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Summary:
Dexter Community Schools, Michigan; School State Program

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Credit Profile		
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.

Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' issuer credit rating (ICR) on Dexter Community Schools, Mich.'s general obligation (GO) debt. At the same time, we affirmed our 'AA-' enhanced program rating on the debt, reflecting the district's participation in the Michigan State School Bond Loan Fund 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;
- Very strong income and extremely strong wealth levels; and
- Strong financial performance and very strong reserves.

We believe the district's high per capita debt burden limits these credit strengths.

Dexter Community Schools is about 10 miles northwest of Ann Arbor, primarily in Washtenaw County. District population has exhibited strong growth; it increased by 39% between the 1990 and 2000 U.S. census and more than 19% from 2000 to 2010 to an estimated 18,765. Due to the significant population growth and housing development, student enrollment grew rapidly between the 1999-2000 and 2007-2008 school years. However, the recent slowdown in economic development has resulted in stagnant enrollment. Enrollment declined by a marginal 0.6%, or 23 students, in the 2010-2011 school year to 3,624, and management has budgeted for loss of another 25 students for the 2011-2012 school year.

Residents benefit from the district's access to the Ann Arbor metropolitan area for employment opportunities and to several area employers. Significant Washtenaw County employers include the University of Michigan and its medical center, which employ approximately 32,000 combined. The county's unemployment rate, which has historically been much lower than the state levels, averaged 8.1% in 2010, compared with the state rate of 12.6%. For the first eight months of 2011, the county unemployment rate has averaged 7%. The district's taxable value has declined by

6.4% since 2008 to $1.09 billion in 2011. Despite declining by 18.1% over the past four years, the market value of $2.4 billion still equates to, in our view, an extremely strong $128,327 per capita. The district's tax base is, in our opinion, very diverse, with the 10 leading taxpayers accounting for 5.9% of the district's 2010 taxable value. We consider the district's income levels to be very strong, with the median household and per capita effective buying income at 164% and 148% of national levels, respectively.

In our opinion, the district's financial position is strong, as evidenced by three operating surpluses in the past four audited fiscal years and maintenance of an unreserved general fund balance of more than 15% of expenditures. The district ended fiscal 2010 (June 30) with a drawdown of $288,000, reducing the unreserved general fund balance to $5.7 million, or a very strong 16.5% of expenditures. Management attributes the shortfall to one-time terminal leave payments to employees taking advantage of a retirement incentive. For fiscal 2011, the district expects to report a $1.8 million surplus due to savings from employee retirements and other expenditure reductions. The district is anticipating break-even operations for fiscal 2012 despite expected net state aid reductions of $1.1 million. However, management expects that lower special education reimbursement and further state aid cuts will pose added challenges for fiscal 2013 operations.

We consider Dexter Community Schools' financial management practices "good" under our Financial Management Assessment (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 net debt burden to be high at $7,658 per capita but only moderate at 6% of estimated market value. In our opinion, the debt service carrying charge for fiscal 2010 was an elevated 22% of total governmental expenditures, net of capital outlay. Debt amortization is average, with 54% of principal due to mature over the next 10 years. We understand management does not expect to issue any additional debt for at least two years.

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 2010, the district contributed $3.8 million toward pension benefits, which accounted for 10.9% of total general fund expenditures.

Outlook

The stable outlook on the enhanced rating reflects the outlook on the Michigan GO rating. The stable outlook on the ICR reflects our anticipation that the district will maintain at least strong reserves. We do not expect to change the rating within the two-year parameter of the outlook because we anticipate that the district will continue to make the budget adjustments it deems necessary to react to changes in revenue and maintain balanced operations. The district's access to the Ann Arbor employment base further supports the outlook.

Ashrin Anand of Mumbai, India-based CRISIL Global Analytical Center, a Standard & Poor's affiliate, contributed to this report.

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

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