Moody's downgrades to Aa3 from Aa2 the rating on Chabot Las Positas Community College District (CA) and assigns a Aa3 to the 2013 General Obligation Refunding Bonds

Approximately $438 million in GO debt affected

Moody's Investors Service has assigned a Aa3 rating to Chabot Las Positas Community College District's $300 million 2013 General Obligation Refunding Bonds. At the same time Moody's has downgraded to Aa3 from Aa2 the rating on the district's $438 million in outstanding general obligation debt.

The proceeds of the 2013 bonds will be used to refund a portion of the district's outstanding GO debt for debt service savings.

Rating Rationale

The downgrade to Aa3 from Aa2 reflects the extremely narrow financial position as a result of four consecutive years of operating deficits and a negative General Fund cash position for the district at the end of fiscal year 2012. The Aa3 rating additionally factors in the district's sizable tax base, which benefits from its proximity to the San Francisco Bay Area's employment centers. The tax base is large for a Moody's-rated California community college district and for the rating category nationally. The district's above average resident income level is also factored in the rating. The district's moderate debt burden is additionally factored into the rating. The general obligation bonds are secured by an unlimited property tax pledge of the district.

STRENGTHS

-Large-sized tax base for the rating level which benefits from its proximity to the San Francisco Bay Area

-Financial flexibility on the expenditure side

CHALLENGES

-Extremely narrow fund balance in the General Fund and a negative cash position given increased state deferrals

-Uncertain funding environment for California community college districts

DETAILED CREDIT DISCUSSION

DIVERSIFIED TAX BASE EXPECTED TO STABILIZE

Located in southeastern Alameda County (Issuer Rating Aa2 with a stable outlook), the district serves over 600,000 residents in a large 186 square mile area which also includes a small portion of Contra Costa County (Issuer Rating Aa2 with a stable outlook). The district's service area includes the cities of Pleasanton (Issuer Rating Aa1), Hayward (Issuer Rating Aa2), Livermore, San Leandro, Union City and Dublin. The district's residents benefit from their participation in the San Francisco Bay Area economy. The district's tax base has remained generally with a -0.1% average annual growth rate from 2008 to 2013. Currently the tax base is valued at a very large $846 billion, which is larger than similarly rated California community college districts. The district also boasts resident income levels that are above average for California community college districts.

FINANCIAL POSITION HAS WEAKENED CONSISTENTLY

The district ended fiscal 2012 (ended June 30) with a General Fund balance of $7.8 million, or 7.3% of revenues, a very narrow level for comparably rated districts. The district ended fiscal 2012 favorable to budget with a $1 million draw to reserves as opposed to the $3 million budgeted draw. The favorable performance was attributed to conservative revenue projections as well as expenditure savings. The district's cash position at fiscal year 2012 year end was a negative 3.4% due primarily to additional state deferral of revenues. At fiscal year-end the district's total accounts receivable was $22 million, the majority of which was deferred state aid. The district's liquidity position is very weak compared to other Moody's rated California community college districts and was a key factor in the downgrade. Further erosion in their liquidity will put downward pressure on the rating.

In the current fiscal year the district expects a turnaround in finances given revenues outperforming budget and additional steps taken to trim expenditures, including salary reductions, increased employee contributions towards health benefits and layoffs and leaving vacant open district positions. Given year to date financial performance, the district expects to generate an operating surplus at year end, adding approximately $800,000 to General Fund balance. Additionally, the district's response to a negative General Fund cash position has been multi-fold including the accessing of available cash from other district funds including a bookstore fund ($676K), capital projects fund ($9.7 million), and self insurance fund ($366K) as well as the authorization of $11 million of borrowing from the county and the authorization of state deferral notes to be sold to the county in the maximum amount of $23 million. These various sources of liquidity help the district manage its cash flow as a result of increased state deferrals. The district's overall financial and cash position in the current fiscal year will be an important consideration in our assessment of the district's long term rating.

MODERATE DEBT LEVELS EXPECTED TO REMAIN STABLE

The district's direct debt poses no significant burden and is slightly higher than typical for a California community college district at 0.5% of AV. Principal payout on the outstanding debt is slower than state medians at 22% in ten years compared to a more typical rate approximating 35%.

WHAT COULD MAKE THE RATING GO UP

-Substantially improved liquidity

-Substantial growth in reserves

-Positive assessed value growth trend

WHAT COULD MAKE THE RATING GO DOWN

-Further narrowing of liquidity

-Continued decline in reserves

KEY STATISTICS

Alameda County:

Median family income: $65,857 (124.2% of state)

Per capita income: $26,680 (117.5% of state)

District assessed value, FY2013: $86 billion

District 5 year average annual growth, A.V., 2008-2013: -0.1%

Total fund balance in the general fund, FY2012: $7 million (7.3% of General Fund revenues)

Direct debt burden: 0.5% of 2013 AV