

San Joaquin Delta Community College District, California

General Obligation Bonds New Issue Report

Ratings

New Issue

General Obligation Bonds, Election of 2004, Series 2014C AA-

Outstanding Debt

General Obligation Bonds, Election of 2004, Series 2005A, 2006 and 2008B AA-

Rating Outlook

Stable

New Issue Details

Sale Information: \$35,000,000 General Obligation Bonds, Election of 2004, Series 2014C, to sell the week of July 28 via negotiation.

Security: Unlimited property tax on all taxable property within San Joaquin Delta Community College District.

Purpose: Various capital improvements.

Final Maturity: Aug. 1, 2038.

Key Rating Drivers

Sound Financial Position: The district has maintained healthy reserves despite a challenging state fiscal environment and severe economic declines. Financial operations have been consistently balanced.

Weak Local Economy: Income levels are below average, and both employment and assessed values (AVs) continue to suffer from steep declines in the recent downturn. The local economy has begun to show signs of recovery, but most economic indicators remain well below pre-recession peaks.

Strong Management: The district managed recent state funding shortfalls with minimal disruptions to its operations or finances and has taken steps to address key liabilities.

Satisfactory Debt Profile: Overall debt levels and carrying costs for debt and retiree benefits are moderate. Rising pension contributions are likely to pressure the district's finances over the next several years, but management appears prepared to address these increases with offsetting budget reductions.

Rating Sensitivities

Maintenance of Financial Position: An unanticipated and substantial reduction in reserves would create downward pressure on the rating.

Related Research

[Fitch Rates San Joaquin Delta CCD, CA's GO's at 'AA-'; Outlook Stable \(July 2014\)](#)

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Rating History

Rating	Action	Outlook/ Watch	Date
AA-	Affirmed	Stable	7/23/14
AA-	Affirmed	Stable	3/25/13
AA-	Affirmed	Stable	3/31/11
AA-	Revised	Stable	4/30/10
A+	Affirmed	Stable	6/6/08
A+	Affirmed	Positive	5/22/06
A+	Assigned	Stable	1/19/05

Credit Profile

The district serves a 2,300-square-mile service area in economically stressed San Joaquin County, as well as small portions of Alameda, Calaveras, Sacramento and Solano counties. With an estimated population of over 725,000, the district provides educational services to approximately 24,000 students. Services are provided at the district’s main campus in the city of Stockton (the city) and its learning centers in Tracy and Manteca.

Stockton Region Hard-Hit by Recession

The city historically has been dominated by agriculture, despite some recent diversification, and is located between the two large employment centers of the San Francisco Bay Area and the Sacramento region. Population growth was rapid prior to the recession, fueled by the area’s affordability and availability of land. However, the city and county were severely affected by the housing-led recession.

The county’s housing market was one of the most affected in the nation, with peak-to-trough price declines of nearly two-thirds. These real estate losses resulted in cumulative AV declines of 19.2% for the district over a four-year period before a return to growth in fiscal 2013. The district experienced healthy AV growth of 5.4% in fiscal 2014 and appears poised for further gains as a result of recent home price increases. Home values remain depressed relative to pre-recession levels, despite these improvements. June 2014 home values reported by Zillow.com for San Joaquin County were 22.6% above prior-year levels, but remained 45% below 2005 peaks.

Local employment also remains depressed, with a county unemployment rate of 10.3% as of May 2014 compared with state and national rates of 7.1% and 6.1%, respectively. Median household incomes are approximately 88% of the state average.

Sound Financial Operations

The district has maintained consistently balanced financial operations despite recent state funding and local property tax declines. Although state apportionment revenues fell by nearly 14% between fiscal years 2011 and 2012, reserves remained healthy at approximately 11.5% of general fund spending.

Total fund balances rose to approximately 14% of general fund spending in fiscal 2013, and management projects balanced results for fiscal 2014. Additional budgetary flexibility is provided by approximately \$24 million (equivalent to 25% of 2014 general fund spending) held outside the district’s general fund in reserves for capital, self-insurance and retiree benefits.

Financial prospects for the district appear positive with the recent improvement in state revenue collections. However, the district continues to depend on the state for nearly two-thirds of general fund revenues and remains vulnerable to its volatile finances.

Strong Management

The district benefits from an experienced management team that has deftly handled state funding decreases while developing plans to address key financial challenges. To address a sizable other post-employment benefit (OPEB) liability, the district has closed its plan to new members and established an internal reserve fund, now in excess of \$5 million, with plans to increase it to \$21 million by 2026. Management projects that these efforts will allow the district to cap its annual contributions to OPEBs by 2026, relieving a growing budgetary pressure.

Related Criteria

[Tax-Supported Rating Criteria \(August 2012\)](#)

[U.S. Local Government Tax-Supported Rating Criteria \(August 2012\)](#)

The district has also begun work on a comprehensive deferred maintenance and capital improvement program to address capital requirements outside of its bond program. Funding has been identified for approximately \$10 million of \$15 million in needs projected over the next several years. Management expects to extend the planning horizon for this program to 10 years and to incorporate additional funding into future budgets. Approximately \$2 million in funding is planned to come from fiscal 2014 budgetary savings.

Financial Summary

(\$000, Audited Fiscal Years Ended June 30)

	2009	2010	2011	2012	2013
Operating Revenues					
Student Tuition and Fees	10,263	12,774	12,365	16,500	19,488
Less: Scholarship Discount and Allowances	(5,072)	(6,913)	(7,647)	(11,034)	(13,364)
Net Tuition and Fees	5,190	5,862	4,718	5,466	6,125
Grants and Contracts, Noncapital:					
Federal	25,761	32,939	13,572	9,278	8,847
State	16,811	16,175	12,151	11,525	13,178
Auxiliary Enterprise Sales and Charges	9,380	7,694	7,624	6,670	7,379
Total Operating Revenues	57,142	62,669	38,066	32,939	35,529
Operating Expenses					
Salaries and Benefits	91,378	82,517	79,352	80,891	78,279
Supplies, Materials and Other Operating Expenses and Services	48,044	52,302	67,941	60,350	57,890
Equipment, Maintenance and Repairs	2,710	1,046	821	479	987
Depreciation	4,090	4,796	6,188	7,814	7,966
Total Operating Expenses	146,223	140,662	154,303	149,533	145,121
Loss From Operations	(89,081)	(77,993)	(116,237)	(116,594)	(109,593)
Non-Operating Revenues					
State Apportionments — Noncapital	49,277	49,009	53,079	46,648	47,716
Local Property Taxes	26,880	25,038	24,387	29,061	23,243
State Taxes and Other Revenues	2,641	2,865	405	404	272
Pell Grants	—	—	32,111	30,655	27,874
Investment Income — Noncapital	2,969	823	602	369	252
Investment Income — Capital	232	82	23	—	—
Interest expense — Capital Asset-Related Debt, Net	(10,199)	(10,790)	(9,997)	(6,693)	(7,616)
Loss on Disposal of Assets, Net	—	—	(5,147)	(254)	35
Other Non-Operating Revenue	6,872	2,879	2,837	3,740	2,111
Total Non-Operating Revenues	78,673	69,906	98,299	103,930	93,886
Loss Before Capital Revenues	(10,408)	(8,087)	(17,939)	(12,664)	(15,706)
Capital Revenues					
Grants and Gifts, Capital	742	440	14,286	3,211	303
Property Taxes	11,582	11,899	11,528	5,465	12,822
Total Capital Revenues	12,324	12,338	25,814	8,676	13,125
Change in Net Assets	1,916	4,252	7,875	(3,988)	(2,581)
Net Assets, Beginning of Year, as Previously Reported	89,467	93,638	97,889	105,663	101,675
Restatement	2,255	—	(102)	—	—
Net Assets, Beginning of Year	91,722	93,638	97,787	105,663	101,675
Net Assets, End of Year	93,638	97,889	105,663	101,675	99,093

Note: Numbers may not add due to rounding.

Satisfactory Debt Profile

The district's overall debt burden is moderate at approximately \$3,701 per capita, or 4.7% of AV. Amortization is average, with 46% of principal due for repayment over the next 10 years. Carrying costs for debt service and retiree benefits are affordable at approximately 14% of operating and non-operating expenditures. Following the current issuance, the district will retain approximately \$33 million in GO authorization, and is considering a subsequent issuance in 2016 that would not materially impact its debt burden.

District employees participate in two state-sponsored pension plans, each of which has announced substantial increases in contribution rates over the next several years. The district has begun to build such increases into multiyear budget projections and expects to fund them from existing resources.

Debt Statistics

(\$000)	
This Issue	35,000
Outstanding Direct Debt — Net of Refunding	118,118
Accreted interest	50,419
Self-Supporting	—
Total Net Direct Debt	203,537
Overlapping Debt	2,479,488
Total Overall Debt	2,683,025
Debt Ratios	
Net Direct Debt Per Capita (\$) ^a	281
As % of Assessed Value ^b	0.4
Overall Debt Per Capita (\$) ^a	3,701
As % Assessed Value ^b	4.7

^aPopulation: 725,000 (2014 estimate). ^bAssessed value: \$57,041,728,000 (2013). Note: Numbers may not add due to rounding.

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