

MOODY'S AFFIRMS Aa3 RATING ON MARQUETTE AREA PUBLIC SCHOOL'S (MI) \$5.8 MILLION IN OUTSTANDING GENERAL OBLIGATION DEBT

NEW YORK, October 29, 2010 -- Moody's has affirmed the Aa3 rating on Marquette Area Public School's (MI) General Obligation Bonds, Series 2003 affecting \$5.8 million in debt outstanding.

RATING RATIONALE

The district's Series 2003 bonds are secured by its general obligation unlimited tax pledge. Affirmation of the Aa3 rating reflects the district's moderately-sized and growing tax base in Michigan's Upper Peninsula; narrowed financial operations due in large part to declines in enrollment and state funding pressures; and a manageable debt profile with no additional near-term borrowing planned.

GROWING TAX BASE SERVING AS REGIONAL HUB FOR MICHIGAN'S UPPER PENINSULA

The district's tax base, valued in 2009 at \$2.53 billion, has increased in taxable value at an average annual rate of 5.26% in the last five years. The district benefits from being one of the few areas in the state experiencing recent full value growth. It covers 123 square miles, encompassing portions of Marquette Township, Chocolay Township, Sands Township, and the City of Marquette. Marquette County wealth levels are below average with the per capita income at 81.5% and 83.7% of the US and state averages respectively. However, median home values in 2010 were healthy at \$170,000 helped by a significant number of non-primary residences. The district's tax base is primarily residential, making increases in home values the main driver behind tax base growth. Additionally, the district's economy benefits from seasonal tourism along with stable employers in Marquette General Health Systems (revenue debt rated Baa3 with stable outlook) and Northern Michigan University (revenue debt rated A1 with stable outlook).

NARROWING FINANCIAL POSITION WITH DECLINING ENROLLMENT

Recent pressures from declining enrollment and state aid reductions have significantly affected the district's once healthy financial position. Like most Michigan school districts, Marquette relies heavily on revenue from state sources which provide funding on a per pupil basis. Recent reductions in state aid have been somewhat mitigated by increases in federal funding. The district has budgeted a modest increase of \$11 in per pupil state funding in fiscal 2011. Additionally, the aging area population has led to a downward enrollment trend which has resulted in a 25% decline in students from 2000/2001 to the 2010/2011 school year. Management expects to record more modest enrollment declines in the near term.

The district has posted an operating deficit each of the previous four years, ending fiscal 2010 with a \$3.62 million General Fund balance, or a modest 13.3% of General Fund revenues. General Fund balance has decreased 58% from fiscal 2006, but still resides above the district's informal General Fund reserve policy of between 10% and 15% of General Fund revenues. The lack of programming cuts in conjunction with revenue declines have contributed to

expenditures being higher than revenues. However, the district has historically considered at least \$3 million of its General Fund balance as a Contingency Fund, and district officials expect to make expenditure cuts to keep reserves above this level. Reductions in salaries and capital outlays are expected to result in balanced operations in fiscal 2011. Additional financial flexibility for the district resides in a Capital Projects Fund which recorded an unreserved balance of \$2.93 million at the end of fiscal 2010, portions of which may be available in fund General Fund operations with Board approval. We expect the district's forward looking planning and commitment to protect existing reserves to yield balance sheet performance consistent with its current rating category.

MANAGEABLE DEBT PROFILE; NO ADDITIONAL BORROWING PLANNED

We expect the district's debt profile to remain manageable due to the district's stable taxable valuations and lack of future borrowing plans. The district's direct debt level is moderate at 0.2%. Debt amortization is rapid, with 100% of the principle retired within ten years. All of the district's debt is fixed rate and the district is not a party to any swap agreements. Management reports no plans to issue additional debt for capital needs in the next three to five years.

WHAT COULD CHANGE THE RATING- UP:

"Increased financial reserves consistent with levels of higher rated entities.

WHAT COULD CHANGE THE RATING- DOWN:

"Substantial deterioration in financial reserves providing limited financial flexibility

"Notable declines in tax base valuations and enrollment trends.

KEY STATISTICS

2009 Population (Estimated): 31,478

2010 Student Enrollment: 3,106

2009 FV: \$2.53 billion

2000 Per capita income (as % of state): 81.5%

2000 Median family income (as % of state): 86.6%

2010 General Fund balance: \$3.62 million (13.3% of General Fund revenues)

Net direct debt burden: 0.2%

Principal amortization (10 years): 100%

General Obligation debt outstanding: \$5.8 million

The principal methodology used in rating Marquette Area Public Schools, MI was General Obligation Bonds Issued by U.S. Local Governments rating methodology published in October 2009. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

REGULATORY DISCLOSURES

Information sources used to prepare the credit rating are the following: parties involved in the ratings, parties not involved in the ratings and public information.

Moody's Investors Service considers the quality of information available on the credit satisfactory for the purposes of maintaining a credit rating.

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Please see the Credit Policy page on Moodys.com for the methodologies used in determining ratings, further information on the meaning of each rating category and the definition of default and recovery.

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