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Summary:

Dexter Community Schools, Michigan; School State Program

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Credit Profile

US\$17.7 mil sch bldg and site bnds (unltd tax GO) ser 2023 dtd 03/30/2023 due 05/01/2028

<i>Long Term Rating</i>	AA/Stable	New
<i>Underlying Rating for Credit Program</i>	AA-/Stable	New
Dexter Comnty Schs GO State Credit Enhancement		
<i>Long Term Rating</i>	AA/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed
Dexter Comnty Schs GO State Credit Enhancement (AGM)		
<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Affirmed
<i>Underlying Rating for Credit Program</i>	AA-/Stable	Affirmed

Many issues are enhanced by bond insurance.

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating and 'AA-' underlying rating to Dexter Community Schools, Mich.'s approximately \$17.77 million series 2023 unlimited-tax general obligation (GO) bonds.
- At the same time, S&P Global Ratings affirmed its 'AA-' underlying rating on the district's existing GO bonds.
- The outlook is stable.

Security

The district's full-faith-and-credit pledge and power to levy unlimited ad valorem taxes on all taxable property within its boundaries secure the bonds.

These bonds are the second and final in a series authorized by district voters. Proceeds will be used for school building and site purposes.

Credit overview

Dexter Community Schools is located 10 miles northwest of Ann Arbor and serves a growing population that currently stands at 21,892. The district's favorable location has led to robust economic growth in recent years. Management reports a number of high-density residential developments in the pipeline, which should positively affect assessed values (AV) and enrollment over the next several years. Enrollment, which is the primary determinant of state aid, has fallen by 7% since fiscal 2019 as a result of the COVID-19 pandemic. Prior to the pandemic, enrollment stood at around 3,600 students and management expects it to return to these levels within the next couple of years.

Despite enrollment declines in recent years, the district's operating performance is robust. It closed fiscal 2022 with an operating surplus for the seventh year in a row, growing available reserves to \$12.2 million, or 29.7% of operating

expenditures. Positive financial performance is primarily attributable to management's conservative and forward-looking budgeting practices. The adopted fiscal 2023 budget shows a minor drawdown in the general fund, though the district expects actuals to outperform the budget, which we view as likely due to historical performance. These very strong reserves provide ample cushion against the district's plan to spend down a portion of its fund balance over the next several years on various capital projects. We expect reserves to remain at very strong levels despite these expected drawdowns.

Offsetting the district's growing economy and robust finances are its elevated fixed costs. In 2022, debt service, pension, and other postemployment benefit contributions were roughly 36.1% of total governmental fund expenditure. High carrying charges are partially attributable to rapid amortization of debt, with 91% matured within 10 years.

The 'AA-' rating further reflects our view of the district's:

- Growing economy, with 4% population growth and 5% average annual growth in AV over the past five years;
- Intent to maintain reserves above 17% to 18% of operating expenditures;
- Good financial policies and practices under our Financial Management Assessment methodology, highlighted by maintenance of a long-term financial plan that is updated annually; and
- No additional debt plans over the next two to three years.

Environmental, social, and governance

We have analyzed Dexter Community Schools' environmental, social, and governance risks relative to the district's economy, management, financial measures, and debt and liability profile, and view them as neutral in our credit rating analysis.

Outlook

The stable outlook reflects our view that the district's conservative budgeting practices will result in structural balance and maintenance of healthy reserves even in light of planned drawdowns; thus, we do not expect to raise or lower the rating within the two-year outlook period.

Downside scenario

We could lower the rating if declining enrollment trends, rising fixed costs, or other unexpected pressures were to result in structural imbalance and weaken the district's reserve levels below those of peers.

Upside scenario

We could raise the rating if the district's enrollment trends stabilize, coupled with a material moderation in its fixed cost profile, all else being equal.

Michigan School Bond Qualification & Loan Program

The 'AA' long-term rating reflects the series 2023 bonds' participation in the Michigan School Bond Qualification & Loan Program. Section 16 of Article 9 of the 1963 Michigan Constitution created the program to provide districts with access to funds for meeting debt service on program-qualified bonds. If a school district cannot meet debt service, it

can borrow from the State Loan Revolving Fund (SLRF) The state treasurer can pay required debt service if notified of a deficiency by a paying agent for program-qualified bonds. If the state's SLRF balance cannot cover obligations, the state is required to use its GO pledge to make funds available. We rate program-qualified bonds on par with Michigan's GO rating; therefore, the program rating moves when we change the state's GO rating.

Dexter Community Schools, MI: Key Credit Metrics						
	Characterization	Most recent	Historical information			
			2022	2021	2020	
Economic indicators						
Population				21,802	21,957	
Median household EBI % of U.S.	Very strong			157.0	155.0	
Per capita EBI % of U.S.	Very strong			149.0	148.0	
Market value (\$000)		3,963,814	3,850,036	3,700,948	3,444,562	
Market value per capita (\$)	Extremely strong	181,810	176,591	169,753	156,878	
Top 10 taxpayers % of taxable value	Very diverse	6.0	6.3	6.7	6.9	
Financial indicators						
Total available reserves (\$000)			12,171	11,520	9,798	
Available reserves % of operating expenditures	Very strong		26.1	26.7	23.5	
Total government cash % of governmental fund expenditures			29.7	15.9	5.5	
Operating fund result % of expenditures			1.4	4.0	4.7	
Financial Management Assessment	Good					
Enrollment			3,417	3,387	3,628	
Debt and long-term liabilities						
Overall net debt % of market value	Moderate	3.5	3.1	3.6	4.2	
Overall net debt per capita (\$)	High	6,312	5,557	6,153	6,526	
Debt service % of governmental fund noncapital expenditures	Elevated		20.7	21.2	20.7	
Direct debt 10-year amortization (%)	Rapid	91.0	82.0	76.0	61.0	
Required pension contribution % of governmental fund expenditures			13.1	12.6	11.0	
OPEB actual contribution % of governmental fund expenditures			3.0	3.1	2.9	
Minimum funding progress, largest pension plan (%)			97.0	75.5	77.3	

EBI--Effective buying income. OPEB--Other postemployment benefits.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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