

RatingsDirect®

Summary:

Tecumseh, Michigan; General Obligation

Primary Credit Analyst:

Katilyn Pulcher, ASA, CERA, Chicago (1) 312-233-7055; katilyn.pulcher@standardandpoors.com

Secondary Contact:

John Sauter, Chicago (1) 312-233-7027; john.sauter@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Tecumseh, Michigan; General Obligation

Credit Profile

Tecumseh GO		
<i>Long Term Rating</i>	AA/Stable	Upgraded
Tecumseh GO		
<i>Unenhanced Rating</i>	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

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

McGRAW-HILL