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Moody's: Credit Pressure for Michigan School Districts Continues.

New York, November 30, 2015 — The ongoing loss of general funds, declining enrollment, and a lack of flexibility to raise revenue will continue to place significant stress on the credit quality of Michigan schools, Moody's Investors Service says in "K-12 Public School Districts: Michigan Schools' Widespread Credit Weakness Persists."

Moody's has downgraded 47 of the 206 Michigan (Aa1 stable) school districts it rates this year, and anticipates that number will rise over the remainder of fiscal 2016. Since 2009, Moody's has downgraded 150 Michigan school districts.

"The loss of fund balance serves as the largest driver of credit stress and downgrades. From fiscal 2005 through fiscal 2014, traditional Michigan school districts have lost 46% of their aggregate General Fund reserves," says Moody's Analyst Andrew Van Dyck Dobos.

Moody's says 41 of the 47 districts downgraded in 2015 have experienced a loss in General Fund reserves over the last five years, with a median decline of 45%.

The school districts have also endured additional difficulties, including sizable declines in their tax base, growing unfunded pension liabilities, and elevated debt ratios. Moreover, stagnant per-pupil state funding remains barely above the fiscal 2009 level.

"The current funding environment makes it extremely difficult for districts to significantly rebuild fund balances given the sector's lack of revenue-raising flexibility, decreasing enrollment, and increased fixed costs, including increases to annual pension contributions," Van Dyck Dobos says.

School district revenues have also suffered due to a statewide 12% enrollment decline during the last 10 years. Competition by charter schools and Michigan's "Schools of Choice" program allowing students to enroll in schools outside their residential district have benefitted some, while being a detriment to others. Statewide, 10% of Michigan students attend charters while 7% participate in Schools of Choice.

Despite these challenges, some districts are effectively tackling financial difficulties. Of the 58 that ended 2014 with a deficit, 41 improved or eliminated their deficit in fiscal 2015. The financial improvement of these districts points to the moderate effectiveness of the state's Deficit Elimination Plan (DEP) process.

The report is available to Moody's subscribers [here](#).