S&P Global Ratings

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Summary:

Riverside Communtiy College District, California; General Obligation

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Credit Profile		
US$89.85 mil 2019 GO rfdg bnds dtd 11/14/2019 due 08/01/2040		
Long Term Rating	AA/Stable	New
US$39.995 mil GO bnds (Election 2004) ser 2019F due 08/01/2039		
Long Term Rating	AA/Stable	New
Riverside Comnty Coll Dist GO bnds		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Riverside Community College District, Calif.'s series' 2019F (Election of 2004) general obligation (GO) and 2019 GO refunding bonds. We also affirmed our 'AA' long-term rating on the district's existing GO bonds. The outlook is stable.

Unlimited ad valorem taxes levied on taxable property within the district secure the GO bonds. The board of supervisors of Riverside County and San Bernardino County have the power and obligation to levy these taxes at the district's request for the bonds' repayment.

The rating reflects our view of the district's growing economy, as evidenced by assessed value (AV) that has grown to $112.6 billion in fiscal 2020, an experienced senior management team with good financial policies, a large enrollment size and growth unlike many district peers, seven consecutive years with positive operating results, with available fund balances above levels we would consider very strong since fiscal 2016. The district has fared well under the new state student centered funding formula implemented in 2019 given its enrollment growth, good progress on student success measures, large population of underserved students, and guided pathways model that started well before the new funding formula rolled out. However, economic factors such as income indicators and market value per capita, are lower than the district's higher-rated peers.

The rating further reflects our view of the district's:

- Access to the Riverside, Los Angeles, and Orange County metropolitan statistical areas;
- Trend of strong general fund results, and projected surpluses for fiscal years 2019 and 2020 aided by management's conservative budgeting practices;
- Operational flexibility inherent to community colleges through an ability to reduce class sections and curriculum if required (an operational feature not shared by kindergarten through 12th-grade school districts); and
- Favorable state aid under the new state funding formula for community colleges.

Partially offsetting these factors, in our opinion, is the district's market value capita, income, and wealth indicators, which are below similarly rated peers.

The district plans to use the approximately $40 million of series 2019F bond proceeds for a variety of projects at its three campuses. These projects are intended to be completed over the next three years and management indicates it is expected to enhance the student experience through the addition of a student welcome center and student services renovation, among others. This bond issuance is the last remaining from the district's 2004 bond authorization. The series 2019 GO refunding bonds ($89.9 million par amount) is intended to fully refund the district's series 2010D-1 (Build America Bonds) on a matched-maturity basis for interest savings.

Economy

The district spans 440 square miles in western Riverside County, with an estimated population of approximately 1 million. The district colleges include Riverside City College, Moreno Valley College, and Norco College.

District residents have access to the Riverside, Orange, San Bernardino, and Los Angeles County regional economies. The district and greater region is also a center for transportation and warehousing due to the access to several freeways and the proximity to the Los Angeles port. We consider the tax base very diverse, with the top 10 taxpayers accounting for 2.6% of fiscal 2020 AV. In our opinion, effective buying income (EBI) is good on a median household basis at 106% of the national level, yet adequate on a per capita basis at 81% of the national level. The district's AV has grown by a cumulative 31.3% to $112.6 billion in fiscal 2020 since fiscal 2009, well above its pre-recession high of $85.8 billion. We consider market value per capita extremely strong at $107,302 based on fiscal 2020 AV. District management notes that a recently opened Kaiser Permanente Medical Center and planned residential and commercial developments will have a positive influence on the district's AV and enrollment.

Finances

While enrollment is typically countercyclical to economic growth, the district has maintained strong enrollment due to unique program offerings, which are relevant to prominent industries within the economic region. The district's full-time equivalent (FTE) student enrollment has grown consistently since fiscal 2013 up to 31,159 in fiscal 2019. The district has budgeted for another 2.2% increase in enrollment in fiscal 2020.

The state's new funding formula decreased the importance of FTEs in the funding formula, and increased the importance of student demographics and performance (although FTES will still be the single-most important factor accounting for 70% of total funding). District management expects the district to benefit financially from the new formula due to its student success measures and demographics, and we view this as a potential credit strength. The state's funding environment has improved in recent years for community college districts in California, after a history of state funding cuts. We believe the near-term funding outlook for community college districts will continue to improve.

The district received an additional $8.3 million in state funds over the hold harmless level in fiscal 2019 and has budgeted for another increase in fiscal 2020.

The district's financial profile has been very strong, which is a credit strength, with a trend of general fund surpluses since fiscal 2013. Unaudited actuals for fiscal 2019 indicate a healthy total general fund (unrestricted and restricted) surplus of $8.8 million. With these positive results, the district has built up its unrestricted general fund balance reserves to $53.2 million or 19.3% of general fund expenditures, which we consider very strong. Management has no plans for material drawdowns in its unrestricted general fund reserves in the foreseeable future. Coupled with continued surpluses, this should bolster its unrestricted general fund reserves, which would be viewed favorably by us.

The district is budgeting for a $47.3 million general fund deficit in fiscal 2020, but has outperformed its budgets in recent years. The district historically has budgeted conservatively. Its budgets typically reflect a net decrease in the fund balance, but it ended up outperforming by posting consecutive surpluses for the past seven years. Per management, the budget is built off prior budgets and adjusted for known information, including salary increases and pension costs. The district has also budgeted for a set-aside for the past several years, with the knowledge and understanding that it would not be spent unless some material, unbudgeted event were to occur. The district is conservative in reflecting expenditures that may not actually be realized during the fiscal year. This has bolstered its unreserved fund balances. On an all-funds, full-accrual/GAAP basis, net tuition and fees accounted for a small 6.1%, state appropriations at 34%, grants and contracts at 20%, and property taxes at 16.2%, so sufficient diversity exists in revenue streams. The district has significant expense flexibility as most of its peer community colleges and can adjust expenses, including staffing and elimination of courses, to accommodate revenue fluctuations. We believe the district will monitor its budgets and adjust operational expenditures to maintain its very strong financial position.

Management

The district is governed by a five-member board of trustees, each member of which is elected by trustee areas to a four-year term. Elections for positions to the board are held every two years, alternating between two and three available positions. The senior management team at the district is comprised of a chancellor appointed by the board in 2018 who is responsible for overseeing daily operations and key personnel. The current chancellor has an extensive educational background. The district's finance and budgeting staff is seasoned and experienced, particularly its vice chancellor of business and financial services, which we view favorably. We do not expect meaningful senior management changes at this time.

We consider the district's management practices good under our Financial Management Assessment methodology, indicating financial practices exist in most areas, but that governance officials might not formalize or monitor all of them on a regular basis. Since our last review, management made incremental improvements to its multi-year financial forecasting, and facilities planning, which we view favorably. Highlights include:

- Well-developed and reliable budgetary assumptions, developed based on information provided by the state, trend analysis of expenditures, and a conservative assumption of FTE growth;
- Monthly presentations of budget-to-actuals to the board, with monthly budget reviews by the management team and budget amendments approved by the board as needed;
- Multiyear general fund forecasts extending five years beyond the current budget year with high level assumptions and updated annually;
- Currently developing a long-term capital facilities program to lay the foundation to implement a facilities master plan over the next 20 years. All capital projects are documented, funded and reviewed on an annual basis through various comprehensive monthly committee meetings and annual updates. Also have a five-year deferred maintenance plan updated annually, a five-year capital construction plan to request state funding, which outlines

district funding for projects, and facilities master plans for each of their three colleges;

- A debt policy that provides guidance for issuing debt; and
- Formal reserve policy at a minimum of 5% of total available funds for economic uncertainty, and an informal target of 10% which the district has exceeded in recent fiscal years.

Debt

The district's pro forma net direct and overlapping debt is approximately $4.5 billion. The district's pro forma overall net debt burden is moderate, in our opinion, at $3,185 per capita, and 4.2% of market value in fiscal 2019. Management indicates the district may seek a new voter authorization in 2020. We will evaluate the impact of any additional debt on the district's credit profile at the time of issuance.

Pension and other postemployment benefit liabilities

The district's teachers and employees also participate in the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS). The district made its full contractually required contribution to both plans in fiscal 2018 for a total of roughly 5.4% of total governmental fund expenditures. The district also contributed $6.2 million toward its other postemployment benefits (OPEBs). Overall, pension and OPEB contributions totaled what we consider an above-average 7.4% of total governmental fund expenditures. Using updated reporting standards in accordance with Governmental Accounting Standard Board (GASB) Statement No. 67 and 68, the district's net pension liability as of June 30, 2018, was $120.3 million for CalSTRS and $75.2 million for CalPERS. CalSTRS is considered as the largest pension plan (based on liability size) and had a 71% funded ratio as of June 30, 2018. We also note that in fiscal 2017, the district set up an irrevocable trust for the purpose of funding future OPEB contributions. The district intends and is contributing a minimum of $250,000 to this trust annually.

Outlook

The stable outlook reflects our view that the new state funding formula will enable the district to maintain very strong available fund balance reserves. We do not anticipate changing the rating within the outlook's two-year horizon.

Upside scenario

We could raise the rating if the district's economy were to improve significantly, commensurate with 'AA+' rated peers, and if the district were to maintain its key credit characteristics such as available general fund balances as a percentage of general fund expenses at or above current levels.

Downward scenario

Although unlikely in our view given the district's steady financial profile, we could consider a negative rating action if the district is unable to maintain balanced operations and draws down available reserves to levels below what we consider very strong.