STANDARD & POOR'S
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Summary:

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

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*(**Editor's Note:** The outlook was incorrectly stated in the first paragraph of the article. A corrected version follows.)*

Credit Profile		
Chabot-Las Positas Comnty Coll Dist go bnds (MBIA) (MBIA of Illinois)		
Unenhanced Rating	A+(SPUR)/Stable	Downgraded

Rationale

Standard & Poor's Ratings Services lowered its underlying rating (SPUR) to 'A+' from 'AA-' on Chabot-Las Positas Community College District (CCD), Calif.'s general obligation (GO) bonds based on our view of the district's consecutive general fund operating imbalances, which have resulted in decreased reserves and liquidity position. The outlook isstable.

The rating reflects our view of the district's dependence on state aid for the majority of its funding sources, combined with a constrained state funding environment, which we anticipate will continue to financially pressure the district over the next few years, as well as the district's limited ability to raise revenues.

The preceding credit weaknesses are partially offset by our view of the district's:

- Full participation in the deep and diverse San Francisco Bay Area metropolitan statistical area, with above-average income and wealth indicators;
- Very diverse taxpayer base;
- Recent union negotiations, which will allow the district to return to balanced operations and limit some future benefit costs; and
- Good financial management practices and policies.

Because approximately 89% of the district's general fund revenues come from state apportionments, the CCD has faced increasing financial pressure as the state has cut community college funding in recent years. Furthermore, a rise in general fund expenditures in fiscal 2010, stemming largely from an increase in benefit expenses and student financial aid (despite the district's efforts to decrease expenditures in other areas) has placed further pressure on the CCD. As a result, the CCD posted general fund operating deficits in fiscal 2010 and fiscal 2011. By fiscal 2011, the CCD's unreserved general fund balance had decreased by nearly half, to approximately $6.2 million or 5.5% of expenditures, which we consider good, from $12.3 million or 11% of expenditures, which we consider strong, in fiscal 2009. Unaudited actual numbers for fiscal 2012 show a continued general fund operating imbalance and subsequent reserve drawdown. Management had expected to eliminate a $3.6 million budget gap through union negotiations but was unsuccessful in the fiscal 2012 year. The district has reduced staff and other expenditures but was unable to balance its budget without union support. The district ended the year with a $3.6 million operating deficit. To maintain reserves, management transferred $2.5 million from its self-insurance fund to the general fund and ended the year with a $5.9 million unrestricted fund balance or 5.5% of expenditures. In prior years, the district had placed excess money into its self-insurance fund, which now holds about $300,000 after the $2.5 million transfer out to balance the general fund. The district was able to successfully negotiate with its union for concessions in the 2013 year and has budgeted for a $700,000 operating surplus for fiscal 2013 and reports that it is on track to meet this goal.

We believe the district's weak liquidity position is an additional risk. According to audited fiscal 2011 numbers, the district ended the fiscal year with a negative $3.4 million general fund cash position and only $350,000 in unrestricted cash and investments, district wide. The cash position has deteriorated as the state has continued to defer payments to districts. Management reports that the general fund has borrowed from restricted reserves in a capital outlay fund, which it has used for internal, short-term borrowing. A credit risk is the district's potential need to borrow from bond proceeds should its liquidity position continue to deteriorate. The district is considering issuing TRANs to manage its cash flow but has no plans to do so at this time.

The district has experienced some management turnover in the past several years, which is also a credit risk in our view. The district elected an interim chancellor in September 2012, with a one-year contract as the district searches for a permanent replacement. Additionally, the Las Positas college president gave notice in October 2012, after only one year in the position; the college is currently searching for a new president, its third in the past three years.

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 equivalents (FTEs), which has decreased in recent years despite increases in the number of students attending. In fiscal 2010, the district had 17,215 funded students and 1,113 unfunded. For fiscal 2011, management was funded at 15,331, an 11% decrease, due to state budget cuts. In 2012, the school reduced class offerings but still had 2,169 unfunded FTES for the year. For fiscal 2013 the district has again reduced class offerings and lowered FTES to a target of 15,522 and for 2013 is projecting 150 to 300 unfunded FTES. Management reports that unfunded FTES have grown because of state funding cuts and professors who have increased the number of students per class beyond contractual limitations.

The CCD serves nine cities throughout Alameda and Contra Costa counties and has an estimated resident population of 612,600. 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 income at 132% and 123% of the national averages, respectively.

Like many California regions, assessed valuation (AV) within the CCD has declined in recent years, mostly as a result of property reassessments pursuant to California's Proposition 13; however, we note that the declines are relatively small compared to our experience with other state municipalities. During the past three years, the CCD's AV decreased at what we consider a relatively modest average annual rate of 2% to $82.5 billion in fiscal 2012 from $88.2 billion in fiscal 2009. Nevertheless, market value per capita is still extremely strong, in our opinion, at approximately $134,700. We consider the CCD's tax base to be very diverse, with the leading 10 taxpayers representing just 2.5% of total AV.

We consider the district's management practices "good" under our Financial Management Assessment (FMA) methodology. An FMA of "good" indicates that, in our view, practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Highlights of the district's policies and practices include an investment policy, the maintenance of a reserve policy to target 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 $4,500 on a per capita basis 3.3% of market value. The district obtained voter authorization totaling $498 million on March 2, 2004, to fund its campus expansion projects, which have all been issued. The district does not have capital debt plans at this time.

The district offers pension benefits to employees and participates in the California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System (CalSTRS) and has fully paid its annual required contribution (ARC) in each of the past three fiscal years. The district paid $5.6 million in 2011 or 5.3% of general fund expenditures. The district offers other post-employment benefits (OPEB) and recognizes and funds expenditures on a pay-as-you-go-basis. The district has an unfunded actuarial accrued liability of $139 million as of June 30, 2011, and funds on a pay-as-you-go-basis and paid $4.5 million (4.4% of expenditures) of its $10.5 million ARC in 2011. Management reported that it has successfully negotiated with its union to eliminate its OPEB benefit for future employees, thus limiting the district's future exposure to benefit increases.

Outlook

The stable outlook reflects our view that the district will be able to return to balance operations within the two-year outlook timeframe. If the district's budget it optimistic and it is unable to return to balanced operations and continues to draw on its reserves, we could lower the rating. However, we do not expect to raise the rating during the two-year outlook timeline.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of November 14, 2012)		
Chabot-Las Positas Comnty Coll Dist go bnds (Election of 2004) ser 2004A dtd 08/19/2004 due 08/01/2005-2026 2029		
Unenhanced Rating	A+(SPUR)/Stable	Downgraded
Chabot-Las Positas Comnty Coll Dist GO (AMBAC)		
Unenhanced Rating	A+(SPUR)/Stable	Downgraded

Many issues are enhanced by bond insurance.

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