MOODY'S
INVESTORS SERVICE

Rating Update: Moody's affirms Aa1 on Dallas County Community College District's Revenue Bonds; outlook stable

Global Credit Research - 29 Jul 2013

$21.5M debt affected

DALLAS COUNTY COMMUNITY COLLEGE DISTRICT, TX
Community Colleges (Revenue-Backed)
TX

Opinion

NEW YORK, July 29, 2013 --Moody's Investors Service has affirmed the Aa1 rating on Dallas County Community College District's (DCCCD) $21.5 million of fixed rate Revenue Financing System Refunding Bonds, Series 2006. For information on the college's general obligation bond rating, please see Moody's report dated July 29, 2013. The rating outlook is stable. The rating reflects the college's sizeable enrollment and operations, prime location in a demographically robust county, and relatively strong unrestricted financial resources..

SUMMARY RATING RATIONALE

The Aa1 rating reflects the college's sizeable enrollment, location in the demographically vibrant Dallas-Fort Worth metropolitan service area, large and consistently positive operations and cash flow, and demonstrated willingness to leverage available expense flexibility.

The stable outlook is based on the expectation that DCCCD's operations will remain healthy due to strong management and fiscal practices despite projected enrollment declines as the economy improves and the resulting challenge to grow revenue.

STRENGTHS

*Large and diversified $387.1 million operating revenue base in FY 2012, which can insulate the college from declines in state appropriations, fluctuations in tax revenues, and cyclicality of community college enrollment with tuition.

*Very strong market position as the provider of two-year education in Dallas, Texas (rated Aaa).

*Relatively large unrestricted financial resources with $185.1 million of unrestricted financial resources and $204.4 million of unrestricted monthly liquidity.

*Significant headroom to increase tax rates expressly for debt service and maintenance and operations (M&O), and willingness to do so as evidenced by a $0.02 increase in M&O tax rate in FY 2013.

*Seasoned management team with strong, forward looking budgeting process and prudent fiscal management evidenced by the execution of substantial expense reductions in FY 2012, and increases in revenue streams in FY 2013 and beyond.

CHALLENGES

*Softening student demand as the economy improves and more students return to the labor force. Some competition for students exists from regional two- and four-year public institutions.

*Declining state appropriations pressure operating revenue, with state appropriations declining modestly to 28.2% of total operating revenue in FY 2012 from 33.7% of operating revenue in FY 2008.

*Highly leveraged, with 1.0 times debt to operating revenue, and expendable financial resources of $190.4 million in FY 2012 cushioning $395.7 million of total debt (includes revenue bonds, and general obligation bonds) by just 0.48 times.

DETAILED CREDIT DISCUSSION

LEGAL SECURITY: The revenue bonds' security is provided by a senior lien on Pledged Revenues, which include student tuition and fees. The district is required by the rate covenant to collect revenues equal to 1.25 times annual debt service. There is no debt service reserve fund. Fiscal 2013 pledged revenues of $21.5 million provide ample 7.4 times coverage of principal and interest of $2.9 million. The fiscal 2012 coverage ratio was 7.0 times.

DEBT STRUCTURE: All of the college's debt is fixed rate. Of DCCCD's $400.3 million total rated debt, nearly all are GO and only $21.5 million are revenue bonds.

DEBT-RELATED DERIVATIVES: None.

RECENT DEVELOPMENTS/RESULTS:

Enrollment at DCCCD is expected to decline approximately 2.5% in fall 2013 from the district's enrollment peak of 45,388 FTEs in fall 2012. The state of Texas as a whole is experiencing a 3% enrollment decline across community college's as the economy improves and prospective students return to the labor market. The college is faced with the cyclicality of enrollment with higher enrollment typically occurring when the economy is soft and jobs are not easily available. DCCCD already experienced a slight decline in enrollment in spring 2013. While the college will be challenged to stabilize enrollment in the near-term, we expect management will maintain stable operating performance through prudent expense management and revenue increases unrelated to enrollment fluctuations.

DCCCD's positive operations and solid cash flow are expected to continue as a result of managements forward looking and conservative budgeting process. Total operating revenues declined in FY 2012 to $387.1 million from $405.7 million the prior year. This is attributable to a $10 million decline in state revenues, $1.5 million decline in tax revenues, and an increase in scholarship aid. To offset the 4.6% revenue loss, the district reduced operating expenses by 9.4% through voluntary retirement incentives, reduced faculty formula pay, and reductions in travel expenses. Management's swift and prudent fiscal actions resulted in improved operations in FY 2012 relative to FY 2011, with operating margin increasing to 6.2% from 1.2%, and operating cash flow increasing to 17.3% from 12.%. The district benefits from a diversified revenue stream that insulates it from total revenue declines when one revenue source is challenged. Operating revenue is derived from property taxes (40.5%), state appropriations (28.2%) and student charges and auxiliaries (20.9%).

To bolster total revenue in light of declining state appropriations and slower enrollment growth in FY 2013 (ending August 31) and beyond, district Board of Trustees approved a two-cent tax increase, and the college implemented a tuition increase of $7 per credit hour. These actions will result in additional revenue of $38.3 million in FY 2013. Additional tuition increases in FYs 2014-2016 will culminate with $55.8 million of additional revenue in FY 2016. State appropriations are projected to decrease slightly in FYs 2014 and 2015, however the decrease in appropriations is more than offset by the projected increase in tax revenues.

In FY 2013, the district levied $0.95 per $1,000 of assessed valuation, $0.80 for maintenance and operations (M&O) and $0.17 for debt service. The current levies are well below the voter approved maximum of $1.60 per $1,000 for M&O and statutory cap of $5.00 per $1,000 for debt service, providing the district with ample revenue flexibility. Management expects a 4% increase in the tax base for FY 2014.

DCCCD's unrestricted financial resources and liquidity are very strong relative to other community colleges in the state. Board-adopted policy requires the district to maintain no less than four months and no more than six months of budgeted operating expenses in unrestricted reserves; reserves in excess of four months of budgeted expenses may be utilized for one-time capital projects. Unrestricted net assets have nearly recovered to their pre-recession peak to $185.1 million in FY 2012 compared to $186.3 million in FY 2009. The district maintained $204.4 million of unrestricted monthly liquidity in FY 2012, which equates to a strong 221 days cash on hand.

The district has approximately $86 million of deferred maintenance that it plans to address over the coming years. None of the projects exceed $5 million. The district has also identified needed renovations to science, technology, engineering, and math facilities that total $25 million, and an additional $95 million of capital to improve the districts arts facilities. The district may issue debt for some of these projects within the next five years, but timing and debt amounts have yet to be finalized.

The district's chancellor of nearly 28 years will retire in December, 2013 when his contract expires. The chancellor will stay with the district until his replacement is hired. The district's foundation president left in fall 2012, and management expects the new chancellor to play a vital role in hiring the next foundation president.

OUTLOOK

The stable outlook reflects the district's location in the demographically and economically vibrant Dallas-Fort Worth metropolitan service area, with a substantial revenue base supported by diverse revenue streams, which insulate the district from shifts in the state economy, tax base, and student market. The stable outlook is further supported by the prudent fiscal management of the district's finances as evidenced by strengthening operations in light of revenue declines.

WHAT COULD MAKE THE RATING GO UP

A substantial growth in financial resources absent additional debt issuance, sustained improvement in operating margins or cash flow.

WHAT COULD MAKE THE RATING GO DOWN

Additional revenue debt issuance without commensurate financial resource growth, failure of district to control or cut expenses if there is a sustained decline in enrollment, decline in financial resources or significant deterioration of operating margins could negatively pressure the rating.

KEY INDICATORS (FY 2012 financial data, fall 2012 enrollment data)

Full-Time Equivalent Enrollment: 45,388 students

Net Tuition per Student: $1,770

Educational Expenses per Student: $8,264

Average Gifts per Student $5

Total Cash and Investments: $218.2 million

Total Direct Debt: $395.7 million

Total Comprehensive Debt*: $400.3 million

Expendable Financial Resources to Direct Debt: 0.48 times

Expendable Financial Resources to Operations: 0.52 times

Monthly Days Cash on Hand: 221.4 days

Operating Revenue: $387.1 million

Operating Cash Flow Margin: 17.3%

Three-Year Average Debt Service Coverage: 1.3 times

Reliance on Tax Revenue (% of Moody's Adjusted Operating Revenue): 40.5%

Reliance on Government Appropriations (% of Moody's Adjusted Operating Revenue): 28.2%

State of Texas Rating: Aaa stable

* Comprehensive Debt includes direct debt, operating leases, and pension obligation, if applicable.

RATED DEBT

General Obligation Bonds: Series 2008, Series 2009, Series 2010, Series 2010 (refunding): Aaa

Revenue Bonds: Series 2006: Aa1

METHODOLOGY

The principal methodology used in this rating was Moody's Approach for Evaluating Community Colleges published in December 1999. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

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