



## Rating Update: Moody's affirms the San Joaquin Delta Community College District's (CA) long term general obligation rating at Aa2

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Global Credit Research - 21 Jun 2012

### Affirmation affects \$143.5 million of outstanding rated debt

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

### Opinion

NEW YORK, June 21, 2012 --Moody's Investors Service has affirmed the Aa2 rating on San Joaquin Delta Community College District's (CA) long-term general obligation bonds on approximately \$143.5 million in rated outstanding debt secured by the district's unlimited tax pledge.

### RATINGS RATIONALE

The affirmation of the Aa2 reflects the district's very large and agricultural tax base, characterized by below average wealth indices, and the relatively low debt burden. The Aa2 rating also reflects the district's trend of satisfactory financial operations that will be challenged in upcoming years given state aid reductions and limitations to raise property taxes.

### STRENGTHS

- Very large tax base
- Manageable debt profile

### CHALLENGES

- Reserve levels pressured by state aid cuts
- Below average wealth and income levels

### FINANCIAL POSITION EXPECTED TO BE CHALLENGED BY FUTURE STATE AID CUTS

Moody's expects the district's fiscal position will decline in future years due to state aid cuts in fiscal 2012 and 2013. The district ended fiscal 2011 with a General Fund balance of \$13.2 million (15.7% of revenues) after a surplus of \$2.5 million. It also has \$3.2 million in its Redevelopment Agency Fund that can be used for operations. In fiscal 2012, the district anticipates ending with an operating deficit of \$3.5 to \$4 million bringing projected year ending fund balance to between \$9.2 and \$9.7 million (between 11.7% and 12.1% of revenues). This includes \$2.8 million in expenditure reductions, a mid-year state aid cut of \$1.7 million, and a budgeted \$6.4 million in state aid reductions. The district will also rely on TRANS to meet its cash obligations throughout the fiscal year. In fiscal 2013 through fiscal 2015, the district has developed several scenarios depending on the November outcome of the state's proposed tax measure. Under the best case scenario, the district anticipates only \$3.5 million potential expenditure reductions through vacant positions in fiscal 2013 and \$8 million over the subsequent two years for a total of \$11.5 million in expenditure cuts. Under the worst case scenario, the district may have to implement up to \$15 million in expenditure cuts over the next three years. The cuts will be a combination of instructional program reductions/eliminations, operational and staff reductions along with overall labor concessions. Furlough days are expected to be a key component to meet those planned reduction targets.

### LARGE SAN JOAQUIN VALLEY TAX BASE SIGNIFICANTLY IMPACTED BY THE HOUSING DOWNTURN

The district has a large San Joaquin Valley tax base that is still largely agricultural though recent growth has been fueled by residential construction. The district's largest cities include Stockton, Lodi, and Tracy which, have

traditionally been major agricultural and food processing centers. As is typical of agricultural areas, district resident income and employment levels are somewhat low for the rating level. District residents earned per capita and median family incomes that are, respectively, only 76.4% and 88.4% of the state median. The district's unemployment levels also historically outpace that of the state reflecting the seasonal nature of many area jobs. However, the district's total assessed value of \$58.9 billion is above the median for the rating level and is partly a function of the sheer size of the district. The district covers approximately 2,300 square miles thereby making it one of the larger districts in the state in terms of geographic area. The assessed value has grown at an average annual rate of only 1.6% over the last five years after a 15.1% decline in 2010 and a 3.9% decline in 2011. Full value per capita is moderate at \$86,864.

#### MANAGEABLE DEBT BURDEN

Moody's anticipates that the district's low and manageable debt burden of 0.2% of full valuation will continue to decline given the absence of future debt plans and an average amortization of principle (52.8% retired within ten years). All of the district's debt is fixed rate and does not include any derivative agreements.

#### WHAT COULD MAKE THE RATING GO UP:

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

#### WHAT COULD DRIVE THE RATING DOWN:

- Significant reduction of state aid leading to further draws on reserves
- Significant deterioration of tax base

#### Key Statistics

2011 Full Valuation: \$58.6 billion

2011 Full Value Per Capita: \$86,864

Direct Debt Burden: 0.2%

Payout of Principal (10 years): 52.8%

FY 2011 General Fund Balance: \$13.2 million (15.7% of revenues)

#### RATING METHODOLOGY

The principal methodology used in this rating was General Obligation Bonds Issued by U.S. Local Governments published in October 2009. Please see the Credit Policy page on [www.moody.com](http://www.moody.com) for a copy of this methodology.

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