

# RatingsDirect®

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## Summary:

# Traverse City Area Public Schools, Michigan; General Obligation

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### Credit Profile

US\$81.3 mil 2025 sch bldg and site bnnds (GO - unltd tax) ser 2025 due 05/01/2035

*Long Term Rating* AA-/Stable New

Traverse City Area Pub Schs GO

*Long Term Rating* AA-/Stable Affirmed

### Credit Highlights

- S&P Global Ratings assigned its 'AA-' rating to Traverse City Area Public Schools, Mich.'s roughly \$81.3 million series 2025 general obligation (GO) school building and site bonds.
- We also affirmed our 'AA-' rating on the district's existing GO debt.
- The outlook is stable.
- The rating reflects the application of its criteria, "Methodology For Rating U.S. Governments," published Sept. 9, 2024, on RatingsDirect.

### Security

An unlimited full-faith-and-credit pledge secures the series 2025 bonds and existing GO debt.

Officials intend to use series 2025 bond proceeds to finance:

- Athletic facility, classroom, and site improvements;
- Heating, ventilation, and air-conditioning upgrades; and
- Technology, bus, equipment, and furniture purchases.

### Credit overview

The roughly 300-square-mile district is primarily in Grand Traverse County and partially in Leelanau and Benzie counties with strong property tax base growth and an increasing population; however, enrollment, a major determinant of state aid and the leading operating revenue source at 50%-60% of revenue, has annually decreased by an average of 1.2% between fiscal years 2014 and 2025. Officials expect enrollment losses to slow, but operating pressure could emerge if enrollment loses were to continue or accelerate.

Officials adopted a fiscal 2025 general fund budget with a \$4.4 million deficit, or 3.6% of revenue; however, the district now expects a fund balance draw of \$2 million or less. Despite this, we expect it will likely maintain reserves at levels supportive of the current rating because officials think attrition will help promote budgetary balance and because they are forecasting slight enrollment growth and a foundation allowance increase in fiscal 2026.

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

- Large, mostly residential tax base, consisting of many second homes with annual taxable value and property tax revenue growth since fiscal 2014; historically, low taxpayer concentration, per capita gross county product, personal income, and local income are consistent with the median of similar-rated school districts across the nation;
- Positive operating results during the past several fiscal years due to management's conservative budgeting, per-pupil funding increases, and federal stimulus with the district receiving about \$20 million in COVID-19-related funding, or roughly 20% of operating revenue;
- Relatively weak reserves as a share of revenue for similarly-rated credits nationwide, albeit consistent on a dollar basis, with recent adherence to a policy that requires maintaining a minimum general fund balance of 10% of expenditures;
- Elevated current costs, partially overstated by rapid amortization and state pass-through payments for pension and other postemployment benefit costs; the district has about \$100 million of additional electorate-approved debt it currently plans to issue across two issuances in calendar years 2027 and 2029; we do not expect additional debt to create budgetary pressure because a dedicated unlimited property tax levy, at 3.1 mills for more than 20 years, secures the debt; and
- Solid financial management policies and practices, evidenced by its monthly budget-to-actual reporting to the school board, rolling multiyear financial projections, adherence to an investment-management policy, and goal of maintaining a 3.1-mill debt levy or less.
- For more information on our institutional framework assessment for Michigan school districts, see "Institutional Framework Assessment: Michigan Local Governments," published Sept. 9, 2024.

### Environmental, social, and governance

In our view, the district faces elevated social risk due to negative demographic trends, which could pressure long-term financial and economic prospects. Environmental and governance factors are neutral in our credit analysis; however, we note that the district was the victim of a ransomware attack in March 2024 that caused a three-day closure of its schools. The district did not pay the ransom, so the financial effects were limited to the amount of its cyber insurance deductible, and additional cyber-security measures have been implemented, with officials reporting that it is close to completing a forensic study.

### Outlook

The stable outlook reflects S&P Global Ratings' view that the district will likely maintain current finances during the two-year outlook, aided by COVID-19-related funding and a generally positive state funding environment.

### Downside scenario

We could lower the rating if the district were to enter a period of budgetary imbalance, leading to material reserve decreases. The likelihood of a lower rating could increase if enrollment losses were to accelerate, if it were to become apparent management used stimulus funds for budgetary balance, or if debt were to increase materially.

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### Upside scenario

We could raise the rating if the district were to maintain reserves at significantly higher levels, enrollment were to stabilize, and management were to implement more robust financial policies and practices.

**Table 1**

Traverse City Area Public Schools, Michigan--Credit summary	
Institutional framework (IF)	3
Individual credit profile (ICP)	2.43
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Management	2.65
Debt and liabilities	3.00

**Table 2**

Traverse City Area Public Schools, Michigan--Key credit metrics				
	Most recent	2024	2023	2022
<b>Economy</b>				
Real GCP per capita % of U.S.				87
County PCPI % of U.S.				96
Market value (\$000s)		22,544,761	18,909,810	16,575,506
Market value per capita (\$)		247,960	207,981	187,937
Top 10 taxpayers % of taxable value		3.1	3.1	3.0
County unemployment rate (%)		3.4	3.6	3.8
Local median household EBI % of U.S.			101	99
Local per capita EBI % of U.S.			107	107
Local population			90,921	88,197
<b>Financial performance</b>				
Operating fund revenues (\$000s)		128,162	123,323	111,054
Operating fund expenditures (\$000s)		126,625	123,027	108,648
Net transfers and other adjustments (\$000s)		(574)	440	264
Operating result (\$000s)		963	736	2,670
Operating result % of revenues		0.8	0.6	2.4
Operating result three-year average %		1.3	2.1	1.4
Enrollment		8,855	8,944	9,124
<b>Reserves and liquidity</b>				
Available reserves % of operating revenues		10.4	10.7	11.1
Available reserves (\$000s)		13,372	13,179	12,377
<b>Debt and liabilities</b>				
Debt service cost % of revenues		13.3	11.9	12.9
Net direct debt per capita (\$)	1,746	851	1,046	921
Net direct debt (\$000s)	158,711	77,410	95,100	81,210
Direct debt 10-year amortization (%)	93	100		
Pension and OPEB cost % of revenues		18.0	20.0	17.0

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**Table 2**

Traverse City Area Public Schools, Michigan--Key credit metrics (cont.)				
	Most recent	2024	2023	2022
NPLs per capita (\$)		2,139	2,464	1,600
Combined NPLs (\$000s)		194,438	224,005	141,090

Financial data may reflect analytical adjustments and are sourced from issuer audit reports or other annual disclosures. Economic data are generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. GCP--Gross county product. PCPI--Per capita personal income. EBI--Effective buying income. OPEB--Other postemployment benefits. NPL--Net pension liabilities.

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