RatingsDirect®

Summary:

Dexter Community Schools, Michigan; School State Program

Primary Credit Analyst:
Caroline E West, Chicago (1) 312-233-7047; caroline.west@standardandpoors.com

Secondary Contact:
Wendy A Towber, Centennial (1) 303-721-4230; wendy.towber@standardandpoors.com

Table Of Contents

Summary:

Dexter Community Schools, Michigan; School State Program

Credit Profile		
Dexter Comnty Schs GO State Credit Enhancement		
Long Term Rating	AA-/Positive	Current
Underlying Rating for Credit Program	AA-/Stable	Affirmed
Dexter Comnty Schs GO State Credit Enhancement (AGM)		
Unenhanced Rating	AA-(SPUR)/Positive	Current
Underlying Rating for Credit Program	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' underlying rating on Dexter Community Schools, Mich.'s existing GO debt. The outlook is stable.

The bonds are also secured by the district's participation in the Michigan School Bond Qualification and Loan Program, which is rated AA-/Positive.

The rating reflects our view of the district's:

- Access to a diverse employment base and the Ann Arbor, Mich., economic area;
- Extremely strong market value per capita and very strong income levels;
- Stable enrollment trend; and
- Very strong general fund reserves, including the committed portion.

Partially offsetting the above strengths, in our view, are the district's high fixed costs as a percent of the budget, which limits budget flexibility.

The district's unlimited-tax GO pledge secures the bonds.

Dexter Community Schools is about 10 miles northwest of Ann Arbor, primarily in Washtenaw County, and serves an estimated population of 20,223. Residents benefit from the district's access to the Ann Arbor metropolitan area. Significant Washtenaw County employers include the University of Michigan and its medical center. The district's taxable value has grown slightly every year for the past four years, and the most recent market value of $2.8 billion is a 8.6% increase from the prior year. On a per capita basis, market value is extremely strong in our view at $138,535, We consider the district's income levels to be very strong, with median household and per capita effective buying incomes at 164% and 151% of the national levels, respectively.

Because of significant population growth and housing development in the early 2000s, student enrollment increased rapidly between the 1999-2000 and 2007-2008 school years. However, following the slowdown in the state economy and lower birth rates since that time, the district has experienced essentially flat enrollment. Officials estimate the current 2015-2016 academic year enrollment is 3,536, or only a 0.3% decline from the prior year. Given the district's dependence on enrollment-based state aid (state revenue made up 77% of general fund revenue in fiscal 2014), the stable enrollment trend is a supporting credit factor, in our view.

The district's finances are stable, in our view, given significant committed general fund reserves, despite recent minor operating deficits. For the current fiscal year (year ended June 30, 2016), the district adopted a general fund deficit of $618,000, which is less than 2% of the budget. Officials project out-performing the budget due to overall positive variances. The district reports that fiscal 2015 ended with only a $52,000 operating deficit in the general fund, a favorable result compared to the original budgeted deficit of $622,000.

Fiscal 2014, the most recent audited year, generated a $390,000 general fund deficit (or 1% of expenditures), and officials indicate that the result was driven by planned expenses for transitioning to a full-day kindergarten program as well as curriculum and textbooks costs. The district maintains a sizeable committed reserve within its general fund, which the board builds up with the intention of spending it on specific purposes, including instruction equipment, retirement costs, facilities, and technology. These reserves are committed per the board's direction, but could be used for operations. Excluding the committed portion, the district's general fund unassigned and assigned reserve level totaled $2.0 million in fiscal 2014, or 5.9% of expenditures, which we consider good. Including the committed portion, available reserves increase to $6.1 million or 18.4% of expenditures, which we consider very strong.

We consider Dexter Community Schools' financial management practices "standard" under our financial management assessment (FMA) methodology, indicating the finance department maintains adequate policies in some, but not all, key areas. The FMA was revised to "standard" from "good" due to our understanding that the district does not have an up-to-date capital improvement plan. Officials reference historical data in setting the budget, and use an outside consult for enrollment projections. The school board receives monthly budget-to-actual updates and annual investment reports. Officials maintain a long-range financial plan that goes out three years beyond the budget year, and update it annually. The district has its own investment policy but does not have a debt management policy. The board aims to maintain an unassigned general fund balance between 3% and 5% of expenditures, a goal which it currently meets.

We consider the district's overall debt burden to be high at $6,541 per capita and moderate at 5.1% of market value. In our opinion, debt service carrying charges for fiscal 2014 were elevated, at 29% of total governmental expenditures less capital outlay. Debt amortization is average, with 69% of direct debt principal due to mature within 10 years. We understand the district has no additional debt plans.

The district participates in the Michigan Public School Employees' Retirement System, a statewide, cost-sharing, multi-employer defined-benefit retirement plan that includes postemployment health care benefits. For fiscal 2014, the district contributed $6.1 million toward pension benefits, which accounted for 11% of total general fund expenditures. Combined, debt service and pension payments accounted for nearly 40% of total governmental expenditures in 2014; this level amount of fixed costs relative to the budget is a credit weakness, in our view, as it reduces the district's expenditure flexibility.

Outlook

The stable outlook on the underlying rating reflects our anticipation that the district will maintain at least strong reserves and continue to operationally produce near-balanced results; we believe the district's stable enrollment trend will allow the district to achieve these results. We do not anticipate changing the rating within the two-year outlook timeframe.

Upside scenario

Were the district to significantly increase its reserve level, while simultaneously experiencing a reduction in fixed annual debt costs, we could raise the rating.

Downside scenario

We could lower the rating if the district draws down its committed general fund balance substantially without replenishing the reserves due to an imbalanced budget.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

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.