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CREDIT OPINION
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New Issue

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Chabot-Las Positas Community College District, CA

New Issue - Moody's Assigns Aa2 to Chabot-Las Positas CCD (CA)'s 2016 Refunding GOs

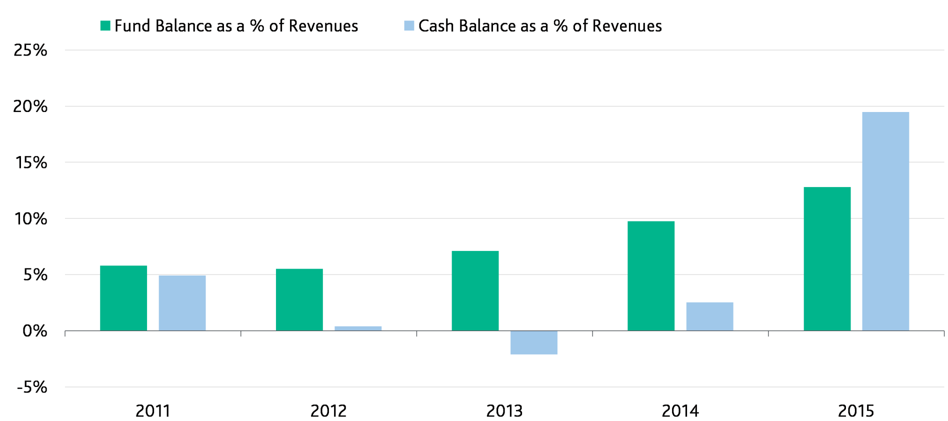
Summary Rating Rationale

Moody's Investors Service has assigned Aa2 to Chabot-Las Positas Community College District's (CA) $225.37 million 2016 General Obligation Refunding Bonds. Concurrently, Moody's has affirmed the district's outstanding General Obligation Bonds at Aa2, which post-refunding will total approximately $514.5 million. The outlook is stable.

The Aa2 rating reflects the district's large and expanding tax base in the San Francisco Bay Area; above average socioeconomic profile of district residents; recently strengthened financial position with healthy reserves and liquidity; moderate debt and pension burdens; and strong management. The rating also considers the security of an unlimited property tax pledge of all taxable property within the district boundaries. Alameda and Contra Costa Counties, rather than the district, will levy, collect, and disburse the district's property taxes, including the portion constitutionally restricted to pay debt service on GO bonds, enhancing bondholder security.

Exhibit 1

Operating Cash and Reserves have Strengthened in Recent Years



Source: Moody's Investors Service

Credit Strengths

- Strengthening financial position
- Stable student enrollment
- Large and expanding San Francisco Bay Area tax base

Credit Challenges

- Full time enrollment has not fully recovered to pre-recession levels
- Debt levels are expected to increase concurrent with a large capital improvement plan

Rating Outlook

The stable outlook reflects our expectation that the district's tax base and local economy will remain strong, and continue to expand, over the next two years. Additionally, we anticipate that the district will maintain its recently strengthened financial profile.

Factors that Could Lead to an Upgrade

- Longer trend of sustained improvement to the district's financial position
- Significant growth in assessed valuation

Factors that Could Lead to a Downgrade

- Significant deterioration of financial metrics, including reserves and liquidity
- Significant decline in assessed valuation
- Material loss of enrollment

Key Indicators

Exhibit 2

Chabot-Las Positas Community College District, CA	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 84,023,130	$ 83,883,384	$ 86,053,541	$ 91,466,394	$ 97,004,663
Full Value Per Capita	$ 140,039	$ 139,806	$ 143,423	$ 152,444	$ 161,674
Median Family Income (% of US Median)	N/A	136.5%	136.9%	136.9%	136.9%
Finances					
Operating Revenue ($000)	$ 115,362	$ 107,828	$ 106,292	$ 112,470	$ 127,436
Fund Balance as a % of Revenues	5.8%	5.5%	7.1%	9.8%	12.8%
Cash Balance as a % of Revenues	4.9%	0.4%	-2.1%	2.5%	19.5%
Debt/Pensions					
Net Direct Debt ($000)	$ 454,819	$ 445,919	$ 498,923	$ 492,904	$ 486,793
Net Direct Debt / Operating Revenues (x)	3.9x	4.1x	4.7x	4.4x	3.8x
Net Direct Debt / Full Value (%)	0.5%	0.5%	0.6%	0.5%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	N/A	1.1x	1.6x	1.8x	1.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.2%	0.2%	0.2%	0.2%

1. Operating revenue reflects total General Fund revenues including transfers. Fund balance reflects the unrestricted portion of the General Fund balance.
Source: Moody's Investors Service

Recent Developments

There have been no material changes to the district's strong credit profile since our last review in April 2016. The district's updated fiscal 2016 year end financial results closely follow expectations established in our recent review, with an estimated $7.9 million General Fund surplus that will increase available reserves to a healthy 17.2% of revenues. The district's preliminary fiscal 2017 budget shows continued financial strengthening with an estimated $1.24 million surplus at year end, based on conservative revenue and enrollment assumptions. The district has also settled contract negotiations and will extend a 4% employee salary increase in fiscal 2017, which is also incorporated in the preliminary budget. Moody's expects the district's current debt levels to increase in the near-term resulting from the issuance of additional bonds from a voter approved $950 million authorization in the June primary election. The district's current debt burden is average for the sector and rating category and should remain manageable given expectations of continued AV growth along the time horizon of future issuance.

The 2016 General Obligation Refunding Bonds are described in the Use of Proceeds section below, while the remainder of the report restates our opinions published on April 7, 2016.

Detailed Rating Considerations

Economy and Tax Base: Very Large, Growing Tax Base in the San Francisco Bay Area

Chabot-Las Positas Community College District (CCD) spans 559.4 square miles in southeastern Alameda County (Aa1 Issuer Rating/ Positive) and a small portion of Contra Costa County (Aa2 Issuer Rating/Stable). The district serves approximately 17,362 full-time equivalent students (FTEs) at its two colleges, Chabot in Hayward (Aa2 Issuer Rating/No Outlook), and Las Positas in Livermore. The district's service area has an estimated population of 600,000, and also includes the cities of Pleasanton (Aa1 Issuer Rating/No Outlook), San Leandro (Aa2 Issuer Rating/Stable), Union City and Dublin.

The district has a very large and diverse tax base that underwent strong growth of 7.2% in 2016, bringing total assessed valuation to $103.9 billion, a new peak for the tax base. The tax base has steadily appreciated over the last four years with a healthy 4.3% five-year average annual growth rate, comparing favorably to other Aa2-rated community colleges in California and nationally. The tax base remains well positioned for long term health, given the continued expansion and vibrancy of the San Francisco Bay Area economy. New commercial and residential development projects underway in Pleasanton, Livermore, Hayward and other areas, will help drive additional assessed valuation growth in the near term. We therefore anticipate that the district's assessed value will remain strong and well-sized for the rating category.

The tax base is diverse with the top twenty tax payers representing only 4.26% of the total valuation and no single payer accounting for more than .64% of the district's total assessed value. The taxpayer diversity is mirrored by the area's multi-faceted economy which is driven by a strong non-defense federal government presence, technology and healthcare sectors. Wealth indicators of district residents are also above average, with median family income in Alameda County of 136.9% of the U.S. median.

Financial Operations and Reserves: Financial Profile Continues to Strengthen with Healthy Reserves and Liquidity

The district's financial position has significantly strengthened and was a key driver for the rating upgrade in April 2016. During the recession, the district's financial profile was significantly pressured by declining state education funding and revenue deferrals. The district spent down available (unrestricted) General Fund reserves to a very narrow 5.5% of revenues in fiscal 2012, while liquidity remained weak through fiscal 2014, with a notable negative net cash position of -$2.2 million in fiscal 2013. The district implemented a variety of measures to restore fiscal balance, including furloughs, freezing pay, laying off staff and reduced its long term liabilities by closing its OPEB program to new employees. The district also developed a budget allocation model and implemented fiscal reforms to improve budget outcomes, which are evidenced by three consecutive years of general fund surpluses in fiscal 2013 - 2015.

In fiscal 2015, the district posted a $5.3 million General Fund surplus, increasing available reserves to a healthy 12.8% of revenues. The district has benefitted from modest enrollment growth over the last three years, a notable strength given sector-wide pressure on enrollment which are countercyclical to periods of economic expansion. Despite recent growth, the district's overall enrollment remains approximately 9% below its peak in fiscal 2010, and is projected to contract a .8% (132 FTEs) in 2017, based on preliminary budget projections. The district will receive apportionment funding equal to its higher fiscal 2016 FTEs under the state's stabilization funding program, allowing the district thee years to recover enrollment before facing a reduction to funding. The district has allocated considerable funding to advertising and recruiting strategies to restore enrollment levels.

The district projects a large General Fund surplus of approximately $7.9 million in fiscal 2016 resulting from repayment of mandated cost reimbursements from the state, improved ongoing state funding, and a prior year revenue adjustment. The surplus will increase General Fund reserves, including both restricted and unrestricted components, to approximately $25.05 million or 17.2% of fiscal 2016 revenues, far above the district's policy to maintain a minimum reserve of 8%, and above the state Aa2 sector median. The district's reserves further benefit from $18 million in its Debt Service Fund, which yields an overall available reserve balance estimated at 26% of operating revenues at fiscal year end 2016. We expect the district to maintain healthy levels of reserves going forward, based on its commitment to balanced financial operations and preparation for a future downturn. The district's ability to maintain its recently strengthened financial position will remain a key consideration in future rating reviews.

LIQUIDITY

The district's general fund liquidity rebounded in fiscal 2015, reflecting the retirement of state revenue deferrals, to $24.8 million or 19.5% of revenues, which is consistent with national Aa2 medians, but above average for California. The district's liquidity is further strengthened by $15.5 million in balances held outside of the General Fund, among its Retiree, Capital and Special Reserve Funds, which are borrowable to the general fund for cash flow purposes

Debt and Pensions: Average Debt Burden; Pension and OPEB Liabilities Remain Manageable

The district has average post-refunding debt levels, with net direct debt of .50% of AV, and overall net debt, including overlapping obligations on the district's tax base, of 2.6%. This level of debt is consistent with both state and national medians for Aa2-rated community college districts. The ten-year payout rate is also a slow 28%, compared to the state sector median of 36.9%. We anticipate debt levels to rise in the near term as the district plans to implement a large capital improvement plan and successfully passed a $950 million bond authorization in June 2016.

DEBT STRUCTURE

The district's post-refunding debt profile will comprise $514.5 million of current interest bonds maturing through 2037.

DEBT-RELATED DERIVATIVES

The district has no debt-related derivatives.

PENSIONS AND OPEB

The district provides employees with defined benefit pension plans through the California State Teachers' Retirement System (CalSTRS) and the California State Public Employees Retirement System (CalPERS). Steadily increasing contribution rates are a growing burden on the district's finances, but should remain manageable given the district's stable financial position.

Moody's combined adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, was $236.3 million in fiscal 2015, or 1.73 times general fund revenues on a three-year average basis, which is comparable to other California community college districts. Moody's ANPL reflects certain adjustments made to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities. We determined the district's share of liability for the state-run systems in proportion with its contributions to the plan.

The district has implemented recent reforms to address a sizeable OPEB liability, which as of April 2015, the reported actuarially accrued liability stood at $138.1 million. The district's fiscal 2015 annual required contribution (ARC) was $13.05 million and the district contributed $5.3 million or 40.6% of its ARC on a pay-go basis. Notably, the district closed the benefit to new employees hired after January 1, 2013, and has contributed to a Retiree Health Benefits fund to address the liability, which held $4.6 million as of June 2016.

Management and Governance: Strong Management and Moderate Operating History

Institutional Framework

California community college districts have an institutional framework score of “A,” or moderate. Districts’ ability to raise revenues is moderate, since funding levels are set by the state and local revenue-raising is limited to voter-approved parcel taxes or fundraising. Revenue predictability is moderate, with highly predictable property tax revenues offset by the state’s ability to make unexpected funding and disbursement reductions. Expenditures primarily consist of personnel costs, which are highly predictable. Districts have a moderate ability to reduce expenditures due to pressures from collective bargaining and state rules that effect the timing of staff reductions.

Operating History

The district's five-year average of operating revenues to expenditures in 2015 is a moderate 1.01 times. The district experienced two modest deficits over the past five years of approximately 1% of operating revenues, and three modest surpluses ranging from 1% - 4.1% of revenues. These budget trends are consistent with other California community college districts which suffered funding reductions and liquidity challenges from state revenue deferrals over the same time period.

The district's accreditation was reaffirmed in 2016 by the Accrediting Commission for Community and Junior Colleges (ACCJC) for a six year period.

Legal Security

The bonds are secured by the levy of ad valorem taxes, unlimited as to rate or amount, upon all taxable property within the district. The portion of the levy restricted for debt service is collected, held and transferred directly to the paying agent by Alameda and Contra Costa Counties on behalf of the district.

Use of Proceeds

The 2016 General Obligation Refunding Bonds will refund a portion of the District's Election of 2004, Series 2006B and Series 2006C Bonds, and 2006 General Obligation Refunding Bonds, on a current basis for an estimated net present value savings of $202.3 million or 72.4% of refunded par, depending upon market conditions at the time of sale. The refunding will effectively transform all of the district's outstanding capital appreciation bonds to current interest bonds, and shorten final maturity from 2046 to 2037.

Obligor Profile

Chabot-Las Positas Community College District (CCD) spans 559.4 square miles in southeastern Alameda County (Aa1 Issuer Rating/ Positive) and a small portion of Contra Costa County (Aa2 Issuer Rating/Stable). The district serves approximately 17,362 full-time equivalent students (FTEs) at its two colleges, Chabot in Hayward (Aa2 Issuer Rating/No Outlook), and Las Positas in Livermore. The district's service area has an estimated population of 600,000, and also includes the cities of Pleasanton (Aa1 Issuer Rating/No Outlook), San Leandro (Aa2 Issuer Rating/Stable), Union City and Dublin.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 3

Chabot-Las Positas Comm. Coll. Dist., CA

Issue	Rating
2016 General Obligation Refunding Bonds	Aa2
Rating Type	Underlying LT
Sale Amount	$225,370,000
Expected Sale Date	07/13/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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