

## ISSUER COMMENT

1 June 2020

### RATING

**General Obligation (or GO Related) <sup>1</sup>**

Aa3 No Outlook

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## Dexter Community Schools, MI

### Annual Comment on Dexter Community Schools

#### Issuer Profile

Dexter Community Schools is located in Washtenaw County in the southeastern region of Michigan's lower peninsula, approximately 10 miles northwest of Ann Arbor and 40 miles west of Detroit. The county has a population of 365,961 and a moderate population density of 515 people per square mile. The county's median family income is \$98,184 (1st quartile) and the March 2020 unemployment rate was 2.4% (1st quartile) <sup>2</sup>. The largest industry sectors that drive the local economy are state government, health services, and professional/scientific/technical services.

We regard the coronavirus outbreak as a social risk under our environmental, social and governance framework, given the substantial implications for public health and safety and the economy. We do not see any material immediate credit risks for Dexter Community Schools. However, the situation surrounding coronavirus is rapidly evolving and the longer term impact will depend on both the severity and duration of the crisis. If our view of the credit quality of Dexter Community Schools changes, we will update our opinion at that time.

#### Credit Overview

Dexter Community Schools' credit position is good, and its Aa3 rating matches the US school districts median of Aa3. Key credit factors include a very strong wealth and income profile, a sizable tax base, a robust financial position and significant debt and pension liabilities.

**Economy and Tax Base:** The coronavirus is driving an unprecedented economic slowdown. We currently forecast US GDP to decline significantly during 2020 with a gradual recovery commencing toward the end of the year. Local governments with the highest exposure to tourism, hospitality, health care, retail, and oil and gas could suffer particularly severe impacts.

The district has a very healthy economy and tax base, which are relatively favorable with respect to the assigned rating of Aa3. The median family income equates to a robust 167.5% of the US level. Moreover, the full value per capita (\$151,408) is materially above the US median, and increased from 2015 to 2018. Lastly, Dexter Community Schools' total full value (\$3.3 billion) is slightly stronger than the US median.

**Finances:** The district's financial position is very healthy and is favorable in relation to the assigned rating of Aa3. The cash balance as a percent of operating revenues (23.9%) is on par with the US median, and grew modestly from 2015 to 2019. Also, the fund balance as a

percent of operating revenues (18.4%) is slightly below other Moody's-rated school districts nationwide.

**Debt and Pensions:** Overall, Dexter Community Schools has elevated debt and pension liabilities. However, they are quite unfavorable with respect to its Aa3 rating. The Moody's-adjusted net pension liability to operating revenues (2.9x) unfavorably is materially above the US median, and remained stable between 2015 and 2019. Furthermore, the net direct debt to full value (3.7%) is significantly higher than the US median.

**Management and Governance:** Michigan school districts have an institutional framework score <sup>3</sup> of "Baa," or weak. The primary revenue source is the state per-pupil foundation allowance, which is moderately predictable. The allowance, adopted annually in the state budget, is funded through local property taxes generated by 18 mills, with the state contributing the balance. A small number of districts have additional hold-harmless millage grandfathered in prior to school funding reforms in 1994. Districts have low ability to raise revenues as they cannot seek voter approval for millage increases above their existing levy caps and nearly all districts levy at their caps. Expenditure reduction ability is moderate. Many districts have already significantly reduced personnel and negotiated contract concessions. Low expenditure predictability reflects a declining school-aged population and competition from charter schools.

### Sector Trends - Michigan School Districts

Most Michigan school districts are demonstrating stable operating trends after experiencing significant declines in fund balance and liquidity over much of the decade. As the vast majority of district's are funded based on per-pupil formula set annually by the state, those districts with higher degrees of fluctuating enrollment are more susceptible to potential revenue pressure. Additionally, charter school competition and increased participation in the state's Schools of Choice program has led to enrollment volatility in certain parts of the state, particularly in the Detroit metropolitan area. The underfunded status of the state's school pension plan will remain a credit drag. Favorably, tax base valuations are rebounding after falling significantly in recent years. Also, many districts have steadied operations and fund balances, albeit at historically modest levels..

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

## EXHIBIT 1

Key Indicators [4.5](#) Dexter Community Schools

	2015	2016	2017	2018	2019	US Median	Credit Trend
<b>Economy / Tax Base</b>							
Total Full Value	\$2,801M	\$2,985M	\$3,144M	\$3,259M	N/A	\$1,919M	Improved
Full Value Per Capita	\$137,833	\$146,737	\$152,191	\$151,408	N/A	\$87,328	Improved
Median Family Income (% of US Median)	169%	170%	168%	168%	168%	101%	Stable
<b>Finances</b>							
Available Fund Balance as % of Operating Revenues	13.4%	13.1%	15.2%	17.0%	18.4%	22.3%	Improved
Net Cash Balance as % of Operating Revenues	19.9%	19.8%	22.5%	23.5%	23.9%	27.2%	Stable
<b>Debt / Pensions</b>							
Net Direct Debt / Full Value	3.5%	3.0%	2.7%	3.9%	3.7%	1.6%	Stable
Net Direct Debt / Operating Revenues	2.15x	1.94x	1.70x	2.47x	2.27x	0.73x	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Full Value	4.7%	4.2%	4.4%	4.5%	4.7%	3.3%	Stable
Moody's-adjusted Net Pension Liability (3-yr average) to Operating Revenues	2.92x	2.72x	2.79x	2.86x	2.90x	1.48x	Stable

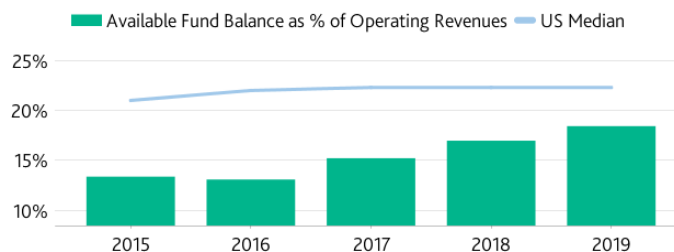
  

	2015	2016	2017	2018	2019	US Median
<b>Debt and Financial Data</b>						
Population	20,326	20,347	20,662	21,531	21,531	N/A
Available Fund Balance (\$000s)	\$6,045	\$6,089	\$7,538	\$8,748	\$9,844	\$9,391
Net Cash Balance (\$000s)	\$9,000	\$9,211	\$11,138	\$12,136	\$12,745	\$11,164
Operating Revenues (\$000s)	\$45,215	\$46,546	\$49,543	\$51,551	\$53,416	\$42,583
Net Direct Debt (\$000s)	\$97,020	\$90,235	\$84,413	\$127,351	\$121,054	\$29,872
Moody's Adjusted Net Pension Liability (3-yr average) (\$000s)	\$131,898	\$126,829	\$138,243	\$147,674	\$154,672	\$62,410

Source: Moody's Investors Service

## EXHIBIT 2

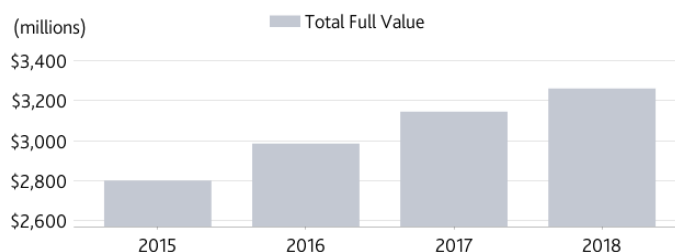
## Available fund balance as a percent of operating revenues increased from 2015 to 2019



Source: Issuer financial statements; Moody's Investors Service

## EXHIBIT 3

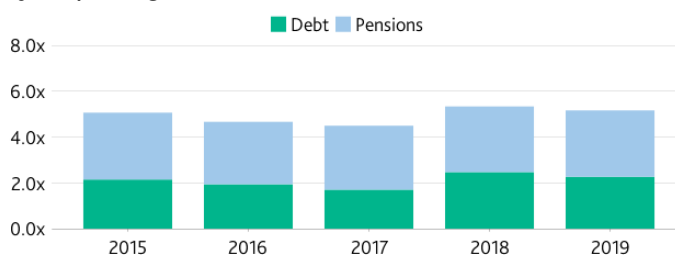
## Full value of the property tax base increased from 2015 to 2018



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## EXHIBIT 4

## Moody's-adjusted net pension liability to operating revenues decreased from 2015 to 2019



Source: Issuer financial statements; Government data sources; Offering statements; Moody's Investors Service

## Endnotes

- 1 The rating referenced in this report is the issuer's General Obligation (GO) rating or its highest public rating that is GO-related. A GO bond is generally backed by the full faith and credit pledge and total taxing power of the issuer. GO-related securities include general obligation limited tax, annual appropriation, lease revenue, non-ad valorem, and moral obligation debt. The referenced ratings reflect the government's underlying credit quality without regard to state guarantees, enhancement programs or bond insurance.
- 2 The demographic data presented, including population, population density, per capita personal income and unemployment rate are derived from the most recently available US government databases. Population, population density and per capita personal income come from the American Community Survey while the unemployment rate comes from the Bureau of Labor Statistics.

The largest industry sectors are derived from the Bureau of Economic Analysis. Moody's allocated the per capita personal income data and unemployment data for all counties in the US census into quartiles. The quartiles are ordered from strongest-to-weakest from a credit perspective: the highest per capita personal income quartile is first quartile, and the lowest unemployment rate is first quartile.

- 3 The institutional framework score assesses a municipality's legal ability to match revenues with expenditures based on its constitutionally and legislatively conferred powers and responsibilities. See [US Local Government General Obligation Debt \(December 2016\)](#) methodology report for more details.
- 4 For definitions of the metrics in the Key Indicators Table, [US Local Government General Obligation Methodology and Scorecard User Guide \(July 2014\)](#). Metrics represented as N/A indicate the data were not available at the time of publication.
- 5 The medians come from our most recently published local government medians report, [Medians - Tax base growth underpins sector strength, while pension challenges remain \(May 2019\)](#) which is available on Moody's.com. The medians presented here are based on the key metrics outlined in Moody's GO methodology and the associated scorecard.

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