



Office of Fiscal Services
San Joaquin Delta Community College District

Interoffice Memorandum
August 4, 2014

To: Planning and Budget Committee

From: Raquel Puentes-Griffith, Controller

Re: District Bond Credit Ratings Affirmed

Background

Bond credit ratings are the equivalent to an individual's credit score and are designed to gauge the risk that a bondholder will not receive a portion or all of the interest and principal payments they are due on a bond. Different borrowers (bond issuers) have different abilities to repay their debt.

In preparation of the District's Series 2014C \$35 million bond issuance, the Controller and the District financial advisor engaged in surveillance credit reviews with representatives from the three major ratings agencies - Moody's, Standard and Poor's, and Fitch. The review included a comprehensive financial analysis and discussion on the District's recent financial performance, short and long-term financial planning, financial management, and external economic factors. Out of that extensive evaluative process, all three credit rating agencies affirmed the District's current bond credit rating. This credit rating determines the costs the District will pay to borrow funds and the ability to retain favorable debt structuring.

Below is a summary of the District's bond ratings from the three agencies issued in July 2014. The complete reports are posted at: <http://www.deltacollege.edu/dept/business/budget/Ratings.html>.

Status

Moody's has assigned an Aa2 rating. They have also affirmed the Aa2 rating on the District's currently outstanding general obligation bonds.

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 Moody's expects will remain consistent with the current levels of reserves. The District's debt portion 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:

- The area remains economically pressured
- General fund reserves are moderately below average for the sector

Standard & Poor's (S&P) has assigned the SJDCCD Series 2014C General Obligation (GO) bonds an A+ rating and has affirmed its A+ underlying rating on the district's GO bonds outstanding. The outlook is stable.

The ratings reflect S&P's view of:

- District's strong financial performance and maintenance of fund balance despite state funding cutbacks;
- The operational flexibility provided by the District's ability to reduce class sections and curriculum, if required;
- The District's good financial management practices.

The preceding credit strengths are partly offset by:

- Several years of decline in the District's assessed value (AV)
- The District's high unemployment, and
- The District's moderate debt burden.

Fitch Ratings has assigned the SJDCCD Series 2014C General Obligation (GO) bonds an AA- rating with a stable outlook.

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.

Bond Credit Rating Table

	Moody's	S&P	Fitch	Meaning
Investment Grade	Aaa	AAA	AAA	Prime
	Aa1	AA+	AA+	
	Aa2	AA	AA	High Grade
	Aa3	AA-	AA-	
	A1	A+	A+	Upper Medium Grade
	A2	A	A	
	A3	A-	A-	
	Baa1	BBB+	BBB+	Lower Medium Grade
	Baa2	BBB	BBB	
	Baa3	BBB-	BBB-	