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Summary:

Summit County Port Authority, Ohio; State Revolving Funds/Pools

Primary Credit Analyst:
Scott D Garrigan, Chicago (1) 312-233-7014; scott_garrigan@standardandpoors.com

Secondary Credit Analyst:
James Breeding, Dallas (1) 214-871-1407; james_breeding@standardandpoors.com

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Credit Profile		
US$6. mil bnd fd prog taxable dev rev bnds (Digestive Disease Consultants Of Medina, Inc Proj) ser 2008B due 11/15/2027		
Long Term Rating	BBB/Stable	New
US$6. mil bnd fd prog taxable dev rev bnds (Cavaliers Practice Fac Llc Proj) ser 2006E due 05/15/2026		
Long Term Rating	BBB/Stable	New
US$5.59 mil bnd fd prog dev rev bnds (Twinsburg Twp Proj) ser 2005D dtd 09/27/2005 due 05/15/2025		
Long Term Rating	BBB/Stable	New
US$4.725 mil bnd fd prog tax-exempt dev rev bnds (Summit Cnty Workforce Policy Brd Proj) ser 2005F dtd 12/01/2005 due 11/15/2025		
Long Term Rating	BBB/Stable	New
US$3.145 mil bnd fd prog taxable dev rev bnds (Superior Roll Forming Co Inc Proj) ser 2006D dtd 10/26/2006 due 11/15/2026		
Long Term Rating	BBB/Stable	New
US$3. mil bnd fd prog taxable dev rev bnds (Exal Corp Proj) ser 2006C due 05/15/2016		
Long Term Rating	BBB/Stable	New
US$2.75 mil bnd fd prog taxable dev rev bnds (The Goodyear Tire & Rubber Co Proj) ser 2005C due 11/15/2010		
Long Term Rating	BBB/Stable	New
US$2.75 mil bnd fd prog taxable dev rev bnds (The Goodyear Tire & Rubber Co Proj) ser 2005B due 05/15/2014		
Long Term Rating	BBB/Stable	New
US$2.75 mil bnd fd prog dev rev bnds (City Of Garfield Hgts Proj) ser 2004A due 05/15/2023		
Long Term Rating	BBB/Stable	New
US$2.475 mil bnd fd prog dev rev bnds (Portage Cnty - Brimfield Proj) ser 2005G due 05/15/2025		
Long Term Rating	BBB/Stable	New
US$2.215 mil bnd fd prog taxable dev rev bnds (Lockheed Martin Corp Proj) ser 2006A dtd 02/01/2006 due 11/15/2012		
Long Term Rating	BBB/Stable	New
US$2.03 mil bnd fd prog dev rev bnds (Vill Of Sevill Proj) ser 2005A due 05/15/2025		
Long Term Rating	BBB/Stable	New
US$.94 mil bnd fd prog tax-exempt dev rev bnds (Portage Cnty - Plaza/schroer Proj) ser 2008A due 05/15/2039		
Long Term Rating	BBB/Stable	New

Rationale

The 'BBB' long-term rating assigned to Summit County Port Authority, Ohio's various outstanding series of bonds, issued under its bond fund program, is based on Standard & Poor's Ratings Services' long-term municipal pool criteria. The bonds are issued on parity and secured primarily with loan revenues and pledged reserves. The rating on the bonds reflects the following:

- Security provided by loan repayments under the program's various loan agreements with borrowers through the bond fund;

- Additional pledged reserves held by the trustee totaling $15.8 million, of which $15.7 million is in cash or with counterparties rated at least as high as the rating on the bonds;
- Successful pool management by the authority since 2004 that has limited loan defaults despite the corporate nature of most borrowers.

Limiting the rating is a pool of borrowers that primarily consists of unrated, private, corporate entities. The small size of the pool, with currently 13 loans, further weakens the rating.

In addition, the rating is dependent on the investments of the reserve funds being rated at least as high as the rating on the bonds and on the ability to liquidate those investments in order to pay debt service when due. Of the $15.8 million of reserves, $15.7 million is a combination of cash or investments with counterparties rated at least as high as the rating on the bonds:

- $8.9 million in various deposit accounts and certificates of deposit, and
- $6.8 million letters of credit (LOC) with counterparties rated as low as 'BBB+' (Fifth Third Bank, rated BBB+/Stable/A-2) and as high as 'AAA' (Federal Home Loan Banks, rated at least AA+/Negative/A-1+).

The $5 million LOC deposited in the program reserve fund is through RBS Citizens N.A. (rated A-/Negative/A-2). The bank has the option of extending the one-year LOC for an additional year. If an extension is not obtained, the trustee is required to draw the full amount of the LOC and deposit the funds in the program reserve fund. Terms of repayment on this LOC are determined at the time of the draw. The trustee is able to repay draws on the LOC from borrowers making additional loan payments or from collateral obtained by asset sales, but reimbursement of the LOC occurs only after scheduled debt service has been paid.

Other LOCs are deposited for the benefit of bondholders within the primary reserve fund. According to the port authority, the terms of these LOCs run at least one year, with a required draw for the full amount if an extension is not obtained. If a draw occurs due to a default on loan repayments, the borrower--not the bond fund--is responsible for repaying the counterparty as per the LOC terms outside of the bond fund.

Because of the small pool size, and the nature of the pledged loans, in our view, the $15.8 million of additional reserves is only sufficient at this time to meet our default tolerance criteria for a 'BBB' category rated municipal pool. Loans having a municipal-type pledge include those that pledge tax increment revenues within Garfield Heights and Portage County, as well as the general obligation and appropriation pledges of Seville Village and Twinsburg Township, respectively. As the program administrators make additional loans, we expect that the pledged revenues should continue to diversify.

Summit County Port Authority currently has about $38 million of bonds outstanding under its bond fund program. Bonds are structured to have total debt service equal to loan repayments, with each series of bonds secured with loan repayments from one borrower. About $15 million of the loans securing bonds have a municipal-type backup pledge, such as tax increment revenues, general obligation, and nontax revenues. Apart from a practice facility of the Cleveland Cavaliers, all other loans are with borrowers related to manufacturing or retail.

In order to cure any shortfalls in loan revenues used to pay debt service, the trustee must draw upon the bond fund's various reserve funds in a specified order. First, the trustee must draw upon a primary reserve fund currently totaling $4.4 million, up to the amount deposited by the defaulting borrower; the fund is capitalized at 10% of original

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bond par issued to date with a combination of cash and LOCs. Second, a program transfer fund, which primarily includes interest earnings on reserve accounts and ongoing fees collected by the port authority, is also available but does not currently hold any cash. Third, a program reserve fund with $6.4 million of cash and a $5 million LOC with RBS Citizens N.A. is available to cure shortfalls. After this, the trustee draws on the remaining primary reserves.

Many of the loans are also structured to provide bondholders with a first mortgage on the assets financed with the bond proceeds. Although we have not considered the financial implications of this asset liquidation in our default tolerance analysis, the trustee must use any proceeds from asset sales to replenish the reserves as needed, but only after scheduled debt service has been paid.

Outlook

The stable outlook reflects our expectation that management will continue to oversee the loan portfolio in a manner that bondholders will be paid in a timely fashion. In addition, as the loan portfolio steadily diversifies, this could also enhance the credit quality of the bonds. However, if asset quality deteriorates, this could increase the level of reserves necessary to maintain the rating or result in a lower pool rating if we determine that the levels of reserves available to cure defaults are not consistent with the current rating on the bonds.

Bond Fund Management

The Summit County Port Authority Bond Fund has been managed by the port authority since 2004. Since that time, the bond fund has originated 15 loans and issued $46 million of bonds. As of today, the bond fund has 13 loans and $37.8 million of bonds outstanding. In addition to managing the bond fund, the port authority also manages other bond and economic development funds that have issued about $300 million of additional bonds outside this bond fund.

The authority has legislative authority to finance economic development and transportation projects throughout the state. All of the bond fund's projects are currently located in the northeast Ohio region, with outstanding loans in Cuyahoga, Mahoning, Medina, Portage, and Summit counties.

Management monitors its loans at least quarterly and requires borrowers to submit a standardized financial report developed by the authority. All loans through the bond fund are approved by the LOC provider, the authority's board, and the board's finance committee. As a practice, the authority enters into loans related to owner- or operator-occupied sites and investor-owned real estate projects only with a long-term lease.

The bond fund recently redeemed $1.2 million of bonds related to a financing in 2006 for HPC Integrated--a printing business--that ceased operations. Although this reduced the reserves of the pool available to bondholders to cure defaults, it also eliminated a nonperforming loan from the loan portfolio. Currently, there are no existing nonperforming loans and all loan payments are up to date.

Related Criteria And Research

- USPF Criteria: Long-Term Municipal Pools, Oct. 19, 2006
- USPF Criteria: Investment Guidelines, June 25, 2007

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