

FITCH AFFIRMS FOREST HILLS PUBLIC SCHOOL DISTRICT'S (MICHIGAN) GOS AT 'AA+'

Fitch Ratings-Chicago-04 August 2009: In the course of routine surveillance, Fitch Ratings affirms the 'AA+' rating on Forest Hills Public Schools, MI's (the district) approximately \$72.5 Fitch-rated outstanding series 1999, 2000, 2002 and 2004 unlimited tax general obligation (GO) bonds. The Rating Outlook is Stable.

The 'AA+' rating reflects the district's sound financial management and trend of operating surpluses contributing to solid reserve levels, a wealthy economic base and moderate debt levels. The local and regional auto manufacturing and supplier presence is credit vulnerability, but is partially offset by an increase in healthcare and education employment. The taxable assessed value (TAV) declined slightly for fiscal 2010, but the district supplements its general operating levy with additional voted levies, and historically voter support has been strong.

The district, which had a 2007 estimated population of 43,760, serves a 68-square-mile region in the eastern suburbs of Grand Rapids in Kent County including the affluent communities of Ada, Cascade, and Grand Rapids Townships. Enrollment, presently 10,061, has grown at a solid pace historically reflecting the desirability of the community and the district's very strong academic performance and reputation. Indicative of regional economic pressures, the district's largely residential tax base experienced a 0.6% decline in TAV for fiscal 2010, the first in over ten years. However, market value per capita remains very strong at \$150,642. Reflective of the 15.6% manufacturing concentration in the county's employment base, unemployment in Kent County climbed to 12.5% in June 2009 from 7.1% when Fitch last rated the district. However, the county is fairing somewhat better than the state, which posted an unemployment rate of 15.4% during the same period.

The district closed fiscal 2008 with a net surplus of \$2.1 million, increasing its unreserved fund balance to \$12.4 million or 12.9% of spending. This level exceeds the 10% unreserved fund balance policy the district maintains. The district estimates a net surplus of approximately \$1 million in fiscal 2009 to add to reserve levels. The 2010 budget reveals a \$2.6 million deficit; however, actual results generally outperform the budget by a wide margin reflecting management's conservative financial approach and ability to control costs in-year.

Direct debt per capita is a manageable \$4,941 and 3.3% of market value and overall debt - primarily reflecting Ada and Cascade Townships, Kent County and Grand Rapids Community College - is moderate at \$5,945 per capita and 3.9% of market value. In 2007, district voters authorized the issuance of up to \$68 million in GO bonds for building renovations and remodeling. The district issued \$48.4 million in 2007 and will issue the remaining \$19.6 million no sooner than 2010; Fitch did not rate the 2007 issuance.

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