MOODY'S
INVESTORS SERVICE

Rating Action: Moody's assigns Aa2 enhanced, A2 underlying to Lake County Community College District's (OH) $20.7 million Series 2014 bonds, outlook stable

Global Credit Research - 06 Nov 2014

$26M rated debt

New York, November 06, 2014 --

Moody's Rating

Issue: General Receipts Bonds, Series 2014; Underlying Rating: A2; Enhanced Rating: Aa2; Sale Amount: $20,700,000; Expected Sale Date: 11-18-2014; Rating Description: Revenue: Public University Limited Pledge

Opinion

Moody's Investors Service assigns an enhanced Aa2 rating and A2 initial underlying rating to Lake County Community College District's (LCCC) $20.7 million of Series 2014 General Receipts Revenue Bonds. The enhanced Aa2 rating is based on support from the Ohio Community and Technical College Credit Enhancement Program. The rating outlook for the enhanced rating is stable based on the State of Ohio's (rated Aa1) stable outlook. Lake County Community College District's underlying rating outlook is also stable.

SUMMARY RATING RATIONALE

The A2 underlying rating is supported by the college's favorable revenue diversity, including capital and operating support from Aa1 rated government entities, and conservative debt structure. The rating also incorporates consistently imbalanced operating performance, ongoing declines in full-time equivalent (FTE) enrollment, and thin liquidity.

The enhanced Aa2 rating is based on the programmatic rating assigned to the Enhancement Program, which serves as the ceiling for the individual financings that benefit from the Enhancement Program. The enhanced Aa2 rating matches the programmatic rating due to an evaluation of sufficiency of interceptable revenue and the transaction structure, which are rated strong and average, respectively when applying our Pre-Default Intercept Methodology. The average rating of the transaction structure is mitigated by the program mechanics that ensure timely debt service payments.

STRENGTHS

*The college benefits from revenue diversity, including operating and capital support from both the State of Ohio (Aa1, stable) and Lake County (Aa1) which has enabled it to maintain steady, although thin operating performance. Government appropriations represent a total 53% of FY 2013 operating revenue.

*Debt is 100% fixed rate and amortizing over 25 years. Debt service is level.

*As an access-oriented provider of two year education in Lake County (main campus) with one offsite location located in Lake County in northeastern Ohio, the college fulfills an important role in the community.

CHALLENGES

*The college has consistently imbalanced operating performance, with a three-year average operating deficit of 1.1% and thin operating cash flow margins (3.9% in FY 2013).

*Revenue from student charges comprises the largest source of operating revenue (42.8% contribution to revenues in FY 2013) and steady enrollment declines since fall 2009 have added to operating pressure.

*The college has thin liquidity of only $12.9 million to cover $68 million of operating expenses (FY 2013), providing for just 71.6 days of monthly days cash on hand.

OUTLOOK

The stable outlook reflects expectations of continued operating and capital support from the State of Ohio and Lake County. We expect that the college will generate sound debt service coverage despite enrollment softening, through continued control of expense pressures. We expect minimal additional debt issuance within the next 18 to 24 months.

WHAT COULD MAKE THE RATING GO UP

A rating upgrade would be driven by significant growth in financial resources, and evidence of sustained ability to improve operating performance through net tuition growth and management of expenses.

WHAT COULD MAKE THE RATING GO DOWN

Negative rating pressure could result from further weakening of operating cash flow or debt service coverage, or deterioration of liquidity. A reduction in operating or capital support from the State or material decreases in tax revenues would also be credit negative.

RATING METHODOLOGIES

The principal methodology used in the underlying rating was Moody's Approach for Evaluating Community Colleges published in December 1999. The principal methodology used in the enhanced rating was State Aid Intercept Programs and Financings: Pre and Post Default published in July 2013. Please see the Credit Policy page on www.moodys.com for a copy of these methodologies

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