

RatingsDirect®

Summary:

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

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US\$325.0 mil GO bnds (Election Of 2016) ser A due 08/01/2047		
<i>Long Term Rating</i>	AA/Stable	New
Chabot-Las Positas Comnty Coll Dist GO rfdg bnds		
<i>Long Term Rating</i>	AA/Stable	Upgraded

Rationale

S&P Global Ratings raised its long-term rating to 'AA' from 'AA-' 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 built reserves to a level we consider very strong. At the same time, we assigned our 'AA' long-term rating to the district's election of 2016 series A GO bonds. The outlook is stable.

The rating further reflects our view of the district's:

- Full participation in the deep and diverse San Francisco Bay Area metropolitan statistical area, with strong to extremely strong income and wealth indicators;
- Very diverse tax base, which has grown in recent years;
- Projected surplus for fiscal 2017 that would maintain very strong reserves levels; 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 moderate to high debt levels and 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 series A bonds will finance the acquisition, construction, modernization, and equipping of district sites and facilities.

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 increased enrollment 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. The district has budgeted for a 1% increase in FTEs in fiscal 2018. We understand the district has implemented enrollment initiatives such as marketing to current students to increase the number of classes taken, which could boost FTES and, in turn, 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 four audited years as state funding improvements supported a strong trend of operations with general fund operating surpluses from fiscal 2013 through fiscal 2016. By fiscal 2016, the CCD's unrestricted general fund balance reached \$26.3 million, or 19% of expenditures, which we consider very strong and which is well above the 5% level mandated by the state. The district ended fiscal 2016 with an operational surplus of \$10 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. The district's fiscal 2017 estimates show an additional surplus of \$1.8 million in the unrestricted fund balance, which would improve it to \$28.2 million. Based on the governor's May revise, the district expects to receive an additional \$2.6 million in funding for fiscal 2018. The district expects to post another operating surplus in fiscal 2018. Therefore, we do not expect that reserves will fall below very strong levels over the near term.

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 in 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 \$110 billion in fiscal 2017. Market value per capita remains extremely strong, in our opinion, at approximately \$163,065. We consider the CCD's tax base to be very diverse, with the leading 10 taxpayers representing just 2.6% of total AV.

We view the district's management as adequate, with standard financial policies and practices under our Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some but not all key areas.

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, and the district has 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 8% of the operating budget, which is above the 5% 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 high on a per capita basis, at about \$5,082, and moderate as a percentage of market value, at 3.1%. The district obtained \$950 million in voter authorization in 2016 to fund its campus upgrade projects. The district anticipates future issuances, staggered about 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 2016, the district paid \$6.1 million, or 3.8% of general fund expenditures. The district's plan fiduciary net position as a percentage of the total pension liability for its STRS plan is 70%. The district offers other postemployment benefits (OPEBs) and recognizes and funds expenditures on a pay-as-you-go-basis. The district had an unfunded actuarial accrued liability of \$53.4 million as of June 30, 2016, and it paid \$5.2 million of its \$11.9 million ARC in fiscal 2016. Management reported that it eliminated OPEBs for employees hired after 2012, 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 rating if the district draws on reserves and reduces budgetary flexibility to levels we no longer view as commensurate with those of peers.

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