

New Issue: Dexter Community Schools, MI

MOODY'S UPGRADES DEXTER COMMUNITY SCHOOL'S OUTSTANDING GENERAL OBLIGATION RATING TO A2 FROM A3, AFFECTING \$111.8 MILLION INCLUDING THE CURRENT ISSUE

ASSIGNS Aa3 ENHANCED AND A2 UNDERLYING RATING TO THE DISTRICT'S \$61.67 MILLION 2008 SCHOOL BUILDING & SITE BONDS AND REFUNDING BONDS (GENERAL OBLIGATION UNLIMITED TAX)

Primary & Secondary Education
 MI

Moody's Rating

ISSUE	UNDERLYING RATING	RATING
2008 School Building and Site and Refunding Bonds (Unlimited Tax General Obligaion)	A2	Aa3
Sale Amount	\$61,670,000	
Expected Sale Date	09/12/08	
Rating Description	General Obligation	

Opinion

NEW YORK, Sep 8, 2008 -- Moody's Investors Service has upgraded Dexter Community Schools' outstanding general obligation unlimited tax debt to A2 from A3, affecting \$111.8 million including the current offering. Concurrently, Moody's has assigned an Aa3 enhanced rating with stable outlook and A2 underlying rating to the district's \$61.67 million 2008 School Building & Site and Refunding Bonds (General Obligation Unlimited Tax). Secured by the district's general obligation unlimited tax pledge, \$21.1 million of the current issue will refund the district's outstanding 1998 School Building and Site Bonds for estimated net present value savings. The remaining \$40.6 million of the current issue reflects the district's first issuance following voter authorization of \$47.9 million to fund capital improvements throughout the district in May 2008. The upgrade and assignment of the A2 rating incorporates the district's moderately sized tax base; sound financial position benefiting from adequate reserves and steady enrollment growth; and above-average, yet manageable, debt burden.

The Aa3 enhanced rating with stable outlook is based on the credit enhancement provided by the State of Michigan's School Bond Qualification and Loan Program. Under the program, the state has a constitutional obligation to provide a school district with sufficient funds to make timely debt service payments, if necessary. Fundamental to the Aa3 rating with stable outlook are the program's sound mechanics to ensure timely payments, which include a provision for independent third party notification to the state in the event of debt service insufficiency, and the strength of the state's general obligations, currently rated Aa3 with stable outlook. For additional information regarding Moody's action on the State of Michigan's rating and outlook, please refer to Moody's Credit Update report, dated April 27, 2007.

Program mechanics require the school district to transfer the debt service payment to the paying agent five business days prior to the due date. If payment is not made within this time frame, the paying agent must notify the school district of the insufficiency within the next business day. Should the school district fail to transfer the necessary funds, the Michigan Department of Treasury is notified of the deficiency by the paying agent three business days prior to the debt service payment date, at which time the state treasurer must make a loan from the State's School Loan Revolving Fund (SLRF) to ensure timely debt service payment. The Michigan SLRF was established to provide loans to school districts to moderate the local tax burden for debt service on qualified bonds, prevent a default, and cure a default. The state may issue bonds or notes without voter approval to capitalize the fund.

MODERATELY SIZED TAX BASE CHARACTERIZED BY ABOVE-AVERAGE INCOME INDICES

The district enjoys a diverse and steadily growing economic base, driven in large part by its favorable location in Washtenaw (GO debt rated Aa2) and Livingston (Aa1) counties and proximity to Ann Arbor (Aa2). Full valuation (\$2.8 billion), approximately 80% of which is residential, experienced steady growth averaging 6.5% annually over the past five years. Despite a 3.2% decline in full valuation in 2008, officials expect the pace of residential expansion to decelerate. Income indices are above average, with median family income of

\$82,191 and per capita income of \$32,804 (152% and 164% of respective national medians). The district's median housing value of \$222,600 is nearly twice the state figure. Full value per capita is healthy at \$176,042, a figure that is particularly strong given the comparatively small industrial component of the district's tax base (approximately 5% in 2008). The district's unemployment rate of 6.3% for June 2008 is considerably lower than that of the state at 8.7% during the same period, reflecting the strength of the regional employment base, largely driven by the University of Michigan (revenue debt rated Aaa; approximately 32,500 employees). Enrollment within the district continues to grow at a steady pace averaging a 1.7% annual increase since 2003 and officials indicate projections show this trend is likely to continue over the near-term. The district does not participate in Schools of Choice, preventing enrollment growth from students residing outside of the district. Moody's expects the district's tax base to remain stable given proximity to the University of Michigan; however, growth trends are expected to decelerate in tandem with the adverse economic conditions confronting the state and challenges affecting residential real estate markets in southeastern Michigan.

SOUND FINANCIAL POSITION SUPPORTED BY HEALTHY RESERVES EXPECTED TO CONTINUE

Moody's believes the district's sound financial position will continue given recent growth in operating reserves, a conservative budgeting approach, and increased state aid stemming from enrollment growth. Over the past several years, the district has steadily built General Fund reserves from \$1.6 million (or a narrow 5.8% of General Fund revenues) in fiscal 2003 to \$5.2 million (or a sound 15.3% of General Fund revenues) at the close of fiscal 2007. Un-audited figures indicate a \$645,000 General Fund surplus in fiscal 2008, building General Fund reserves to an estimated \$5.8 million. The district budgeted for a \$285,000 operating shortfall in fiscal 2009; however, positive budget variances and higher than anticipated enrollment growth are expected to yield balanced operations. While a significant portion of the district's General Fund balance is designated for potential contingencies, management maintains a targeted undesignated General Fund balance between 5% and 7% of annual operating expenditures. Moody's believes current reserve levels provide sufficient flexibility in reacting to unforeseen budgetary needs. Typical of Michigan schools, state aid (which is largely based on enrollment) is the district's primary revenue stream, comprising 73.8% of operating revenues during fiscal 2007. The district's enrollment has averaged a 1.7% annual increase over the past five years, a trend that factors favorably into the state aid formula and lends a measure of strength to the district's financial position.

HIGH DEBT BURDEN; AVERAGE AMORTIZATION OF PRINCIPAL

Moody's expects the district's high debt burden (5.1% overall, 3.9% direct) to remain manageable given relatively limited near-term borrowing needs. Amortization of principal is average with 61.3% of outstanding obligations retired in ten years and all debt retired within 20 years. Debt per capita is high at \$6,915. The district engages in modest annual cash flow borrowings (\$1.6 million for fiscal 2008) due to the timing of state aid receipts. Officials cite plans to issue the \$3.4 million and \$3.9 million of remaining voter authorized general obligation debt in 2011 and 2014 respectively.

KEY STATISTICS:

2000 population: 16,155 (26.8% increase since 1990)

2008 full valuation: \$2.8 billion

Full value per capita: \$170,042

Per capita income as a % of US: 152%

Median family income as a % of US: 164.2%

Principal amortization (ten years): 61.3%

Unemployment (June 2008): 6.3% (Michigan 8.7%)

Fiscal 2007 General Fund balance: \$5.2 million (15.3% of General Fund revenues)

Overall debt burden: 5.1%

Direct debt burden: 3.9%

Post-sale general obligation debt outstanding: \$111.8 million, including the current offering

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