STANDARD & POOR'S
RATINGS SERVICES

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Summary:

Dexter Community Schools, Michigan; School State Program

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Credit Profile		
US$19.315 mil 2012 rfdg bnds ser B (unltd tax GO) (federally taxable) due 05/01/2016		
Long Term Rating	AA-/Stable	New
School Issuer Credit Rating	AA-/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' issuer credit rating (ICR) and 'AA-' enhanced program rating to Dexter Community Schools, Mich.'s series 2012B unlimited-tax general obligation (GO) refunding bonds.

At the same time, we affirmed our 'AA-' ICR and 'AA-' enhanced program rating on the district's previously issued debt. The enhanced ratings reflect the district's participation in the Michigan School Bond Qualification and Loan Program. The outlook on all ratings is stable.

The 'AA-' ICR 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;
- Very strong general fund reserves that the district anticipates maintaining in fiscal 2012; and
- "Good" financial management under our financial management assessment (FMA) methodology.

Partially offsetting the above strengths, in our view, is the district's moderately high debt burden as a percent of market value.

Revenue from the district's unlimited-tax GO pledge secures the 2012B bonds. We understand the district plans to use the bond proceeds to refinance all or a portion of the loans outstanding from the Michigan School Bond Loan Fund and Michigan School Loan Revolving Fund, for interest cost savings.

Dexter Community Schools is about 10 miles northwest of Ann Arbor, primarily in Washtenaw County, and serves an estimated population of 19,600. Because of significant population growth and housing development, student enrollment increased rapidly between the 1999-2000 and 2007-2008 school years. However, the slowdown in economic development and lower birth rates have resulted in stagnant enrollment. Enrollment declined by 29 students in the 2011-2012 school year to 3,595, and management projects small declines through fiscal 2016.

Residents benefit from the district's access to the Ann Arbor metropolitan area and to several area employers. Significant Washtenaw County employers include the University of Michigan and its medical center, which employ more than 28,000. The county's unemployment rate, which has historically been much lower than the state levels, averaged 6.5% in 2011 compared with the state rate of 10.3%. The district's taxable value decreased by 6.4% in 2008 through 2011 to $1.09 billion. Despite declining by 18.1% during the past four years, the estimated market value of $2.4 billion remain extremely strong, in our view, at $122,860 per capita. The district's tax base is, in our opinion, very diverse, with the 10 leading taxpayers accounting for 6% of the district's taxable value. We consider the district's income levels to be very strong, with median household and per capita effective buying incomes at 165% and 150% of the national levels, respectively.

The district has reported general fund surpluses in four of the past five audited fiscal years. It anticipates maintaining very strong reserves through at least fiscal 2013, as it continues to make budget adjustments to counter state aid cuts and other potentially declining revenues. The district ended fiscal 2011 (June 30) with a $1.8 million surplus because of savings from employee retirements and other expenditure reductions. Although the district's unassigned balance fell in fiscal 2011 because of changes in accounting practices, we understand that the district could use most of its committed balance for general operations with board approval. At year-end fiscal 2011, that section of the committed balance and the unassigned balance were a combined $7.3 million, or 22% of expenditures, which we consider very strong. The district is anticipating break-even operations for fiscal 2012 despite net state aid reductions of $1.1 million.

We understand the district expects close to break-even operations during fiscal 2013, given that retirement cost increases are expected to be minimal at most. The district had outlined approximately $1million in potential budget adjustments, which were ready to be implemented should retirement costs increase substantially. We also understand the district has set aside money in its committed balance in anticipation of implementing all-day kindergarten in fiscal 2013, and that it might use some of that balance during the first three years of the program.

We consider Dexter Community Schools' financial management practices "good" under our FMA methodology, indicating our view that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials.

We consider the district's overall debt burden, including its outstanding balance in the school loan revolving fund, to be high at $7,614 per capita and moderately high at 6.2% of market value. In our opinion, debt service carrying charges for fiscal 2011 were elevated, at 22% of total governmental expenditures less capital outlay. Debt amortization is average, with 56% 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 2011, the district contributed $4.1 million toward pension benefits, which accounted for 12% of total general fund expenditures.

Outlook

The stable outlook on the enhanced rating reflects the outlook on the rating on Michigan's GO debt. The stable outlook on the ICR reflects our anticipation that the district will maintain at least strong reserves and continue to make budget adjustments in response to possible further revenue declines and in order to maintain balanced operations. We do not anticipate changing the rating within the two-year outlook timeframe. However, we could take a positive rating action if the district builds available reserves despite a drop in revenues. Should the district significantly reduce reserves, we could take a negative rating action. The district's access to the Ann Arbor employment base further supports the stable outlook.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: State Credit Enhancement Programs, Nov. 13, 2008

Ratings Detail (As Of August 24, 2012)		
Dexter Comnty Schs GO State Credit Enhancement		
Long Term Rating	AA-/Stable	Affirmed
School Issuer Credit Rating	AA-/Stable	Affirmed
Dexter Comnty Schs GO State Credit Enhancement (AGM)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
School Issuer Credit Rating	AA-/Stable	Affirmed
Dexter Comnty Schs GO		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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