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New Issue

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Dallas County Community College District, TX

New Issue - Moody's assigns Aaa to Dallas County CCD, TX's $125.8M GO Rfdg Bonds; outlook is stable

Summary Rating Rationale

Moody's Investors Service has assigned a Aaa rating to Dallas County Community College District (CCD), TX's $125.8 million in General Obligation Refunding Bonds, Series 2016. Concurrently, we have affirmed the Aaa rating on $189.9 million in outstanding parity debt. The outlook remains stable.

The Aaa rating reflects the district's strong financial position, sizeable tax base in the Dallas Metroplex and modest debt burden. The rating further incorporates the ample tax margins under both the operating levy and debt service levy, stable enrollment position and weaker socioeconomic profile, typical of an urban college system.

Credit Strengths

» Sizeable and diverse economic base in the Dallas metropolitan area

» Ample financial flexibility with tax rates well below caps

» Strong financial position with healthy reserves

Credit Challenges

» Weaker socioeconomic profile than peers

Rating Outlook

The stable outlook reflects the district's history of stable operations and financial flexibility reflected in reserves and unused operating levy capacity. The outlook also incorporates projected tax base growth, which will support the district's future borrowing plans.

Factors that Could Lead to an Upgrade

» Not applicable

Factors that Could Lead to a Downgrade

» Erosion of reserves

» Significant taxable value contraction

» Substantial increases in debt

Key Indicators

Exhibit 1

Dallas County Community College District, TX	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value ($000)	$ 163,269,236	$ 162,568,153	$ 165,753,318	$ 175,924,118	$ 182,802,855
Full Value Per Capita	$ 69,515	$ 68,329	$ 68,707	$ 70,928	$ 72,570
Median Family Income (% of US Median)	85.2%	84.9%	85.2%	N/A	N/A
Finances					
Operating Revenue ($000)	$ 470,519	$ 448,001	$ 482,705	$ 507,872	$ 533,147
Unrestricted Net Assets as a % Revenues	36.0%	41.3%	42.3%	46.8%	39.0%
Cash Balance as a % of Revenues	-6.5%	-13.3%	2.1%	6.5%	6.2%
Debt/Pensions					
Net Direct Debt ($000)	$ 421,735	$ 395,715	$ 375,305	$ 356,370	$ 336,670
Net Direct Debt / Operating Revenues (x)	0.9x	0.9x	0.8x	0.7x	0.6x
Net Direct Debt / Full Value (%)	0.3%	0.2%	0.2%	0.2%	0.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	0.0x	0.0x	0.0x	0.0x	0.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.0%	0.0%	0.0%	0.0%	0.1%

Source: Dallas County Community College District, TX; Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Large Tax Base to Expand in the Near-term; Stable Enrollment Levels

The district's large tax base will likely remain stable over the mid-term given sustained residential and commercial development within the metroplex. The district is coterminous with Dallas County (Aaa stable). Fiscal 2016 assessed values (AV) total $197.3 billion. Aside from modest contractions in fiscal 2010 through fiscal 2012, the AV has expanded steadily in recent years, with five year average annual growth of 3.9%. The tax base is comprised of single-family homes (49%) and commercial properties (33%). Mineral concentration is negligible at 0.1%. Top ten taxpayers are developers and utility companies, and represent a modest 2.8% of AV. Moving forward, based on discussions with the county assessor, officials anticipate fiscal 2017 AV to reflect an additional $13 billion in value for a total increase of 7% to 8%. The strength of the base is somewhat tempered by below average socioeconomic factors, unsurprising given the urban nature of the district, with median family income of 85.2% of the US, per the 2013 American Community Survey.

Based on the strength of Dallas County's economy, we would expect a decline in CCD enrollment due to the countercyclical relationship between the two. However, the district's enrollment has remained stable, with fiscal 2016 fall headcount of 74,549, an increase from 73,685 the prior year. Officials expect fiscal 2017 enrollment to be flat at roughly 74,000 students. In order to attract new students and retain existing students, the current administration is considering two initiatives. The first is expansion of the early childhood education (ECE) program to address regional demand. Currently, the college offers ECE at two of its seven campuses. With proceeds from future bond issuances, the district plans to establish ECE programs at the remaining five campuses. The second initiative is the development of a north Texas higher education partnership in which students would be able to transfer to schools within the partnership without losing credit hours or retaking prerequisite courses, thus, incentivizing the student to stay in North Texas rather than leave the area. Overall, given strong management, and the ability and willingness to increase revenues and implement new programming based on the local job market, we expect enrollment levels will be well managed by the district.

Financial Operations and Reserves: Strong Financial Position; Ample Liquidity

The district's operations will likely remain stable given historical performance, financial flexibility, and conservative budgeting. In fiscal 2015, the net asset position was $519.1 million, of which $207.8 million (39% of revenues) was unrestricted. This is a decline from prior year's $534.8 million, in which $237.8 million (46.8% of revenues) was unrestricted. The drawdown in fiscal 2015 is attributed to adoption of GASB 68, whereby the district realized a negative $60.6 million pension adjustment, effectively offsetting the $44.8 million surplus. Despite the decline in fiscal 2015, the district's historical operating trends remain positive, with sizeable surpluses the past four years adding a total of $49.2 million to the net asset position.

Strong financial performance is attributed a one-time increase in the operating levy coupled with annual tax base expansion. In fiscal 2013, the district raised the operating levy to $1.04 per $1,000 AV from $0.99 per $1,000 AV. The district was motivated to increase the operating levy in order to set aside excess reserves for one-time maintenance and capital. The slight adjustment resulted in an additional $33.8 million in the initial year, followed by increases of $18.7 million in fiscal 2014 and $14.7 million in fiscal 2015 resulting from growth in the tax base. Furthermore, although tuition and fees represent only approximately 12% of total revenues, the district benefitted from a $7 per credit hour increase in both fiscal 2013 and fiscal 2015.

Management reports fiscal 2016 operations are stable, with the district expecting to report a $30 million surplus. The fiscal 2016 operating levy remains level at $1.04 per $1,000 AV, which is below the cap of $1.60 per $1,000 AV. The district is in early stages of fiscal 2017 budget preparation. Officials have historically increased tuition rates every odd year; however, the Board has not yet addressed future tuition adjustments.

LIQUIDITY

The district's fiscal 2015 cash position is favorable, with liquid assets totaling $133.1 million, which is an increase from the prior year's $32.9 million. In an effort to increase its liquidity, the district converted $45 million in long-term investments to short-term investments. Additionally, officials report that audited numbers do not reflect the subsequent payment to the Pell Grant program. As such, the district's true cash position is closer to $83 million.

Debt and Pensions: Modest Debt Burden; Plans to Issue in the Next Few Years

Despite plans to issue additional debt over the next few years, the district's debt burden will likely remain manageable due to the expanding tax base and rapid principal amortization. At 0.2% of fiscal 2016 AV, the district's debt burden is modest, and in-line with state medians of 0.3%. Principal amortization is above average with 79.8% retired in ten years. In fiscal 2016, the debt service levy was $0.20 per $1,000 AV, well below the cap of $5.00 per $1,000 AV.

At fiscal 2015 year-end, the district carried $15.2 million in revenue obligations, which was reflected in the debt burden; however, these bonds were subsequently defeased in February 2016. Officials report that they may sell up to $200 million in revenue bonds in the next few years. Assuming they issue the full $200 million, the debt burden would increase to a still-modest 0.26% of fiscal 2016 AV. Additionally, management anticipates a future GO bond issuance, but timing and amount have yet to be determined.

DEBT STRUCTURE

All of the district's debt is fixed rate and amortizes over a 15 year period; the final maturity is in fiscal 2030.

DEBT-RELATED DERIVATIVES

The district is not party to any interest rate swaps or other derivative agreements.

PENSIONS AND OPEB

The district contributes to Texas Teachers Retirement System (TRS), a multi-employer cost sharing pension plan. Moody's adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is $254.3 million, or a manageable 0.48 times fiscal 2015 operating revenues.

Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported contribution information, or the reported liability information of the state-wide cost-sharing plans, but to improve comparability with other rated entities.

Management and Governance

Policy-making and supervisory functions are the responsibility of a seven-member Board of Trustees who serve six-year staggered terms. The Board of Trustees delegates administrative responsibilities to the Chancellor who is the chief administrative officer of the District.

Community College Districts (CCDs) have an institutional framework score of "Aa" or very strong. CCDs rely on a combination of property tax, state appropriation, and tuition revenues for operations. Despite a history of state appropriation reduction, CCDs maintain great flexibility with the ability to raise tuition, and margins under the tax cap. CCDs also maintain great expenditure flexibility with adjunct faculty typically comprising greater than 60% of their staff, and the lack of unions within the state.

Legal Security

The bonds are direct obligations of the district payable from the levy and collection of a direct and continuing ad valorem tax, within the limits prescribed by law, on all taxable property located within the district.

Use of Proceeds

Proceeds from the current issuance will be used to refund the Series 2008 bonds (maturities 2019 through 2028) for net present value savings of 12.7% or approximately $16 million.

Obligor Profile

The district manages seven campuses throughout Dallas County. Fall 2016 enrollment was 74,549.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Dallas County Community College Dist.,TX

Issue	Rating
General Obligation Refunding Bonds, Series 2016	Aaa
Rating Type	Underlying LT
Sale Amount	$125,820,000
Expected Sale Date	04/25/2016
Rating Description	General Obligation Limited Tax

Source: Moody's Investors Service

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