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

Fitch Ratings-San Francisco-23 September 2015: Fitch Ratings has assigned an 'AA-' rating to the following San Joaquin Delta Community College District, California (the district) bonds:

--$139.3 million 2015 general obligation (GO) refunding bonds, series A and B.

In addition, Fitch has affirmed the following ratings:

--$118.1 million outstanding GOs at 'AA-'.

The Rating Outlook is Stable. The bonds are scheduled to price the week of Sept. 28 via negotiated sale and will refund outstanding debt for interest savings.

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

KEY RATING DRIVERS

SOUND FINANCIAL POSITION: Financial operations are consistently balanced and reserves remain healthy.

RECOVERING ECONOMY: The local economy was heavily impacted by the recession but has improved steadily over the last several years. Income levels and employment rates remain below average despite recent gains.

STRONG MANAGEMENT: The district has capably managed volatile state funding and enrollment with minimal disruptions to its operations or finances and has taken steps to address key liabilities.

SATISFACTORY DEBT PROFILE: Overall debt levels and carrying costs for debt and retiree benefits are moderate. Rising pension contributions will pressure the district's finances over the next several years but management appears prepared to address this challenge.

RATING SENSITIVITIES

MAINTAINED FINANCIAL POSITION: An unanticipated and substantial reduction in reserves would create downward pressure on the rating.

CREDIT PROFILE
The district serves a 2,300 square mile service area in 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 provides educational services to approximately 24,000 students. Services are provided at the district's main campus in the city of Stockton and its learning centers in Mountain House and Manteca.

The district's service area was historically dominated by agriculture but has experienced increasing diversification and population growth due to its relative affordability and access to San Francisco

Bay Area and Sacramento employment opportunities. Population growth rates are approximately two times state and national averages.

RECOVERING ECONOMY

The district's local economy was severely impacted by the last recession but has shown steady gains in recent years. Home values reported by Zillow.com increased by 8.9% over the year ending July 2015 and were 84% above their December 2011 low point. Home values remain 34% below pre-recession peaks despite these gains.

Assessed values (AV) have shown a trajectory similar to housing values, although less extreme. AV increased by a cumulative 20.1% over the past four years but remains about 1.1% below its 2008 peak.

Local unemployment rates have also improved steadily following the recession, dropping from a high of 18% in 2011 to 8.5% as of June 2015. Median household incomes are approximately 88% of the state average and close to the national average.

SOUND FINANCIAL OPERATIONS

The district has maintained consistently balanced financial operations despite a history of state funding volatility. Fiscal 2015 fund balance (unaudited) was equal to a healthy 11.3% of general fund spending and remained stable throughout the last recession. The 2016 budget is balanced and financial prospects for the district appear positive with the ongoing improvement in state revenue collections. The district continues to depend on the state, however, for nearly two-thirds of general fund revenues and remains vulnerable to its volatile finances.

In addition, the counter-cyclical nature of community college enrollment presents a challenge to the district as prospective students seek employment rather than education amidst an improving economy. Recent per-pupil revenues have been pressured as a result, and the district has responded with new efforts to raise enrollment. Sustained economic growth and enrollment losses would likely require a reduction in services over the next several years to maintain operating balance, and the district's management appears well prepared to address this contingency.

STRONG MANAGEMENT

The district benefits from an experienced management team that has deftly handled state funding and enrollment volatility while addressing key financial challenges. The district closed its OPEB plan to new members and maintains an internal reserve fund, now at $6.8 million, with plans to establish an irrevocable trust in fiscal 2016 and increase total deposits to $21 million by 2025. Management projects that these efforts will allow the district to cap its annual contributions to OPEBs by 2026, relieving a growing budgetary pressure.

The district has also implemented a comprehensive deferred maintenance and capital improvement program to address capital requirements outside of its bond program. The district's capital fund has a current balance of approximately $15 million and is expected to support pay-go financing for improvements planned over the next several years.

SATISFACTORY DEBT PROFILE

The district's overall debt burden is moderate at $3,880 per capita, or 4.2% of AV. Amortization is average, with 53% of principal due for repayment over the next 10 years. Carrying costs for debt service and retiree benefits were affordable at approximately 15% of operating and non-operating expenditures in fiscal 2015.

The district retains approximately $33 million in GO authorization but issuance of this amount would not materially impact its debt burden. A recently initiated facilities master plan will consider the district's long-term capital needs, including the development of a new campus, which would likely require authorization by voters of additional GO bond capacity.

District employees participate in two state-sponsored pension plans, each of which is implementing multi-year increases to contribution rates to address substantial unfunded liabilities. The district has built such increases into multi-year budget projections and expects to fund them from existing resources.

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Fitch recently published an exposure draft of state and local government tax-supported criteria (Exposure Draft: U.S. Tax-Supported Rating Criteria, dated Sept. 10, 2015). The draft includes a number of proposed revisions to existing criteria. If applied in the proposed form, Fitch estimates the revised criteria would result in changes to fewer than 10% of existing tax-supported ratings. Fitch expects that final criteria will be approved and published by Jan. 20, 2016. Once approved, the criteria will be applied immediately to any new issue and surveillance rating review. Fitch anticipates the criteria to be applied to all ratings that fall under the criteria within a 12-month period from the final approval date.

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from CreditScope and Zillow Group.

Applicable Criteria
Exposure Draft: U.S. Tax-Supported Rating Criteria (pub. 10 Sep 2015)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869942
Tax-Supported Rating Criteria (pub. 14 Aug 2012)
https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=686015
U.S. Local Government Tax-Supported Rating Criteria (pub. 14 Aug 2012)