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Summary:

San Joaquin Delta Community College District, California; General Obligation

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Credit Profile

San Joaquin Delta Comnty Coll Dist GO

Unenhanced Rating

A+(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'A+' long-term rating and underlying rating (SPUR), with a stable outlook, on San Joaquin Delta Community College District, Calif.'s general obligation (GO) bonds.

The rating reflects our opinion of the district's:

- Strong financial performance and maintained fund balance despite previous state funding cutbacks;
- Operational flexibility provided by its ability to reduce class sections and curriculum, if required; and
- Good financial management practices.

We believe the rating is somewhat offset by, what we consider, the district's:

- Decreasing assessed value (AV),
- High unemployment, and
- Moderate debt.

Unlimited ad valorem taxes levied on taxable property in the district secure the GO bonds.

San Joaquin Delta Community College District encompasses approximately 2,300 square miles and serves most of San Joaquin County and small portions of Alameda, Calaveras, Sacramento, and Solano counties. Located about 80 miles east of San Francisco and 50 miles south of Sacramento, San Joaquin County's economy has historically been a major agricultural producer. County median household and per capita effective buying incomes are, in our opinion, an adequate 102% and a good 82%, respectively, of national levels. Consistent with the county's agricultural base, county unemployment has been higher than state and national rates. As of December 2012, county unemployment was a high 14.5% compared with 9.7% for California and 7.6% for the nation. District AV has been decreasing since fiscal 2008, and AV has decreased by a cumulative 18.2% to \$56.9 billion in fiscal 2013; this translates to, what we consider, a very strong \$81,786 per capita.

Historically, enrollment has been slightly above the state-imposed funding cap. Over the past few fiscal years, the state has reduced the funded target; in addition, management has been striving to contain the number of unfunded full-time equivalent (FTE) students, easing budgetary pressure. Audited reports indicate the district had about 16,457 FTE students in fiscal 2012. Management aims to maximize the state's funding for its 2013 FTEs.

In our view, finances are strong with the district maintaining available fund balances above 11.5% of general fund expenditures since fiscal 2010. After reporting two consecutive general fund operating surpluses, the district posted a \$2.9 million deficit in fiscal 2012 that brought available general fund balance to \$10.4 million, which, in our view, is a strong 11.7% of expenditures. In addition, the district notes it had additional funds outside the general fund that could be available for operations, including about \$4.7 million set aside for future retiree health benefits. The district reported a deficit in fiscal 2012 due primarily to midyear funding reductions and a shortfall in other expected revenue, including student fees. We understand the district paid off bus lease and retirement incentives, which officials planned to amortize over the next five years. Management indicates that due to its expenditure reduction measures, it expects to end fiscal 2013 with an available general fund balance of \$11 million-\$12 million. In fiscal 2012, state appropriations accounted for 32% of revenue followed by property taxes at 20%.

Standard & Poor's considers the district's financial management practices "good" under its Financial Management Assessment methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them.

We consider overall net debt burden a moderate \$3,221 per capita, or 3.9% of market value.

The district participates in the California State Teachers' Retirement System and the California Public Employees' Retirement System. It made 100% of the required contributions of \$4.4 million, or 2.8% of expenditures, in fiscal 2012. The district provides other postemployment benefits for its retirees, which it funds through pay-as-you-go financing; in fiscal 2012, the district contributed about \$4.2 million, or 49.2% of the annual required contribution. As of Jan. 1, 2012, the most recent actuarial valuation, the \$104.5 million actuarial accrued liability was 0% funded.

Outlook

The stable outlook reflects Standard & Poor's opinion of the district's record of maintaining its strong general fund position and Standard & Poor's expectation that management will likely continue to balance the budget and maintain fund balances at current levels. We do not expect to change the rating during the outlook's current two-year period. If management were unable to balance the budget, and if fund balance were to decrease below, what we consider, good levels, however, we could lower the rating. Conversely, if the district were to manage unfunded FTEs, and if it were to raise and maintain fund balance at, what we consider, very strong levels, we could raise the rating.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006

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