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ISSUER COMMENT
10 March 2016

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. The district is comprised of the City of Dexter and portions of seven townships in Washtenaw County, and a portion of one township in Livingston County. 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 October 2015 unemployment rate was 3.4% (1st quartile).[2] Professional/technical services and manufacturing are key drivers of the local economy. The University of Michigan is the largest employer in the county. Trinity Health, the federal government, and Ann Arbor Public Schools also rank as top employers in the area.

Credit Overview

The credit position for Dexter Community Schools is very good, and its Aa3 rating is on par with the median rating of Aa3 for school districts nationwide. Key credit factors include a notably strong socioeconomic profile with a healthy tax base, an ample financial position, and significant debt and pension liabilities.

Economy and Tax Base: The economy and tax base of the district are very strong and are relatively favorable when compared with the assigned rating of Aa3. The median family income equals a robust 161% of the US level. Also, the full value per capita ($140,593) is above the US median. Lastly, Dexter Community Schools' total full value ($2.8 billion) is slightly stronger than the US median and rose significantly from 2012 to 2015.

Finances: The district has a very solid financial position, which is relatively favorable with respect to its Aa3 rating. The cash balance as a percent of revenues (19.9%) matches the US median. Additionally, the fund balance as a percent of operating revenues (13.4%) is on par with other Moody's-rated school districts nationwide and fell from 2012 to 2015.

Debt and Pensions: The debt and pension liabilities of Dexter Community Schools are inflated and are weak relative to the assigned rating of Aa3. The net direct debt to full value (3.5%) is much higher than the US median. Additionally, the Moody's-adjusted net pension liability to operating revenues (2.8x) is materially above the US median and rose from 2012 to 2015.

Management and Governance: Balanced financial operations indicate good financial management. In this case, Dexter Community Schools' operations were approximately break-even.

Michigan school districts have an institutional framework score [3] of "Baa," or weak. The primary revenue source is the state per-pupil foundation allowance, which is moderately predictable. The allowance, adopted annually in the state budget, is funded through local property taxes generated by 18 mills, with the state contributing the balance. A small number of districts have additional hold-harmless millage grandfathered in prior to school funding reforms in 1994. Districts have low ability to raise revenues as they cannot seek voter approval for millage increases above their existing levy caps and nearly all districts levy at their caps. Expenditure reduction ability is moderate. Many districts have already significantly reduced personnel and negotiated contract concessions. Low expenditure predictability reflects a declining school-aged population and competition from charter schools.

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 which will likely continue in fiscal 2016. Pension contributions increasingly compete with operations. Favorably, tax base valuations are rebounding after falling significantly in recent years.

Exhibit 1

Key Indicators[4] [5]

Dexter Community Schools, MI

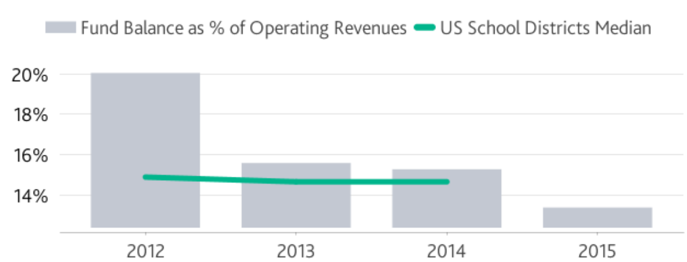
	2012	2013	2014	2015	US Median	Credit Trend
Economy / Tax Base						
Total Full Value	$2,390M	$2,442M	$2,580M	$2,802M	$1,835M	Improving
Full Value Per Capita	$120,192	$122,560	$129,492	$140,593	$78,230	Improving
Median Family Income (% of US Median)	161.0%	161.0%	161.0%	161.0%	103.1%	Stable
Finances						
Fund Balance as % of Operating Revenues	20.0%	15.6%	15.3%	13.4%	14.6%	Weakening
Cash Balance as % of Operating Revenues	23.3%	20.1%	20.2%	19.9%	19.1%	Stable
Debt / Pensions						
Net Direct Debt / Full Value	4.7%	4.4%	4.0%	3.5%	1.5%	Improving
Net Direct Debt / Operating Revenues	2.62x	2.58x	2.38x	2.15x	0.73x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	3.9%	4.9%	4.9%	4.5%	2.6%	Weakening
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	2.17x	2.87x	2.93x	2.82x	1.41x	Weakening

Source: Moody's

Exhibit 2

Fund balance as a percent of operating revenues decreased from 2012 to 2015

Fund Balance as a Percent of Operating Revenues



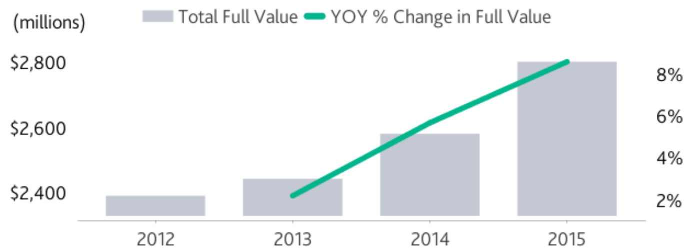
Source: Issuer financial statements; Moody's

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.moodys.com for the most updated credit rating action information and rating history.

Exhibit 3

Full value of the property tax base increased between 2012 and 2015

Total Full Value

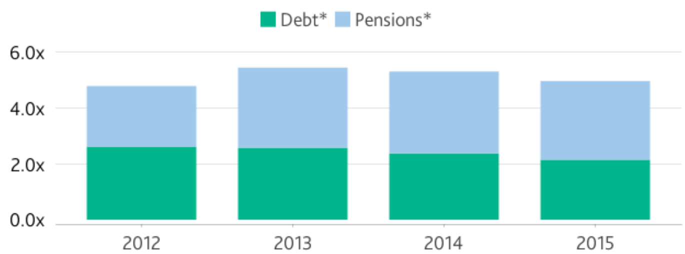


Source: Issuer financial statements; Government data sources; Offering statements; Moody's

Exhibit 4

Moody's-adjusted net pension liability to operating revenues grew from 2012 to 2015

Net Direct Debt and Adjusted Net Pension Liability / Operating Revenues



*Debt is represented as Net Direct Debt / Operating Revenues. Net Direct Debt is defined as gross debt minus self supporting debt. Pensions are represented as ANPL / Operating Revenues. ANPL is defined as the average of Moody's-adjusted Net Pension Liability in each of the past three years.

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

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 4.7 % for October 2015.

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, see 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) 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. 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, Updated 2013 US Local Government Medians Demonstrate Stability of Sector (August 2015). 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 2013. 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.

REPORT NUMBER 1017566

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