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**Summary:**

# Dexter Community Schools, Michigan; School State Program

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## Summary:

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Credit Profile		
US\$61.67 mil 2008 sch bldg & site & rfdg bnds (unltd tax GO) due 05/01/2028		
<i>Long Term Rating</i>	AA-/Stable	New
<i>School Issuer Credit Rating</i>	AA-/Stable	New
Dexter Comnty Schs GO		
<i>Long Term Rating</i>	AA-/Stable	Affirmed
<i>School Issuer Credit Rating</i>	AA-/Stable	Upgraded
<b>Dexter Comnty Schs GO</b>		
<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services raised its issuer credit rating (ICR) on Dexter Community Schools, Mich.'s general obligation (GO) debt three notches to 'AA-' from 'A-' based on the district's improved financial performance and access to the Ann Arbor, Mich. metropolitan area. The outlook is stable.

Standard & Poor's also assigned its 'AA-' enhanced program rating and 'AA-' ICR, and stable outlook, to the district's series 2008 unlimited-tax GO school building and site bonds and refunding bonds.

The 'AA-' enhanced program rating reflects the district's participation in the Michigan State School Bond Loan Fund Program.

In our opinion, the ICR also reflects the district's:

- Very strong high wealth and income levels, and
- Very strong financial performance.

We believe the district's high debt burden, coupled with a plan to issue additional debt, limits these credit strengths.

The district's full faith and credit GO pledge secures the bonds.

Dexter Community Schools is about 10 miles northwest of Ann Arbor, primarily in Washtenaw County. District population has recently exhibited strong growth; it increased by 29% between the 1990 and 2000 U.S. censuses and more than 19% since 2000 to 18,504 in 2007. Student enrollment has also experienced rapid growth; it increased by 26.5% since 1999 to 3,642 in 2007. Management, which expects growth to continue, is projecting student enrollment to reach 3,867 by 2013.

District residents consist primarily of professionals, evidenced by an extremely strong high market value of \$153,695 per capita. Residents benefit from the district's access to the Ann Arbor metropolitan area for employment

opportunities, as well as several local area employers. Significant Washtenaw County employers include University of Michigan and its medical center, which employ more than 32,000 combined. The district has experienced healthy property tax base growth over the past five years; market value has increased by an average of 6.9% annually since fiscal 2004 to \$1.2 billion. While district unemployment is unavailable, county unemployment is 4.8%, well below the state's rate but above the nation's rate. In our opinion, district income levels are a very strong 164% and 162% of state and national averages, respectively.

In our opinion, Dexter Community Schools' financial position is very strong. Operations have improved over the past five years. State aid cuts and the additional costs associated with operating a new high school, which opened in February 2002, pressured finances in fiscals 2002 and 2003. Operations have stabilized since fiscal 2004, and the district increased the general fund by 68.9% to \$5.2 million in fiscal 2007 from \$3.1 million. The district closed fiscal 2007 with a \$5.1 million total unreserved general fund balance, or, in our view, a very strong 15.7% of operating expenditures, up from \$3.9 million, or 13.4%, in fiscal 2006. According to management, the district should close unaudited fiscal 2008 with a \$644,792 surplus. The fiscal 2009 budget includes a draw of \$284,864.

Standard & Poor's considers Dexter Community Schools' financial management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. Highlights include management's use of historical and current information throughout the budget process while monitoring budgeted figures compared with actual results regularly and providing this information to the school board monthly. Internal financial plans are complete for the current year plus three years, and management uses informal capital planning. Management also maintains a reserve target of 5%-6% of expenditures.

In our opinion, the district's overall debt burden is a high \$7,784 per capita, or a moderate 5.1% of market value. Management attributes 77% of overall net debt burden to debt issued directly by the school district. Furthermore, the carrying charge was an elevated 19% in 2007. District officials plan to issue additional debt to finance the expansion of school buildings to accommodate the rapid growth the district is experiencing, though not for at least three years.

## Outlook

The stable outlook on the enhanced rating reflects the outlook on Michigan's GO bond rating. The stable outlook on the ICR reflects Standard & Poor's expectation that the district will maintain long-term structural stability and adequate reserves. In addition, the district's access to Ann Arbor's economic base provides further rating stability.

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