

ISSUER COMMENT

2 May 2017

RATING

General Obligation (or GO Related) ¹

Aa3 No Outlook

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Dexter Community Schools, MI

Annual Comment on Dexter Community Schools

Issuer Profile

Dexter Community Schools is located in Washtenaw County in the southeastern region of Michigan's lower peninsula, approximately 10 miles northwest of Ann Arbor and 40 miles west of Detroit. Washtenaw County has a population of 356,874 and a population density of 506 people per square mile. The county's per capita personal income is \$48,365 (1st quartile) and the November 2016 unemployment rate was 3.0% (1st quartile). ² The largest industry sectors that drive the local economy are state government, health services, and professional/scientific/technical services.

Credit Overview

The credit position for Dexter Community Schools is very healthy, and its Aa3 rating is equivalent to the median rating of Aa3 for US school districts. Key credit factors include a sizable tax base, notably strong resident wealth levels, and a very solid financial position. It also reflects elevated debt and pension burdens.

Economy and Tax Base: The district has a very healthy economy and tax base, which are relatively favorable with respect to the assigned rating of Aa3. The median family income is a robust 169.4% of the US level. In addition, the full value per capita (\$146,889) is much stronger than the US median. Lastly, the total full value (\$3 billion) is slightly above other Moody's-rated school districts nationwide and saw an impressive increase from 2013 to 2016.

Finances: The financial position of Dexter Community Schools is healthy and is relatively favorable when compared to its Aa3 rating. The net cash balance as a percent of revenues (19.8%) falls just short of the US median. The available fund balance as a percent of operating revenues (13.1%) is also somewhat weaker than the US median and declined modestly between 2013 and 2016.

Debt and Pensions: The district has elevated debt and pension burdens, which are quite unfavorable in comparison to the assigned rating of Aa3. Dexter Community Schools' net direct debt to full value (3.0%) is much higher than the US median. In addition, the Moody's-adjusted net pension liability to operating revenues (2.7x) is materially above the US median. Positively, this metric decreased modestly from 2013 to 2016.

Management and Governance: The ability to generate balanced financial operations indicates good financial management. In this situation, Dexter Community Schools' operations were approximately break-even; concurrently, the tax base experienced modest growth.

Michigan school districts have an Institutional Framework score ³ of Baa, which is low compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. The major revenue source for the vast majority of school districts is state determined per-pupil foundation allowance. The allowance is funded by local property taxes subject to a cap, with state aid backfilling the remainder. Individual school districts are precluded from requesting local funding overrides, limits the sector's revenue-raising ability. Though enrollment fluctuations can cause unpredictable revenue fluctuations, those fluctuations tend to be moderate. Across the sector, fixed and mandated costs are generally high. Michigan has public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be high.

Sector Trends - Michigan School Districts

Michigan school districts are likely to remain significantly pressured due to overall enrollment declines, stagnant state funding, and limited revenue raising ability. Additionally, charter school competition has increased in recent years, particularly in the Detroit metropolitan area. Combined, these factors have contributed to a significant narrowing of financial reserves for a large number of districts, a trend that is continuing. Pension contributions increasingly compete with operations. Favorably, tax base valuations are rebounding after falling significantly in recent years.

Positively, Dexter Community Schools did not experience the sharp declines in enrollment similar to other districts throughout the state. Dexter Community Schools' enrollment has stagnated in recent years and management expects the stable trend to continue.

EXHIBIT 1

Key Indicators ^{4 5}

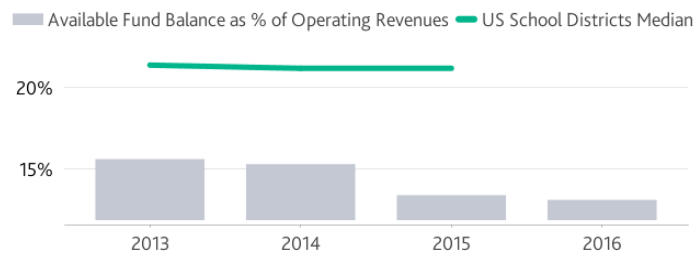
Dexter Community Schools, MI

| | 2013 | 2014 | 2015 | 2016 | US Median | Credit Trend |
|---|-----------|-----------|-----------|-----------|-----------|--------------|
| Economy / Tax Base | | | | | | |
| Total Full Value | \$2,442M | \$2,580M | \$2,802M | \$2,986M | \$1,872M | Improved |
| Full Value Per Capita | \$122,560 | \$125,743 | \$137,833 | \$146,889 | \$80,896 | Improved |
| Median Family Income (% of US Median) | 163.1% | 169.4% | 169.4% | 169.4% | 103.1% | Improved |
| Finances | | | | | | |
| Available Fund Balance as % of Operating Revenues | 15.6% | 15.3% | 13.4% | 13.1% | 21.1% | Stable |
| Net Cash Balance as % of Operating Revenues | 20.1% | 20.2% | 19.9% | 19.8% | 25.1% | Stable |
| Debt / Pensions | | | | | | |
| Net Direct Debt / Full Value | 4.4% | 4.0% | 3.5% | 3.0% | 1.5% | Improved |
| Net Direct Debt / Operating Revenues | 2.58x | 2.38x | 2.15x | 1.95x | 0.75x | Improved |
| Moody's-adjusted Net Pension Liability (3-yr average) to Full Value | 4.9% | 5.0% | 4.7% | 4.2% | 3.1% | Improved |
| Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues | 2.87x | 3.03x | 2.92x | 2.72x | 1.58x | Stable |

Source: Moody's Investors Service

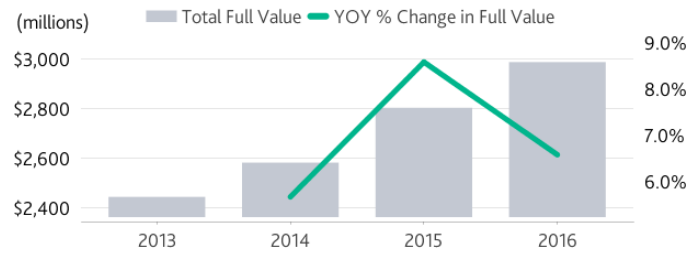
This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

EXHIBIT 2

Available fund balance as a percent of operating revenues decreased from 2013 to 2016

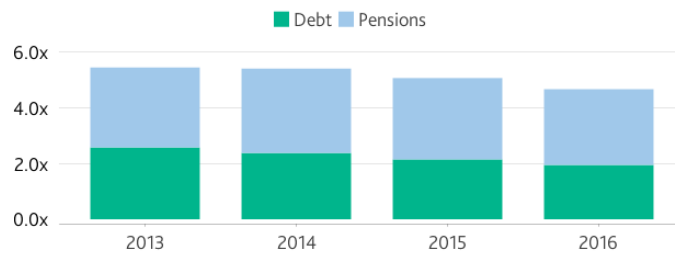
Source: Issuer financial statements; Moody's Investors Service

EXHIBIT 3

Full value of the property tax base grew between 2013 and 2016

Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

EXHIBIT 4

Moody's-adjusted net pension liability to operating revenues decreased from 2013 to 2016

Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

Endnotes

- 1 The rating referenced in this report is the government's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally a security backed by the full faith and credit pledge and total taxing power of the local government. See [Local Government GO Pledges Vary Across States](#) for more details. GO-related ratings include issuer ratings, which are GO-equivalent ratings for governments that do not issue GO debt. GO-related ratings also include ratings on other securities that are notched or otherwise related to what the government's GO rating would be, such as annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantee or enhancement programs or bond insurance.
- 2 The per capita personal income data and unemployment data for all counties in the US census are allocated to quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile. The first quartile consists of the top 25% of observations in the dataset, the second quartile consists of the next 25%, and so on. The median per capita personal income for US counties is \$46,049 for 2014. The median unemployment rate for US counties is 5.1 % for June 2016.
- 3 The institutional framework score measures a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(January 2014\)](#) for more details.
- 4 For definitions of the metrics in the Key Indicators Table, US Local Government General Obligation Methodology and Scorecard User Guide (July 2014) . The population figure used in the Full Value Per Capita ratio is the most recently available, most often sourced from either the US Census or the American Community Survey.

Similarly, the Median Family Income data reported as of 2012 and later is always the most recently available data and is sourced from the American Community Survey. The Median Family Income data prior to 2012 is sourced from the 2010 US Census. The Full Value figure used in the Net Direct Debt and Moody's-adjusted Net Pension Liability (3-year average ANPL) ratios is matched to the same year as audited financial data, or if not available, lags by one or two years.

Certain state-specific rules also apply to Full Value. For example, in California and Washington, assessed value is the best available proxy for Full Value. Certain state specific rules also apply to individual data points and ratios. Moody's makes adjustments to New Jersey local governments' reported financial statements to make it more comparable to GAAP.

Additionally, Moody's ANPLs reflect analyst adjustments, if any, for pension contribution support from non-operating funds and self-supporting enterprises. Many local government pension liabilities are associated with its participation in the statewide multiple-employer cost-sharing plans. Metrics represented as N/A indicate the data were not available at the time of publication.

- 5 The medians come from our most recently published local government medians report, [Medians – Growing Tax Bases and Stable Fund Balances Support Sector's Stability \(March 2016\)](#) . The medians conform to our US Local Government General Obligation Debt rating methodology published in January 2014.

As such, the medians presented here are based on the key metrics outlined in the methodology and the associated scorecard. The appendix of this report provides additional metrics broken out by sector, rating category, and population. We use data from a variety of sources to calculate the medians, many of which have differing reporting schedules. Whenever possible, we calculated these medians using available data for fiscal year 2014.

However, there are some exceptions. Population data is based on the 2010 Census and Median Family Income is derived from the 2012 American Community Survey. Medians for some rating levels are based on relatively small sample sizes. These medians, therefore, may be subject to potentially substantial year-over-year variation. Our ratings reflect our forward looking opinion derived from forecasts of financial performance and qualitative factors, as opposed to strictly historical quantitative data used for the medians.

Our expectation of future performance combined with the relative importance of certain metrics on individual local government ratings account for the range of values that can be found within each rating category. Median data for prior years published in this report may not match last year's publication due to data refinement and changes in the sample sets used, as well as rating changes, initial ratings, and rating withdrawals.

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