

February 23, 2012

Summary:

Sault Ste. Marie Local Development Finance Authority, Michigan Sault Ste. Marie; General Obligation

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Credit Profile

US\$0.835 mil local dev bnds (ltd tax GO) taxable (Sault Ste. Marie) ser 2012 dtd 03/30/2012 due 04/01/2024

Long Term Rating

A+/Stable

New

Rationale

Standard & Poor's Ratings Services has assigned its 'A+' long-term rating to Sault Ste. Marie Local Development Finance Authority, Mich.'s series 2012 limited-tax general obligation (GO) local development bonds, issued for the city of Sault Ste. Marie. At the same time, we affirmed our 'A+' long-term rating and underlying rating (SPUR) on the city's GO bonds outstanding. The outlook is stable.

Standard & Poor's also removed its 'A+' long-term rating on the authority's series 2011 limited-tax GO local development bonds because the bonds were not sold.

The 'A+' ratings reflect our view of the city's:

- Position as a local area economic center but subject to tourism-based cyclicalities;
- Stable tax base exhibiting consistent growth despite the state and national economic downturn; and
- Maintenance of very strong reserves coupled with good financial management practices.

Offsetting the above credit strengths are what we consider the city's below average, albeit adequate, income levels and market value per capita, moderately high debt burden as a percentage of market value, and consistently high unemployment.

Debt service on the series 2012 bonds is payable first from tax increment revenues within the authority's tax increment district. As additional security, the city has also pledged its limited tax, full faith, and credit as security for the payment of the principal of and interest on the bonds, and we base the rating on the limited-tax GO pledge. Sault Ste. Marie is obligated to make such payments as a first budget obligation from its general funds, including any collections of ad valorem taxes it might be authorized to levy. Its ability to levy such taxes is subject to applicable constitutional, statutory, and charter limitations. The city is currently levying property taxes for operations at its legal limit. The bonds are being issued to finance projects related to a business incubator located within the city's state-designated SmartZone.

Sault Ste. Marie (population, 14,144) is located at the northeast tip of Michigan's Upper Peninsula and serves as the seat of Chippewa County (AA-/Stable). Sault Ste. Marie's local economy has remained stable in recent years, continuing to serve as a local area economic center, but economic indicators remain below average. The Canadian city of Sault Ste. Marie lies just across the toll bridge to the north in the province of Ontario. The U.S. Sault Ste. Marie benefits from a high level of cross-border retail and tourist activity, but is subject to cyclicalities. Leading

employers include the War Memorial Hospital (700 employees), a hotel, a convention center and casino (547), Wal-Mart Stores Inc. (385), a local university (342), and the local school district (293). County unemployment remained high at 9.5% in November 2011, slightly below the state's 9.8% rate but above the nation's 8.7% average during the same time period. Income levels within the city are what we view as adequate, with median household effective buying income at 67% of the national average.

Growth in taxable value has been and continues to be steady, averaging 1.6% annually in the past five years. Market value totaled \$630.6 million in 2010, which we consider adequate at \$44,587 per capita. The 10 leading taxpayers account for a diverse 15.5% of taxable value.

Sault Ste. Marie has consistently maintained what we consider very strong reserves. At fiscal year-end 2011, the city reported a \$48,000 addition to reserves, bringing the unreserved fund balance (committed and unassigned) to nearly \$2.7 million, or what we consider a very strong 23.2% of expenditures. Management attributes the fiscal 2011 surplus to delays in capital expenditures and staffing adjustments. For fiscal 2012, management budgeted for a \$119,000 use of reserves but views the budget as conservative and is currently projecting a surplus of approximately \$80,000 to \$180,000. Sault Ste. Marie cash finances and regularly designates reserves for capital purposes and plans to remove capital expenditures from the general fund in an effort to reduce budget variances caused by the timing of federal grants.

The city's financial management policies and practices are considered "good" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of good indicates that practices exist in most areas, although not all might be formalized or regularly monitored by governance officials. Highlights include at least monthly monitoring of budget-to-actual performance, performing three-year financial projections with each budget cycle, maintaining a prioritized list of capital projects that includes estimated costs, and targeting to maintain at least 10% of expenditures in reserves.

The city's overall net debt burden, excluding self-supporting debt, is moderate, in our view, at \$2,860 per capita and moderately high at 6.4% of market value. Amortization is above average, with 64% of principal to be retired within 10 years. Carrying charges were low, in our view, at 7.4% in 2011. We understand the city is considering a possible refunding for interest cost savings in fiscal 2012.

City employees participate in the state-run pension plan, Michigan Employee Retirement System, and Sault Ste. Marie Firemen and Policemen Retirement System. The city made annually required contributions of \$325,867 and approximately \$1.1 million, respectively, in fiscal 2011. This equated to approximately 6.9% of total governmental expenditures. It makes defined contributions of about \$120,000 per year to a fund for retiree health care and has no liability beyond its annual contributions.

Outlook

The stable outlook reflects our expectation that the city will continue to maintain its very strong financial position given its stable tax base and management's proactive approach to managing the budget. Given economic limitations, we do not expect to raise the rating within the two-year time frame of the outlook. However, significant financial weakening would put downward pressure on the rating.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of February 23, 2012)		
Sault Ste. Marie GO		
<i>Long Term Rating</i>	A+/Stable	Affirmed
Sault Ste. Marie go		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Sault Ste. Marie GO		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
SAULT ST MARIE GO		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Sault Ste. Marie Local Dev Fin Auth, Michigan		
Sault Ste. Marie, Michigan		
Sault Ste. Marie Local Dev Fin Auth (Sault Ste. Marie) local dev bnds (ltd tax GO) taxable ser 2011 due 04/01/2024		
<i>Long Term Rating</i>	NR	Withdrawn
Many issues are enhanced by bond insurance.		

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal 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.

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