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Summary:

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

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Credit Profile		
US$160.0 mil GO bnds (Election Of 2016) ser 2017A due 08/01/2047		
Long Term Rating	AA/Stable	New
Chabot-Las Positas Comnty Coll Dist GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Chabot-Las Positas Community College District (CCD), Calif.'s general obligation (GO) election of 2016 series A GO bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating on the district's GO bonds outstanding. The outlook is stable.

Revenue from unlimited ad valorem taxes levied on taxable property within the district secures the district's GO bonds. The Alameda and Contra Costa Counties Board of Supervisors has the power and obligation to levy these taxes at the district's request for the bonds' repayment. The estimated $160 million series A bonds will finance the acquisition, construction, modernization, and equipping of district sites and facilities.

The rating 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; and
- Expenditure flexibility common to CCDs as a result of the ability to independently set course offerings.

Partly offsetting the above strengths, in our view, are the district's lack of revenue flexibility in the form of additional local revenue sources (such as a parcel tax), high debt burden on a per capita basis, and slow debt amortization.

Economy

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.

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 and per capita effective buying income at a very strong 133% and a strong 129% of the national averages, respectively.

As 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 6.4% to $117 billion. Market value per capita remains extremely strong, in our opinion, at approximately $172,897. We consider the CCD's tax base very diverse, with the leading 10 taxpayers representing just 2.3% of secured AV. As of June 2017, Alameda County's unemployment rate was 4.0%, compared with the state's 4.7%.

Finances

Most of the district's operating funding depends on its count of full-time equivalent (FTE) students and on budget decisions by the state, which sets the statewide tuition rate and a per-FTE-student formula that is subject to a cap. The district reports its funded cap is 17,500. In fiscal 2015 the district had 17,197 funded students, and for fiscal 2016 the district increased enrollment to 17,640 funded students. 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 based on the state's stability funding for CCDs. The district's FTEs have been fully funded since fiscal 2014 and management expects the same hereafter. The district has budgeted 17,400 FTEs for fiscal 2018 and projects 1% annual FTE growth for the next two years. 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 revenue. Officials also expect that a slackening economy could lead to increases in enrollment over the next cycle of economic downturn. Furthermore, several residential developments 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 every year. 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 $10.5 million as a result of 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. For fiscal 2017, the district projects an additional surplus of $1.8 million in the unrestricted fund balance, which would improve the balance to $28.2 million. Based on the governor's May revision, 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.

Financial Management Assessment

We revised the district's financial management practices to good from standard under our Financial Management Assessment (FMA) methodology, indicating our view that financial practices exist in most areas but that governance officials might not formalize or regularly monitor all of them. The revision is based on our view of the district's recent adoption of a debt management policy, in compliance with California Senate Bill 1029, that defines debt issuance guidelines for areas such as amount, oversight, structure, timing, and type, albeit without specific numerical constraints.

Other key management practices and policies include budgeting of revenue based on available external state revenue assumptions and use of an internal committee to track FTEs, with expenditures that include reasonably conservative assumptions on cost growth. The district's board reviews budget-to-actual results at least quarterly, and the district has mechanisms to amend the budget. However, there is no financial forecasting 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 deems necessary. The district has an investment policy in addition to the county's policy and reports investment performance annually to the board.

Debt

In our view, overall net debt burden is high at about $5,045 per capita for fiscal 2017 and a projected $5,294 per capita for fiscal 2018 with the series A GO bonds. The district's overall net debt burden is moderate as a percentage of market value, at 3.1%. Amortization is slow, in our opinion, with a projected 35% of total outstanding direct principal debt due to be retired in the next 10 years. 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. We understand the district has no alternative financing debt such as bank loans, direct purchases, or private placements.

Pension and other postemployment benefits

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 was 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 reports that it eliminated OPEBs for employees hired after 2013, thus limiting the district's exposure to benefit increases.

Outlook

The stable outlook reflects our expectation that the district will maintain a stable and strong financial position. We believe the district's economy will continue to show stable growth. We do not expect to change the rating within the two-year outlook period.

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, amid maintenance of very strong unrestricted fund balance.

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.