FitchRatings

FITCH AFFIRMS SAN JOAQUIN DELTA CCD, CA'S GOS AT 'AA-'; OUTLOOK STABLE

Fitch Ratings-San Francisco-25 March 2013: Fitch Ratings has affirmed San Joaquin Delta Community College District, California's (CCD; the district) general obligation bonds (GOs) as noted below:

--$133.6 million outstanding GOs at 'AA-'.

The Rating Outlook is Stable.

SECURITY
The bonds are secured by an unlimited property tax on all taxable property within the district.

KEY RATING DRIVERS

SOUND FINANCIAL OPERATIONS: The district enjoys a sound financial cushion, estimated balanced operations after prudent cost containment measures, and the state funding environment has shown signs of material improvement over the past year.

FINANCIAL VULNERABILITIES REMAIN: The district is exposed to volatile state funding, pent-up demands from various stakeholders following years of cost-cutting, and likely rising pension costs over the near term.

WEAK LOCAL ECONOMY. Income levels are low, the tax base is in its fifth consecutive year of contraction, unemployment is very high, and the local housing market was one of the worst-affected in the nation. However, recent data suggests the economy is beginning to stabilize.

SATISFACTORY DEBT PROFILE: The net debt burden, principal amortization, and carrying costs are moderate. Management has taken steps in recent years to deal with its OPEB liability; however, the district participates in the state's poorly funded CalSTRS pension plan.

RATING SENSITIVITY
An unanticipated and substantial fund balance decline to just adequate levels could trigger a negative rating action.

CREDIT PROFILE
The district serves a 2,300 square mile service area in economically stressed San Joaquin County, as well as small portions of Alameda, Calaveras, Sacramento, and Solano counties. With an estimated population of over 725,000, the district provided educational services to 15,750 students in fiscal 2012. These services are provided at the district's main campus in the city of Stockton (the city) and its learning centers in Tracy and Manteca.

STOCKTON REGION HARD-HIT BY RECESSION
The city historically has been dominated by agriculture, despite some recent diversification, and is located between the two large employment centers of the San Francisco Bay Area and the Sacramento region. Population growth was rapid prior to the recession, fueled by the area's affordability and availability of land. However, the city and county were severely affected by the housing-led recession.

The county's housing market was one of the worst-affected in the nation, with peak-to-trough price declines of nearly two-thirds. These real estate losses have resulted in a five-year 18.2% district assessed value (AV) loss, though the AV decline in fiscal 2013 narrowed to just 0.2% from a loss of 4% the year prior.

City unemployment is very high at 17.1% and median household income levels are below average at 77% and 90% of state and national levels, respectively. Per capita income levels are significantly lower.

SOME SIGNS OF ECONOMIC STABILIZATION

Recent data suggest the city's stressed economy may be stabilizing. Employment expanded by nearly 4% in 2012 following four consecutive years of contraction. Also, year-to-date home prices are up 9% according to Zillow, suggesting that fiscal 2014 AV may rise after five years of consecutive declines.

SOUND FINANCIAL OPERATIONS

The district's financial operations have performed well due to management's prudent cost-cutting initiatives during a challenged state revenue environment. The general fund produced a manageable $2.9 million deficit in fiscal 2012 following two years of surpluses. This resulted in a satisfactory unrestricted general fund balance of $10.3 million (11.3% of general fund expenditures and transfers out).

The district's unrestricted financial cushion rises to a sound $18.3 million (20.2%) after consideration of non-general fund resources that could be used for any operational purpose. All general fund information is un-audited and provided by management because GAAP-compliant audits for community college districts do not include general fund-specific information.

Management believes financial operations are performing significantly better than budgeted in fiscal 2013, and will result in a $700,000 to $1.7 million surplus. Management believes the budget will be structurally balanced in fiscal 2014, as well.

The district's strong estimated results stem from management's pro-active approach to matching expenditures with declining state funding. Expenditures are well below their fiscal 2009 peak, reflecting significant cuts to the district's full-time equivalent student load, vacancies, early debt repayments, and productivity enhancements.

Future financial performance likely will benefit from an improved state funding environment. The November voter approval of Proposition 30 resulted in a multi-year tax hike that prevented a substantial mid-year funding cut in fiscal 2013 and will boost Prop 98 revenues for some time. Further, the governor's budget proposes a moderate state funding increase in fiscal 2014 and the multi-year paydown of funding deferrals. These deferrals represent a major drain on liquidity, which the district has managed with external and internal borrowings.

FINANCIAL VULNERABILITIES REMAIN

Lingering vulnerabilities include the district's continued exposure to state funding, which tends to be volatile and hard to predict. The district has managed the revenue environment well to date by cutting expenses, but various stakeholders likely will be eager to restore services, wages, and other items cut during the recession. Fitch believes the district will need to take a measured approach to such restoration as revenues recover. Also, the district is exposed to the poorly funded CalSTRS pension system, as are all community colleges in the state. Fitch believes contribution rates may begin rising over the short term as the state begins to address the system's growing unfunded liability.

SATISFACTORY DEBT PROFILE

The district's net debt burden is moderate at $3,238 per capita, or 4% of AV. Amortization is average, with 58.3% of debt maturing over 10 years (the rate falls to a still moderate 48.1% when calculated using final accreted values). Carrying costs (debt, OPEB, and pension costs) are also moderate at about 17% of non-capital governmental expenditures. Capital needs are limited, and the district has not disclosed any plans for long-term debt issuances.

As noted above, the district is exposed to poorly funded CalSTRS, which weakens its liability profile. The district has a sizeable OPEB liability that management has addressed in recent years by converting to a defined contribution plan for existing members and eliminating benefits for new employees. Further, the board has asked management to craft a plan to begin pre-funding its liability over a multi-year period.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

In addition to the sources of information identified in Fitch's Tax-Supported Rating Criteria, this action was additionally informed by information from Creditscope, S&P/Case-Shiller Home Price Index, Zillow.

Applicable Criteria and Related Research:
--'Tax-Supported Rating Criteria' (Aug. 14, 2012);
--'U.S. Local Government Tax-Supported Rating Criteria' (Aug. 14, 2012).

Applicable Criteria and Related Research
Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=685314