FitchRatings

FITCH AFFIRMS DALLAS COUNTY COMMUNITY COLLEGE DISTRICT REVENUE BONDS AT 'AA'; OUTLOOK STABLE

Fitch Ratings-New York-20 November 2013: Fitch Ratings affirms the 'AA' rating on approximately $19.4 million of Dallas County Community College District's (DCCCD) series 2006 revenue bonds (the bonds).

The Rating Outlook is Stable.

SECURITY

The bonds are secured by and payable from the pledged revenues of DCCCD, which consists primarily of up to 25% of tuition charges per student per semester.

KEY RATING DRIVERS

STABLE CREDIT CHARACTERISTICS: The 'AA' rating primarily reflects prudent financial management practices and a diverse revenue base, which supports generally positive GAAP-based operating results; a good financial cushion to offset budgetary pressures; and a manageable debt burden. Counterbalancing factors include high exposure to state and federal funding and enrollment trends that, similar to many other community colleges, tend to run countercyclical to economic conditions.

SATISFACTORY FINANCIAL PROFILE: Prudent financial management practices continue to support DCCCD's credit profile. Senior leadership's ability and willingness to address financial pressures was most recently demonstrated when it effectively countered declines in taxable values between fiscal years 2010 and 2012 and cutbacks in state funding (Texas GO's rated 'AAA' with a Stable Outlook by Fitch) through a combination of revenue enhancements and expense adjustments.

SOLID MARKET POSITION: The district continues to benefit from its central location within the Dallas-Fort Worth metropolitan area. Following record enrollment gains, modest losses are being anticipated over the near term due primarily to recent improvements in the area economy. The impact of a slowdown in enrollment is being actively managed, in part, through significant expense flexibility associated with part-time faculty and staff.

MANAGEABLE DEBT BURDEN: DCCCD's track-record of generating sound debt service coverage from operations and lack of additional debt plans offset its moderately high debt burden (inclusive of debt service on GO bonds rated 'AAA' with a Stable Outlook by Fitch).

RATING SENSITIVITY

The rating is sensitive to dramatic, unmanaged shifts in one of more of the college's primary revenue streams, which could adversely affect its financial profile.

CREDIT PROFILE

Established in 1965, Dallas County Community College District (DCCCD) is composed of seven individually accredited colleges located throughout Dallas County, all of which were reaffirmed for a 10-year term by the Southern Association of Colleges and Schools (SACS), the regional accrediting body, in 2013. In addition to academic programs for transfer to a senior college or universities, DCCCD offers vocational and technical education, continuing education, and adult literacy programs. Total full-time equivalents (FTE) enrollment stood at 41,579 in fall 2012, or 3% below the prior year but 15.6% ahead of fall 2008. Based on preliminary figures, fall 2013 FTE enrollment is trending approximately 3% below the prior year.

The senior leadership team's responsiveness and commitment to prudent financial planning, which includes multi-year forecasting and conservative budgeting practices, continues to support the college's financial profile. DCCCD's GAAP-based operating margin has averaged 3.4% between fiscal years 2008 and 2012, including 2.9% in the most recent year. Fitch views this level of operating performance as impressive given recent state funding pressures.

Management offset a $10.1 million decline in fiscal 2012 state appropriations through a variety of measures including a restructured summer salary schedule for full-time employees and a well-received volunteer retirement incentive program. Management also instituted a tuition increase, which supported student-generated revenues (13.8% of total unrestricted operating revenues in fiscal 2012). Fitch notes that the college's tuition for fall 2013 remained well below the state average and comparable to nearby community colleges, which is indicative of continued pricing flexibility.

A two-cent increase in the operations & maintenance (O&M) tax rate to 9.9 cents per $100 of assessed valuation coupled with active expense management in fiscal 2013 helped to mitigate a mid-year cut of approximately one million in state funds and slowdown in enrollment growth. While audited financial statements for fiscal 2013 were not available, operating performance is expected to be comparable to the prior year. A 1.8% ($3.6 million) increase in state funds during the 2014-2015 biennium bodes well for operating performance in fiscal years 2014 and 2015.

The college's large taxable assessed value (TAV) has begun to rebound following three years of moderate declines, a credit positive given the college's significant reliance on ad valorem tax revenues for annual unrestricted operating revenues (35% in fiscal 2012). While management increased the O&M tax rate further in fiscal 2014, to 10.4 cents per $100 of assessed valuation, Fitch notes that the college continues to maintain significant headroom for further increases under the 16 cent cap.

Federal grants and contracts, most of which is in the form of Pell Grants for low-income students, remain a significant source of operating revenues (23.7% of fiscal 2012 unrestricted operating revenues). Some recent changes in federal regulation associated with the Pell program, which included the elimination of the separate summer award beginning in July 1, 2012, was partially offset by through various funding sources, including the Texas Public Education Grant. Given the college's significant reliance on Pell Grants, Fitch will continue to closely monitor any adverse changes in this discretionary program.

Favorable operating trends have supported a steady level of financial resources. As of Aug. 31, 2012, available funds, defined by Fitch as cash and investments less certain net assets, totaled approximately $204.9 million. DCCCD's financial cushion covered fiscal 2012 operating expenses and long-term debt by a satisfactory 47.2% and 49.5%, respectively. The management team continues to adhere to an internal policy that calls for a minimum of four months of budgeted operating expenses in unrestricted reserves.

The college's debt burden has decreased in recent years due to the repayment of outstanding obligations and lack of new debt. While the college's pro forma maximum annual debt service (MADS) declined by approximately $10.7 million, to $34.5 million (inclusive of GO debt), Fitch notes that the debt burden remains moderately high at 7.7% of unrestricted fiscal 2012 operating revenues. DCCCD's track-record of generating sound economic debt service coverage from operations (1.6x MADS coverage in fiscal 2012) and lack of additional debt plans serve to offset the debt burden.

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Applicable Criteria and Related Research:

-- 'U.S. College and University Rating Criteria' (May 10, 2013);
-- 'Fitch Affirms Dallas County Community College Dist., Texas' RFS Bonds at 'AA'; Outlook Stable (Dec. 22, 2011);
-- 'Fitch Affirms Dallas County Community College District, Texas' GOs 'AAA'; Outlook Stable (May 7, 2012).

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U.S. College and University Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=708049