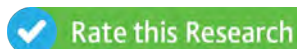


CREDIT OPINION

15 October 2019


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Riverside Community College District, CA

Update to credit analysis following upgrade to Aa1

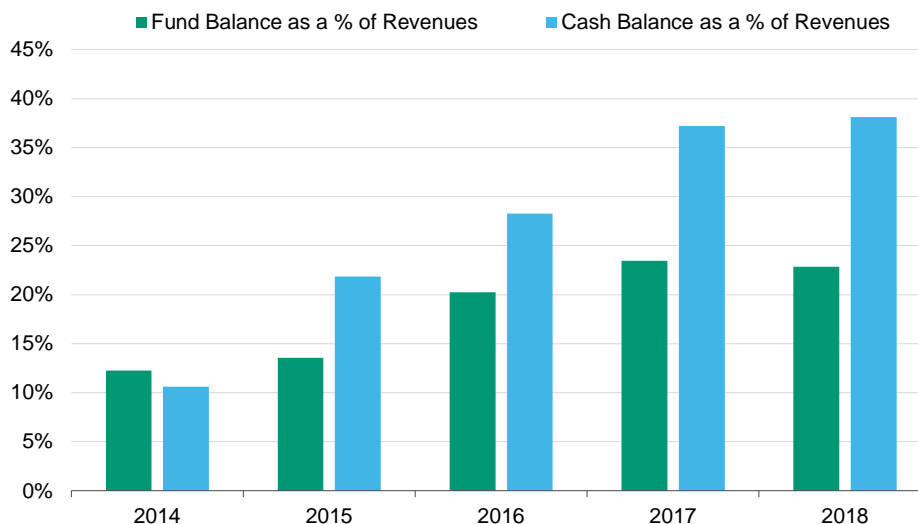
Summary

Riverside Community College District, CA (Aa1 stable) has a very large and growing tax base, benefiting from its location in proximity to employment centers in Southern California, and average resident wealth measures. The district's robust financial position is bolstered by growing enrollment and revenues, as well as the district's conservative budgeting practices and solid minimum reserve policy. The district net direct debt is low, although overall debt is above average. The combined pension and OPEB liabilities are consistent with the national median for Aa1 rated community college districts and below average for a California community college district.

We upgraded the district's general obligation (GO) bond rating to Aa1 from Aa2 on October 15.

Exhibit 1

Riverside CCD's financial position has materially improved due to growing enrollment and revenues combined with capable fiscal management



Revenue include the general fund and debt service funds. Available fund balance includes unassigned, assigned and committed balances, as well as balances restricted for payment of debt service.

Source: Riverside CCD's 311 fiscal report

Credit strengths

» Very large tax base benefiting from regional economic growth

- » Very strong financial position
- » Low net direct debt
- » Growing enrollment

Credit challenges

- » Above-average pension liability with associated cost pressures
- » An average resident socioeconomic profile but weak relative to Aa1-rated peers

Rating outlook

The stable outlook reflects our view that the district will have continued solid tax base growth, given ongoing development. It also reflects our expectation that increasing enrollment and revenues will support the district's strong financial position, maintained through capable management and solid fiscal policies.

Factors that could lead to an upgrade

- » Sustained trend of operating surpluses and maintenance of significantly increased reserves
- » Significant improvement of socioeconomic indices
- » CCD's population and median family income is estimated based on demographics of unified school districts in the American Communities Survey. Operating revenue include the general fund and debt service funds. Available fund balance includes unassigned, assigned and committed balances, as well as balances restricted for payment of debt service.

Factors that could lead to a downgrade

- » Material tax base decline
- » Deficit spending leading to deterioration of the district's financial position

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on www.moody's.com for the most updated credit rating action information and rating history.

Key indicators

Exhibit 2

Riverside Community College District, CA (800032785)	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$77,697,159	\$83,625,392	\$88,295,864	\$93,315,233	\$98,786,977
Population	984,768	995,240	1,008,558	1,016,084	1,016,084
Full Value Per Capita	\$78,899	\$84,025	\$87,547	\$91,838	\$97,223
Median Family Income (% of US Median)	105.6%	106.0%	104.8%	105.3%	105.3%
Finances					
Operating Revenue (\$000)	\$189,904	\$205,422	\$249,639	\$250,206	\$271,505
Fund Balance (\$000)	\$23,301	\$27,863	\$50,549	\$58,629	\$62,049
Cash Balance (\$000)	\$20,142	\$44,843	\$70,520	\$93,120	\$103,497
Fund Balance as a % of Revenues	12.3%	13.6%	20.2%	23.4%	22.9%
Cash Balance as a % of Revenues	10.6%	21.8%	28.2%	37.2%	38.1%
Debt/Pensions					
Net Direct Debt (\$000)	\$235,222	\$231,685	\$271,771	\$269,089	\$265,761
3-Year Average of Moody's ANPL (\$000)	\$339,680	\$380,175	\$405,924	\$463,855	\$513,481
Net Direct Debt / Full Value (%)	0.3%	0.3%	0.3%	0.3%	0.3%
Net Direct Debt / Operating Revenues (x)	1.2x	1.1x	1.1x	1.1x	1.0x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.4%	0.5%	0.5%	0.5%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.8x	1.9x	1.6x	1.9x	1.9x

CCD's population and median family income is estimated based on demographics of unified school districts in the American Communities Survey. Operating revenue include the general fund and debt service funds. Available fund balance includes unassigned, assigned and committed balances, as well as balances restricted for payment of debt service

Source: governmental data sources, district's 311 fiscal reports, Moody's Investors Service

Profile

Riverside Community College District encompasses 440 square miles in western Riverside County (Aa3 stable) with a very small portion in San Bernardino County, and has an estimated population of 1,016,084. The district overlaps with Alvord (A2 stable), Corona-Norco (Aa2 stable), Jurupa (Aa3), Moreno Valley (Aa3), Riverside (Aa2), and Val Verde Unified School Districts. The district serves approximately 31,857 students with its three primary college campuses in the cities of Riverside (A1 positive), Moreno Valley, and Norco.

Detailed credit considerations

Tax base and economy: very large tax base benefiting from regional economic growth; average socioeconomic profile

The district's tax base is very large and will continue to be a credit strength as it continues solid rates of expansion. We also anticipate that the district's resident wealth levels will remain healthy and benefit from the sizeable and diverse regional economy. The district covers western Riverside County, the heart of its residential and economic centers, as well as a sliver of San Bernardino County. The fiscal 2020 assessed valuation (AV) is \$112.6 billion, which places it among the largest community college districts in the nation by this measure. The tax base is poised for additional growth, supported by continued residential and commercial development.

The population of the region served by the district continues to grow, fueled by the region's relatively affordable housing and cost of living. The area served by the district has a diversity of employment opportunities, including education and health care services, leisure and hospitality, government, and retail trade. The region serves as a transportation and distribution hub for goods and services transmitted throughout Southern California. The unemployment rate in Riverside is low at 3.7% as of August 2019, better than the state at 4.2% and US at 3.8% for the same time period.

Socioeconomic indicators are average with a median family income (MFI) equal to 105.3% of US MFI and per-capita AV in fiscal 2020 of \$110,848.

Financial operation and reserves: strong financial position bolstered by enrollment growth, favorable funding formula and conservative budgeting

The district's financial position has materially improved over the last four years, benefiting from enrollment growth and a new funding formula that benefits the district. We expect these trends will enable the district to maintain stable operations despite expenditure pressures. The district's fiscal 2019 general fund unaudited results show an \$8.8 million surplus, bringing the ending total fund balance to \$62.9 million or 21.9% of revenues. Available balances, which excludes the balance in the restricted general fund, equaled \$53.2 million or 18.5% of revenues, up substantially from 6.6% of revenues in fiscal 2013. The district has benefitted from a 27% increase in enrollment since fiscal 2013. In fiscal 2019, the state implemented a funding formula that benefits the district due to the demographic profile of its students.

In fiscal 2020, the district has budgeted a \$5.1 million ongoing budget shortfall, based on conservative 1.1% enrollment growth and a 3.26% COLA on state funding, as well as substantial negotiated compensation and other known cost increases. The district also budgeted \$33.7 million in possible one-time expenditures and assignments to reserves. The district typically outperforms its budgets. In its five-year forecast, which is based on similar revenue and expenditure assumptions to fiscal 2020, the district has a \$12.5 million deficit in fiscal 2021, but then generates four years of surpluses and growing reserves. Based on the track record of outperforming budgets, we anticipate the district will maintain its strong fiscal profile over the near term.

On an operating basis, which for the purposes of our analysis includes the general fund and debt service funds, the district had \$62.0 million in available fund balance or 22.9% of operating revenues.

LIQUIDITY

As of fiscal 2018, the district's general fund cash balance equaled \$86.5 million or 34.3% of general fund revenues. It includes cash restricted for the district's substantial restricted general fund grant programs. We anticipate that the district's general fund cash will remain an above average credit strength.

Debt and pensions: low debt but elevated pension liability

Following the district's upcoming GO bond issuance, it will have about \$282.0 million in net direct debt, equal to a low 0.3% of fiscal 2020 AV. We anticipate that debt levels will remain low, despite the district considering additional bond authorization in 2020, as tax base growth should continue at a healthy pace. Ten-year principal payout is slow at 31.6% and overall debt is elevated at 4.4% of AV.

DEBT STRUCTURE

The district's debt consists fixed-rated general obligation bonds with final maturity in 2040.

DEBT-RELATED DERIVATIVES

The district is not party to any debt-related derivatives.

PENSIONS AND OPEB

The district's pension burden is above average for a CCD. As is typical for a California community college district, Riverside Community College District's pension contributions are growing, but remain insufficient to keep unfunded liabilities from growing under existing plan assumptions. The district's reported net pension liability (NPL) using a 7.12% discount rate equals \$195.5 million, significantly less than the Moody's adjusted NPL using a 3.87% discount rate of \$548.3 million. The adjusted NPL equals 2.0 times operating revenues. The district provides employees with defined benefit pension plans through the California State Teachers' Retirement System and the California State Public Employees Retirement System.

The district's adjusted net OPEB liability \$52.8 million in fiscal 2018 or 0.2 times operating revenues. The district paid more than its required actuarial contribution in 2018, as it is contributing a minimum of \$250,000 annually to an OPEB trust, which has a balance of \$1.7 million in fiscal 2019.

Management and governance: limited revenue-raising ability in the sector is outweighed by enrollment-driven revenue increases; capable management growing operation

INSTITUTIONAL FRAMEWORK

California CCDs have an Institutional Framework score of "A", or moderate compared to the nation. California CCDs' major revenue sources are determined by the state government or, for the most part, can only be raised with voter approval. Ad valorem property tax

rates cannot be increased above 1% except to meet GO bond payments, and assessed valuation growth is also generally limited to 2% annually unless a property changes ownership. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually.

Across the sector, fixed and mandated costs are generally less than 25% of expenditures. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

OPERATING HISTORY

The district's five-year ratio of revenue to expenditures is a healthy 1.04 times, indicative of the growth in revenues outpacing expenditures and district capably managing that growth.

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