlook reflects our view of Tecumseh's very strong budgetary flexibility and liquidity position additionally supported by city's management policies we consider good. We do not expect to revise the rating in the next two years because we believe the city will maintain its adequate budgetary performance. At the same time, if the city's budgetary flexibility or debt and liability position weakens, we may lower the rating.

Related Criteria And Research

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Michigan Local Governments

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