

# RatingsDirect®

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## Summary:

# San Joaquin Delta Community College District, California; General Obligation

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### Credit Profile

US\$35.0 mil GO bnds ser 2014C due 08/01/2038

*Long Term Rating*

A+/Stable

New

## Rationale

Standard & Poor's Ratings Services assigned its 'A+' rating to San Joaquin Delta Community College District, Calif.'s election of 2004, series 2014C general obligation (GO) bonds. At the same time, Standard & Poor's affirmed its 'A+' underlying rating (SPUR) on the district's GO bonds outstanding. The outlook is stable.

The ratings reflect our view of:

- The 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; and
- The district's good financial management practices.

In our opinion, the preceding credit strengths are partly offset by:

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

Unlimited ad valorem taxes levied on taxable property in the district secure the GO bonds. The county board of supervisors has the power and obligation to levy these taxes at the district's request for the bonds' repayment. The county is required to deposit such taxes, when collected, into the bonds' debt service fund.

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 has historically been a major agricultural producer. In our view, the county's median household effective buying income (EBI) is good, at 101% of the national median, and its per capita EBI is adequate, at 78% of the national level. Consistent with the county's agricultural base, county unemployment has been higher than the state and national rates. As of April 2014, San Joaquin County unemployment was 11.7%, which we consider high, and which was well in excess of California's 7.3% rate and the nation's 5.9% average. District AV declined in each year from fiscal 2008 to fiscal 2012, and by 18.1% overall during that time. However, in fiscal 2013 district AV was flat and then rose by 5.4% year over year in fiscal 2014, resulting a total AV of \$60.1 billion, or \$84,900 per capita, which we consider very strong.

Historically, enrollment has been slightly above the state-imposed funding cap. The state has reduced the funded

target during the past few fiscal years; in response, 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 15,320 FTE students in fiscal 2013, which was about 94 students over the state-funded amount. The district aims to maximize the state's funding in fiscal 2014, and its 15,472 FTEs matched the state-funded FTE total. Management anticipates the district's funded FTEs will match the state-funded FTEs in the future.

In our view, the district's finances are strong; the district has reported positive operations in three of the last four audited fiscal years and estimates positive operations again in fiscal 2014. The district ended audited fiscal 2013 with \$10.3 million in the unrestricted general fund, or 11.8% of general fund expenditures, which we consider good. For fiscal 2014, the district has budgeted to end the year with a roughly \$100,000 to \$200,000 surplus in the unrestricted general fund. However, due to increased expenditures in fiscal 2014, management expects reserves as a percentage of expenditures will decline slightly. For fiscal 2015, the district is budgeting to have close to balanced operations. Also, the district has an additional \$5.3 million in its Internal Service Fund; this balance is outside the general fund and has been set aside for future retiree health benefits, though it could be available for operations if necessary.

Standard & Poor's considers the district's financial management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. In fiscal 2012, the district did adopt a formal reserve policy of a minimum 5% of expenditures.

Including this issuance, the district's overall net debt burden is moderate, in our view, at roughly \$3,700 per capita, or 4.4% 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 5.0% of general fund expenditures, in fiscal 2013. The district provides other postemployment benefits for its retirees, which it funds through pay-as-you-go financing; in fiscal 2013, the district contributed about \$4.5 million, or 52.6% of the annual required contribution. As of Jan. 1, 2014, the most recent actuarial valuation, the \$87.7 million actuarial accrued liability was 0% funded.

## **Outlook**

The stable outlook reflects our opinion of the district's maintenance of its strong general fund position and our expectation that management will likely continue to balance the budget and maintain fund balances at current levels. We do not expect to change the ratings during the two-year outlook time frame. However, if management is unable to balance the budget and the fund balance drops to below a good level, we could lower the ratings. Conversely, if the district manages unfunded FTEs and increases its fund balance to and sustains it a very strong level, we could raise the ratings.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013

Ratings Detail (As Of July 24, 2014)		
<b>San Joaquin Delta Comnty Coll Dist GO</b>		
<i>Unenhanced Rating</i>	A+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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