S&P Global
Ratings

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Summary:

Chabot-Las Positas Community College District, California; General Obligation

Primary Credit Analyst:
Kaiti Wang, San Francisco (1) 415-371-5084; kaiti.wang@spglobal.com

Secondary Contact:
Jennifer Hansen, San Francisco (1) 415-371-5035; jen.hansen@spglobal.com

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Summary:

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Credit Profile		
US$250.0 mil GO rfdg bnds ser 2016 due 08/01/2046		
Long Term Rating	AA-/Stable	New
Chabot-Las Positas Comnty Coll Dist GO rfdg bnds		
Long Term Rating	AA-/Stable	Upgraded
Chabot-Las Positas Comnty Coll Dist (Election of 2004) GO (AGM) (SEC MKT)		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded
Chabot-Las Positas Comnty Coll Dist GO		
Unenhanced Rating	AA-(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'AA-' from 'A+' on Chabot-Las Positas Community College District (CCD), Calif.'s general obligation (GO) bonds outstanding. The upgrade is based on our view of the district's maintenance of good operations in the past three audited years, which has kept reserves at a level we consider strong. At the same time, we assigned our 'AA-' long-term rating to the district's series 2016 GO refunding bonds. The outlook is stable.

The ratings further reflect our view of the district's:

- Full participation in the deep and diverse San Francisco Bay Area MSA, with strong to extremely strong income and wealth indicators;
- Very diverse tax base, which has grown in recent years;
- Projected surplus for fiscal 2016 that would bring reserves to very strong levels in our view; and
- Expenditure flexibility common to community college districts as a result of the ability to independently set course offerings.

In our opinion, the preceding strengths partly offset by the district's slow debt amortization.

Revenue from unlimited ad valorem taxes levied on taxable property within the district secures the district's GO bonds. The Alameda 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. The 2016 bonds will refund the district's series 2006B, 2006C, and 2006 GO refunding bonds.

The CCD was founded in 1961 and serves the San Francisco East Bay Area, particularly southern Alameda County, through its two colleges: Chabot College in Hayward and Las Positas College in Livermore. The colleges specialize in university transfer, technical training, continuing education, workforce development, and contract education. The two campuses are within an easy commute of Oakland and San Francisco. Most of the district's operating revenue comes from state funding allocated based on full-time equivalent students (FTES). In fiscal 2015, the district had 17,197 funded students and no unfunded students, and for fiscal 2016 the district projects an increase to 17,362 funded students. The district reports its funded cap is 17,500. For fiscal 2017, the district has budgeted for 17,230 FTES, a conservative figure as it can be funded based on the prior year's FTES. We understand the district has implemented enrollment initiatives such as marketing to increase FTES, which could increase revenues. District officials also expect that a slackening economy could lead to increases in enrollment over the next cycle of economic downturn. Furthermore, several residential developments occurring within the district's boundaries could foster population growth and long-term enrollment potential.

The CCD has maintained a strong financial position in the past three audited years as state funding improvements supported a strong trend of operations with general fund operating surpluses from fiscal 2013 through fiscal 2015. By fiscal 2015, the CCD's unrestricted general fund balance reached $16.3 million, or 13.6% of expenditures, which we consider strong. The district projects a fiscal 2016 year-end operational surplus of $8 million, a result made possible by significant one-time funding from the state, according to the district. The district has earmarked some of these funds for scheduled maintenance and instructional equipment in future years. Fiscal 2016 reserves are projected to reach $24.2 million, or a very strong 18% of expenditures. This is well above the 5% level mandated by the state. The district's tentative fiscal 2017 budget shows an unrestricted general fund surplus of $1.2 million, with reserves at 22% of expenditures, which we consider very strong.

The CCD serves nine cities throughout Alameda and Contra Costa counties and has an estimated resident population of approximately 677,000. More than 99% of the tax base is located in Alameda County, and a very small portion is located in Contra Costa County. Alameda County's income levels are above average, in our view, with median household effective buying income (EBI) and per capita EBI at 133% and 129% of the national averages, respectively.

Like many California regions, assessed valuation (AV) within the CCD has risen in recent years. During the past three years, the CCD's AV increased at an average annual rate of 6.5% to reach $104 billion in fiscal 2016. Market value per capita remains extremely strong, in our opinion, at approximately $153,503. We consider the CCD's tax base to be very diverse, with the leading 10 taxpayers representing just 2.7% of total AV.

We revised to "standard" from "good" our assessment of the district's management practices under our financial management assessment (FMA) methodology. An FMA of "standard" indicates our view that the finance department maintains adequate policies in most but not all key areas. The revision reflects clarification from the district on its financial forecasting and investments monitoring practices. The district budgets revenues based on available external state revenue assumptions and using an internal committee to track FTES, while expenditures include reasonably conservative assumptions on cost growth. The district's board reviews budget-to-actuals at least quarterly, with mechanisms to amend the budget. However, there is no financial forecasting for future years beyond anticipated rate increases for pension costs. Other highlights of the district's policies and practices include an investment policy; the maintenance of a reserve policy targeting reserve levels equal to 5% of the operating budget, which is the California Community Colleges Chancellor's Office recommended reserve threshold; and at least monthly monitoring and reporting of the operating budget to the board to allow corrective actions if needed. The district has a five-year capital improvement plan that it updates at least annually by identifying funding sources and reprioritizing projects as it considers necessary. The district has an investment policy in addition to the county's policy and reports investment performance annually to the board. However, the district does not have a formal debt management policy.

In our view, overall net direct debt is moderate, at about $3,999 on a per capita basis, and low at 2.6% of market value. The district obtained $950 million in voter authorization in 2016 to fund its campus upgrade projects. The district anticipates the first issuance of roughly $200 million to $250 million in February 2017, with future issuances staggered every three years.

The district offers pension benefits to employees and participates in the California Public Employees' Retirement System and California State Teachers' Retirement System (STRS) and has fully paid its annual required contribution (ARC) in each of the past three fiscal years. In 2015, the district paid $6.1 million, or 3.9% of general fund expenditures. The district's plan fiduciary net position as a percentage of the total pension liability for its STRS plan is 76.52%. The district offers other postemployment benefits (OPEB) and recognizes and funds expenditures on a pay-as-you-go-basis. The district had an unfunded actuarial accrued liability of $138 million as of April 1, 2015, and it paid $5.3 million (3.4% of expenditures) of its $13 million ARC in fiscal 2015. Management reported that OPEB benefit for employees hired after 2012 was eliminated, thus limiting the district's future exposure to benefit increases.

Outlook

The stable outlook reflects our view that the district will continue to run balanced operations within the two-year outlook time frame, during which time we do not anticipate changing the rating.

Upside scenario

We could consider a higher rating if the district obtains revenue flexibility in the form of additional local revenue sources, such as a parcel tax, and if management policies and practices become more comprehensive and formal in the areas of long-term financial projections and reserve policies.

Downside scenario

We could lower the ratings if the district draws on reserves and reduces budgetary flexibility to levels we view as not commensurate with peer credits.

Related Criteria And Research

Related Criteria

- 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
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009