

RatingsDirect®

Summary:

Dexter, Michigan; General Obligation

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Summary:

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Credit Profile

US\$1.385 mil downtown dev rfdg bnds (ltd tax GO) (taxable) ser 2015 due 05/01/2033

<i>Long Term Rating</i>	AA/Stable	New
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Dexter Vill GO

<i>Long Term Rating</i>	AA/Stable	Upgraded
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Dexter Vill GO

<i>Unenhanced Rating</i>	AA(SPUR)/Stable	Upgraded
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Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) to 'AA' from 'AA-' on Dexter, Mich.'s general obligation (GO) bonds. At the same time, we assigned our 'AA' long-term rating to Dexter's series 2015 GO downtown development refunding bonds. The outlook is stable.

The upgrade reflects improved budgetary flexibility due to strong budgetary performance.

A pledge of the city's full-faith-credit-and-resources and an agreement to levy ad valorem property taxes within state limitations secure the bonds. For series 2015, the city will pledge tax increment revenues to pay debt service. Our rating is based on the city's full-faith-credit-and-resource GO pledge.

It is our understanding that officials will use bond proceeds to refund the series 2008A limited-tax GO downtown development bonds for interest cost savings only.

The long-term rating reflects our assessment of the following factors for the city:

- Strong economy, with market value per capita of \$116,286 and projected per capita effective buying income at 151% of the national level;
- Strong management, with "good" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating results that we expect could deteriorate in the near term relative to fiscal 2014, which closed with operating surpluses in the general fund and at the total governmental fund level;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2014 of 44% of operating expenditures, and the flexibility to raise additional revenues despite statewide tax caps;
- Very strong liquidity, with total government available cash of 99.9% of total governmental fund expenditures and 7.4x governmental debt service, and access to external liquidity we consider strong;
- Very weak debt and contingent liability position, with debt service carrying charges of 13.5% of expenditures and net direct debt that is 199.8% of total governmental fund revenue; and
- Strong institutional framework score.

Strong economy

We consider Dexter's economy strong. The city, with an estimated population of 4,336, is in Washtenaw County. The city has a projected per capita effective buying income of 151% of the national level and per capita market value of \$116,286. Overall, the city's market value grew by 9.5% over the past year to \$504.2 million in 2016. The county unemployment rate was 4.8% in 2014.

On Nov. 20, 2014, the Village of Dexter officially became the City of Dexter. The city is located on the banks of the Huron River in Washtenaw County and Ann Arbor is about 11 miles away. It is a growing community that offers a mix of commercial and residential interests. The city has made extensive upgrades to its infrastructure over the past several years.

Strong management

We view the city's management as strong, with "good" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis.

The city performs a line by line approach for its budgetary process with help from an internal model and has historical information that dates back at least 10 years but focuses on the prior two years when performing a current budget. The budget can be amended if needed and the council is updated on a budget to actual result on a quarterly basis.

The city has a long-term financial and capital plan that projects out five years and is updated annually and presented to the council. With respect to the capital plan, sources and uses are identified with each capital project.

The city does have its own investment policy and reports on a quarterly basis to its council members the holdings and performance. The city does not have a debt management policy but adheres to state guidelines.

There is a formal reserve policy that calls for the city to maintain reserves at least 15% of general fund revenues, which was designed to ensure cash flow for emergencies or periods of extreme revenue shortfall.

Strong budgetary performance

Dexter's budgetary performance is strong in our opinion. The city had operating surpluses of 7.7% in the general fund and 3.2% across all governmental funds in fiscal 2014. Our assessment accounts for the fact that we expect budgetary results could deteriorate somewhat from 2014 results in the near term.

The city has been making infrastructure improvements and these improvements have led to planned spend downs of the city's reserves from 2011 through 2013. The city has projected for a use of reserves in fiscal 2015 (June 30) of about 8.7%, which included using part of the 2014 surplus to make additional payments toward its other postemployment benefits (OPEB) and for capital costs. The city has adopted a 2016 budget that calls for a surplus of approximately 2.8%

Very strong budgetary flexibility

Dexter's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2014 of 44% of operating expenditures, or \$1.3 million. We expect the available fund balance will remain above 30% of expenditures for the current and next fiscal years, which we view as a positive credit factor. In addition, the city has the flexibility to

raise additional revenues despite statewide tax caps, which we view as a positive credit factor.

We expect the city's budgetary flexibility to remain very strong despite a projected deficit in fiscal 2015. Officials have adopted a positive fiscal 2016 budget and as such we expect the city's reserves to drop slightly below the 2014 level.

The city has capacity in its tax levying ability which if enacted (which officials state there are no plans to do so) could generate approximately \$500,000 of additional revenue, which represents about 16% of its total general fund revenues.

Very strong liquidity

In our opinion, Dexter's liquidity is very strong, with total government available cash of 99.9% of total governmental fund expenditures and 7.4x governmental debt service in 2014. In our view, the city has strong access to external liquidity if necessary.

The city has been issuing GO debt for the past 15 years. We do not expect the cash balance to change materially in the next two years with respect to total governmental expenditures and total governmental debt service. The city's investments are mainly in savings and checking accounts as well as certificates of deposit which we do not consider aggressive.

Very weak debt and contingent liability profile

In our view, Dexter's debt and contingent liability profile is very weak. Total governmental fund debt service is 13.5% of total governmental fund expenditures, and net direct debt is 199.8% of total governmental fund revenue.

Management has confirmed the city has no alternative financings. It is our understanding that there are no definitive debt plans in the next two years but management indicated there could be facility needs for public safety and/or city hall whereby residents may be approached to vote on.

The city contributes to the Michigan Municipal Employees' Retirement System, which is an agent multiple employer retirement system that covers 12 full time employees in a defined benefit plan. Employees hired after July 1, 2011, are part of a defined contribution pension plan.

Dexter's combined pension and OPEB contributions totaled 4.0% of total governmental fund expenditures in 2014. Of that amount, 1.1% represented contributions to pension obligations and 2.8% represented OPEB payments. The city made 154% of its annual required pension contribution in 2014.

The city provides health care benefits to four retirees in accordance with its respective labor contracts. The city addresses this liability on a pay-as-you-go basis. Employees hired after July 1, 2011, are not offered OPEB.

Strong institutional framework

The institutional framework score for Michigan municipalities with a population between 4,000 and 600,000 is strong.

Outlook

The stable outlook reflects our view that the city will maintain its very strong budget flexibility and liquidity profile. We do not expect to revise the rating within the two-year outlook period but if the budgetary performance or debt profile deteriorates to a level we feel is weak or very weak, the rating could be pressured. Consideration for a higher rating

would need improvement in the debt profile to a level we feel is at least adequate and improvement in the economy to a level we consider very strong, which we feel is unlikely during the two-year outlook period.

Related Criteria And Research

Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- USPF Criteria: Methodology: Rating Approach To Obligations With Multiple Revenue Streams, Nov. 29, 2011
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: Michigan Local Governments

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