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Summary:

Dallas County Community College District, Texas; General Obligation

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Credit Profile		
US$125.82 mil GO rfdg bnds ser 2016 dtd 04/15/2016 due 02/15/2028		
Long Term Rating	AAA/Stable	New
Dallas Cnty Comnty Coll Dist GO		
Long Term Rating	AAA/Stable	Affirmed
Dallas Cnty Comnty Coll Dist GO		
Long Term Rating	AAA/Stable	Affirmed
Dallas Cnty Comnty Coll Dist GO		
Long Term Rating	AAA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating and stable outlook to Dallas County Community College District (CCD), Texas' series 2016 general obligation (GO) refunding bonds.

At the same time, Standard & Poor's affirmed its 'AAA' rating on the district's existing GO debt. The outlook is stable.

Dallas County CCD's levy of a limited ad valorem tax secures the bonds. The district can levy a tax rate of up to $1.00 per $100 of taxable assessed valuation (AV) for both debt service and maintenance and operations, and can never exceed 50 cents for debt service. It currently levies a property tax rate of about 12.3 cents per $100 of AV, of which 1.9 cents is dedicated for debt service (the remainder is for maintenance and operations). The district is further restricted by a local referendum, which limits the tax rate for local maintenance to 16 cents per $100 of AV. We understand that bond proceeds will be used to refund existing debt for savings purposes.

The district's bonds are eligible to be rated above the sovereign because we believe the college district can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions" (published Nov. 19, 2013, on RatingsDirect), U.S. state and local governments are considered to have moderate sensitivity to country risk. The district's local property tax revenues are the primary source of security on the bonds, which significantly limits the possibility of negative sovereign intervention in the payment of the debt or in the operations of the district. The institutional framework in the U.S. is predictable for local community college districts, allowing them significant autonomy and independent treasury management, and there has been no history of government intervention. Moreover, the district's financial flexibility is demonstrated by its very strong general fund balance as a percent of expenditures.

The rating reflects our opinion of the district's:

- Deep and diverse economic and property tax bases;
- Diverse revenue streams with significant revenue-raising flexibility; and
- Very strong reserves coupled with a history of outperforming budget.

The district, coterminous with Dallas County, serves a population estimate of 2.5 million, primarily in Dallas, Irving, and various other suburban cities within Dallas County. The CCD is composed of seven campus sites situated throughout the county. Median and per capita household effective buying income is, in our opinion, a good 94% of national levels. Market value, a wealth indicator, is a strong, in our view $78,341 per capita. The district's AV has consistently increased over the past three years--growing by a cumulative 18% to $197.3 billion in fiscal 2016. We attribute the growth primarily to the economic depth and diversity of the Dallas-Fort Worth Metroplex, which continues to lead the nation in job creation. Preliminary taxable AV projections for fiscal 2017 suggest the college district could see another jump in market value of 7%. Despite current growth projections, we believe management will continue to employ conservative budget techniques to craft its future year budget.

Full-time-equivalent (FTE) enrollment has been slightly decreased over the past five years. In fall 2015, FTE enrollment was 39,536, down from 41,579 FTE enrollment in the fall of 2012. Credit headcount enrollment over the past four years has been relatively stable--the fall 2016 headcount was about 74,549 compared with 74,984 in the fall of 2013. Management projects FTE to remain relatively stable over the next two years given competitive tuition rates and increasing demand for programs offered by the college district.

Dallas County CCD has reported full-accrual operating surpluses over the past three audited fiscal years. For fiscal 2015, the adjusted full-accrual operating surplus was $44.8 million. Current estimates for fiscal year-end (Aug. 31) 2016, suggest another full-accrual operating surplus of about $30 million. Management reports that increases in its tax base, as well as conservative budgeting techniques, have contributed to continuous improvements in its financial position. As of Aug. 31, 2015, the district's unrestricted net assets (UNA) were approximately $207.8 million. We consider this strong at about 44% of operating expenses. The district's fiscal 2015 UNA declined slightly from 2014, when the college district's UNA was about $237.8 million. The decline is a result of new governmental accounting standards. In fiscal 2017, management may begin to spend a portion of its reserves, or annual surplus revenues, for planned capital projects. We understand that the district has identified about $44 million in capital costs that will be funded in future years. Despite the possible drawdown for one-time capital needs in future years, we believe management will remain committed to the maintenance of very strong reserve levels, and has a target to maintain about four to five months of reserves in its available fund balance. Liquidity was what we consider adequate, at 68 days' cash on hand compared with total operating expenditures at fiscal year-end 2015.

Revenue sources are diverse: Property taxes generated 42% of revenue in 2015 followed by state appropriation at 22% and tuition and fees at 12%. Management has no plans at this time to increase its maintenance and operational tax levy, nor adjust tuition rates. Tuition rates were most recently increased in fiscal 2015 by about 13% for in district students. Despite the increase, Dallas County CCD remains one of the most competitively priced college districts throughout the state.

We consider the district's management practices "good" under our financial management assessment (FMA) methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. We revised the FMA to "good" from "strong" because the district does not have a debt management policy that sets basic guidelines for debt issuance nor does it have a formal long-term capital plan that identifies capital projects and costs on a rolling five-year basis. The board does have a policy of maintaining a minimum of four months' operating expenditures on hand at all times. In addition, management develops the budget using internal and external sources, and quarterly financial reports are provided to the board. There are also quarterly audit committee meetings and quarterly planning and budget committee meetings. A formal investment policy is in place, and long-term financial projections are shared with the board.

Debt, in our view, is high at roughly $6,570 per capita, or a moderately high 8.4% of market value. Net direct debt of the district is less than 1% of market value. We understand officials do not plan to issue additional GO debt within the next two years. Amortization is rapid, with about 81% of debt to be retired in 10 years.

The district provides pension benefits to retirees through the Texas Teachers' Retirement System (TRS), a cost-sharing, multiemployer, defined-benefit pension plan. A combination of state aid, private grants, and employee contributions cover the district's required contribution in its entirety. At Aug. 31, 2014, the district reported a liability of $53.5 million for its proportionate share of the TRS's net pension liability. The net pension liability was measured as of Aug. 31, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. At Aug. 31, 2014, the employer's proportion of the collective net pension liability was less than 1%. The district also contributes to the Texas State Retiree Health Plan, a cost-sharing, multiple-employer, defined-benefit, post-employment health care plan administered by the Texas Employees' Retirement System. Historically, the state has paid the district's other postemployment benefits and retirement costs.

Outlook

The stable outlook reflects our view of the strengths of the local, broad and diverse economy coupled with management's ability to maintain very strong reserve levels. We believe that the district's maintenance of very strong reserves and its conservative budgeting techniques provide Dallas County CCD with the flexibility needed should there be a decline in state funding or drop in enrollment. We do not expect to change the rating within the two-year outlook horizon. Should the district's finances deteriorate as a result of significant planned capital spending that materially reduces the district's unrestricted net assets to levels we no longer view as comparable to other similarly rated 'AAA' credits, or we view there to be a financial imbalance and management is unable to make necessary midyear adjustments to balance routine operating costs, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015

- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009
- USPF Criteria: Limited-Tax GO Debt, Jan. 10, 2002
- Ratings Above The Sovereign: Corporate And Government Ratings—Methodology And Assumptions, Nov. 19, 2013

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.