STANDARD & POOR'S RATINGS SERVICES

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Summary:

Walnut Creek School District, California; General Obligation

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Summary:

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Credit Profile		
US$13.2 mil GO bnds ser 2012 due 09/01/2027		
Long Term Rating	AA/Stable	New
Walnut Creek Sch Dist GO		
Long Term Rating	AA/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' school issuer credit rating to Walnut Creek School District, Calif.'s general obligation (GO) refunding bonds, series 2012. At the same time, Standard & Poor's affirmed its 'AA' long-term rating and underlying rating (SPUR) on the district's GO bonds outstanding. The outlook is stable.

The ratings reflect our view of the district's:

- Very strong income and employment indicators and access to the greater Bay Area economy;
- Growth in average daily attendance (ADA), the primary driver of operating revenues under the state school funding framework;
- Historically strong financial performance, as evidenced by very strong reserve levels; and
- Financial flexibility provided by a voter-approved parcel tax with no sunset date.

Partially offsetting these foregoing strengths, in our view, are recent state funding cuts, which have prompted the district to reduce its operating expenditures and draw down reserves.

Unlimited ad valorem taxes levied on taxable property within the district secure the GO bonds. The Contra Costa County board of supervisors has the power and obligation to levy these taxes at the district's request for the bonds' repayment. The county is required to deposit such taxes, when collected, into the bonds' debt service fund.

Located 25 miles east of San Francisco, the district (with an approximate population of 65,200) serves a portion of Walnut Creek and unincorporated portions of Contra Costa County. We consider the district's income levels to be very strong, with median household effective buying income (EBI) and per capita EBI at 147% and 190%, respectively, of the national levels. Unemployment in the area is less than the state and national averages, at a preliminary 6% for June 2012. Assessed value in the district has declined by approximately 3% to $9.7 billion since fiscal year 2010 after rising at an average annual rate of 5.4% during the previous five years. Market value per capita is $149,000, which we consider extremely strong.

ADA in the district has increased steadily since fiscal year 2008, following a period of declining enrollment during which the district approached a level of per-pupil property tax revenues that would have qualified it for "basic-aid" status under the state school funding scheme. From 2009 to 2012 ADA has risen by nearly 12%, reaching 3,412 in

2012. We understand that ADA growth has come primarily through kindergarten enrollment and inter-district transfers, and that the district maintains a waiting list of prospective transfer students that could be used to offset potential enrollment declines; however, management projects additional ADA growth in future years resulting from new housing development currently underway in the district.

In our opinion, the district's record of financial performance has been strong, characterized by general fund surpluses and increasing reserves since 2005, even in the context of recent state funding cuts. Total available operating reserves at the end of fiscal year 2011 were about $9.6 million, or 37% of expenditures. After several years of expenditure reductions to offset declining state funding, the district reported its first general fund deficit in at least five years for the fiscal 2011-2012 year, leaving it with available reserves of $9.1 million, or 36% of expenditures, which we consider very strong. The district has budgeted for level program expenditures and further revenue cuts in 2012-2013, and currently projects another deficit of $955,000. We understand that this projection assumes the passage of the proposed November 2012 tax increase; if the tax initiative fails, management reports that it plans to spend down available reserves to approximately $7.4 million (25%) to make up for the lost revenue.

In addition to receiving regular revenue limit funding from the state, the district has a voter-approved parcel tax that generates approximately $1.2 million annually (5% of general fund revenues) and has no sunset date. We view the parcel tax, together with funds received from the district's educational foundation, as providing additional revenue flexibility and demonstrating strong community support. Furthermore, because the district receives more than 90% of its revenue limit funding directly from property taxes, its cash position is not as deeply affected by payment deferrals from the state.

We consider the district's management practices "good" under our Financial Management Assessment (FMA) methodology. An FMA of "good" indicates that in our view practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. The district's approach includes the use of external data and independent assumptions for budgeting purposes, as well as long-term financial and capital plans.

We consider the district's overall debt burden low at approximately 2% of market value, but moderate at approximately $2,844 per capita. We consider the district's debt service carrying charge to be moderate, at 8.4% of noncapital governmental expenditures. The district participates in the state's pension plans and in 2011 fully funded the annual required contributions of $1.5 million, equivalent to roughly 5% of noncapital expenditures. In addition, the district funds its other postemployment benefits (OPEB) on a pay-as-you-go basis; as of June 30, 2011 the current unfunded OPEB actuarial accrued liability was $2.6 million.

Outlook

The stable outlook reflects our view of the district's recent financial performance and the significant financial flexibility provided by strong operating reserves and a permanent parcel tax. We anticipate that the district will experience stable enrollment during the two-year outlook horizon and steady enrollment growth over the medium term, and that it will continue to maintain what we consider to be very strong reserve levels; consequently, we do not expect to change the ratings during the outlook period.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

Ratings Detail (As Of July 17, 2012)		
Walnut Creek Sch Dist GO		
Long Term Rating	AA/Stable	Affirmed
Unenhanced Rating	NR(SPUR)	Current
Walnut Creek Sch Dist GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal 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.