MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 rating to San Joaquin Delta CCD's (CA) GO Bonds

Global Credit Research - 24 Jul 2014

Approximately $153.1 million affected

SAN JOAQUIN DELTA COMMUNITY COLLEGE DISTRICT, CA
Community College Districts (Tax-backed)
CA

Moody's Rating

ISSUE	RATING
General Obligation Bonds, Election of 2004, Series 2014C	Aa2

Sale Amount	$35,000,000
Expected Sale Date	08/04/14
Rating Description	General Obligation

Moody's Outlook NOO

Opinion

NEW YORK, July 24, 2014 --Moody's Investors Service has assigned an Aa2 rating to San Joaquin Delta Community College District's General Obligation Bonds, Election of 2004, Series 2014C. We have also affirmed the Aa2 rating on the district's currently outstanding general obligation bonds.

RATING RATIONALE

The rating assignment reflects the district's assessed valuation, which remains sizeable despite several years of contraction and in 2014 produced its strongest rate of expansion since the downturn. The rating also incorporates the district's satisfactory and stable fiscal position that will expect will remain consistent with current levels of reserves. The district's debt position is typical and unlikely to materially change within the foreseeable future. The district's general obligation bonds are secured by the district's voter-approved unlimited property tax pledge. The county rather than the district will levy, collect, and disburse the district's property taxes, including the portion constitutionally restricted to pay debt service on general obligation bonds.

STRENGTHS

-Well sized assessed valuation

-Gradually improving economy

-History of stable operating results

-Improved funding environment for California community college districts

CHALLENGES

-Area remains economically pressured

-General fund reserves moderately below average for the sector

DETAILED CREDIT DISCUSSION

WELL SIZED ASSESSED VALUATION DESPITE ECONOMIC PRESSURE

The district's assessed valuation has begun to recover from multiple years of decline suffered as a result of the housing market downturn and recession. Despite the impacts of the assessed valuation contraction, the tax base remains well sized for the rating level . We anticipate modest tax base growth in fiscal 2015 and do not expect any material changes to the assessed valuation that would pressure the rating by this factor alone.

The district's largest cities include Stockton, Lodi, and Tracy which, have traditionally been major agricultural and food processing centers. Approximately 7% of the workforce is employed on farm operations, which is well above the state average. However, the largest employment sectors are education, retail, and government with San Joaquin County being the largest single employer in the area.

The district's service area was one of the state's housing boom and bust focal points. In 2002, the district's assessed valuation grew by 10% and grew at double digits for the next six years including a peak growth of 17.5% in 2007 at the height of the housing market. Starting in 2008, the district's assessed valuation declined for five straight years and contracted in four of those years including a 9.7% drop in 2010. However, the district's 2014 assessed valuation represented its second consecutive year of growth. The 5.4% increase was the district's largest since 2008. The tax base is currently $60.1 billion despite the recent economic pressures and remains exceptionally large for a Moody's-rated general obligation bond issuer and well sized for the California community college district sector. Preliminary projections from the county indicate that 2015 will produce additional growth of about 4% to 5%. Much of the new growth and development is taking place in Lodi where a winery is in the midst of a four year $300 million expansion that will be completed in 2018.

The local economy still remains pressured. Median family incomes in San Joaquin county are still only 94% of the national median and 87% of the state mark. San Joaquin's unemployment rate has typically been well above the state and national average. Though it has come down from 17.3% at its peak in 2010, the current 12.8% unemployment rate still well outpaces the state and national figures.

ADEQUATE FISCAL POSITION THAT WILL REMAIN STABLE

The district's has maintained an adequate fiscal position with a financial profile moderately weaker than typical for the rating level though it has remained largely stable despite the recently challenging funding environment for California community college districts.

The district is currently expecting to finish fiscal 2014 with a general fund balance equal to 13.7% of total general fund revenues. Prior to fiscal 2014, the three-year general fund balance averaged 13.2%. Though this is somewhat below the median for a Moody's-rated California community college district, it has remained stable a credit positive considering the deterioration of reserves of many district during this period. The 2014 projection also reflects essentially level operations with a surplus less than 1% of general fund revenues. The district has absorbed only one deficit since 2010 during a time when state funding for community colleges was very pressured. The deficit was fairly moderate at 3.3% of revenues.

For fiscal 2015, the district has budgeted for a $2.9 million reduction in reserves. However, this budgeted weakening of reserves is consistent with the district's practice of taking a very conservative view of expenditures. In each of the last three years, the district's actual ending fund balance has been greater than the amount projected in the original budget. In 2015, the district's projected deficit is primarily a function of a planned loan to its foundation in support of a scholarship program. The district's fiscal position is likely to continue to remain stable assuming that it once again out performs budgeted expectations.

MANAGEABLE DEBT BURDEN

Following the current sale, the district's direct debt obligations will be a very small 0.3% of the district's total assessed valuation. This number should continue to fall as the assessed valuation grows since the district has no additional debt issuance plans. All of the district's debt is fixed rate and does not include any derivative agreements.

Moody's adjusted net pension liability (ANPL) for the District, under our methodology for adjusting reported pension data, is a modestly slightly above-average 1.22 times operating revenues, compared to less than 1 times on average in the sector as of 2011. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities.

WHAT COULD MAKE THE RATING GO UP:

- Significant strengthening of financial profile

- Material growth of the district's assessed valuation and wealth levels

WHAT COULD DRIVE THE RATING DOWN:

- Material weakening of financial profile

- Significant deterioration of tax base

KEY STATISTICS

Assessed value, 2014: $60.1 billion

A.V. per capita: $89,095

Estimated Median family income, 94% of national median

General Fund balance, FY 2013: 13.6% of total general fund revenues

Institutional framework: A

5 -year average operating revenues/operating expenditures: 1.00x

Net direct debt/full value: 0.3%

Net direct debt/ operating revenue: 1.61x

3-year average adjusted net pensions liability/full value: 0.20%

3-year average adjusted net pensions liability/operating revenues: 1.22x

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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