Rating Action: Moody's downgrades Redwoods CCD, CA's GO rating to A1; outlook is negative

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$30M debt affected

New York, August 05, 2013 -- Moody's Investors Service has downgraded the rating on Redwoods Community College District's (CA) general obligation (GO) bonds to A1 from Aa2. The outlook is negative. The downgrade affects $29.5 million of rated debt. The bonds are secured by the district's unlimited property tax pledge.

SUMMARY RATING RATIONALE

The A1 rating reflects the district's sizable tax base with below average wealth levels, modest debt burden, and below average financial position. The downgrade incorporates a trend of structurally imbalanced operations three of the last four fiscal years, limited liquidity, and history of accreditation sanctions. The negative outlook is based on potential risks associated with the upcoming accrediting commission's decision. Ongoing accreditation sanctions, though improved, provide uncertainty especially with the accrediting commission's renewed emphasis on fiscal health coupled with the district's still weak financial condition.

STRENGTHS

- Large and resilient tax base
- Low debt burden with modest debt plans

CHALLENGES

- Placement of probation sanction from accreditation commission
- Significantly limited liquidity
- Projected structurally imbalanced operations through fiscal 2013

THE OUTLOOK

The negative outlook is based on potential risks associated with the upcoming accrediting commission's decision. Ongoing accreditation deficiencies, though improved, provide uncertainty especially with the accrediting commission's renewed emphasis on fiscal health coupled with the district's still weak financial condition.

WHAT COULD MAKE THE RATING MOVE UP (REMOVAL OF NEGATIVE OUTLOOK):

- Substantially improved liquidity and return to structurally balanced operations meeting or exceeding the 5% target
- Removal of accreditation sanction
- Material improvement in the district's assessed values and socioeconomic indices

WHAT COULD MAKE THE RATING MOVE DOWN:

- Elevation of sanction to Show Cause or termination of accreditation
- Prolonged trend of structurally imbalanced operations beyond the district's expectations
- Depletion of General Fund reserves and other available cash reserves
- Significant deterioration of tax base

The principal methodology used in this rating was General Obligation Bonds Issued by US Local Governments published in April 2013. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.
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