S&P Global Ratings

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Summary:

Riverside Community College District, California; General Obligation

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Riverside Comnty Coll Dist GO bnds		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'AA' long-term rating on Riverside Community College District, Calif.'s existing general obligation (GO) bonds. The outlook is stable.

Unlimited ad valorem taxes levied on taxable property within the district secure the GO bonds. The county board of supervisors has 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 over $105 billion. However, economic factors such as income indicators and market value per capita, are lower than the district's higher-rated peers. The rating also reflects the district's six years with positive operating results, with available fund balances above levels we would consider very strong since fiscal 2016. As the state updates its funding for community colleges, we believe the district will benefit from the change and a hold-harmless provision will guarantee consistent funding through fiscal 2021.

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

- Access to the Riverside, Los Angeles, and Orange County metropolitan statistical areas (MSA);
- Trend of strong general fund results;
- 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 districts); and
- Favorable legislative hold harmless provision that provides a guaranteed minimum level of state aid despite enrollment for the next three years (through fiscal 2021).

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

Economy

Riverside Community College District spans 440 square miles in western Riverside County, with an estimated population of 1,049,661. The district includes 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 2.1% of AV. In our opinion, effective buying income (EBI) is good on a median household basis at 105% of the national level, yet adequate on a per capita basis at 79% of the national level. The district's AV has grown by a cumulative 24% from 2015 to a projected AV of $105.8 billion in 2019, well above its pre-recession high of $85.7 billion. We consider market value per capita very strong at $87,144. District management notes that the recently opened Kaiser Permanente Medical Center and expects that planned residential developments will have a positive influence on the district's AV and enrollment.

Finances

The district's operating revenue is subject to a state funding formula whose primary ingredient is full-time-equivalent (FTE) student enrollment, up to a maximum allocated to each district. State aid backfills the gap between local property taxes and state-set tuition rates to meet the statutory funding formula. 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 FTE student enrollment has grown consistently since fiscal 2013 similar to growth in the region up to 31,258 in fiscal 2018. The district has budgeted for a slight decline in enrollment in fiscal 2019 as it has shifted summer 2018 students to fiscal 2018. As a result, the district received stability funding from the state in an amount equal to the revenue loss associated with the decline in FTEs.

In 2018, the state legislature passed a bill that included a special provision for Riverside Community College District. The provision guarantees funding for the district through fiscal 2021 at 31,258 FTE students plus a cost-of-living adjustment. However, if the district is eligible to receive more funding pursuant to the newly adopted funding formula, then the district will receive the higher amount.

The district's financial profile has been very strong, with a trend of general fund surpluses since fiscal 2013. Unaudited actuals for fiscal 2018 indicate a surplus of $3.5 million, or 1.4% of general fund expenditures. With these positive results, the district has built up its available fund balance reserves to $45 million or 18.3% of general fund expenditures, which we consider very strong.

As of fiscal 2019, the state's new funding formula will decrease the importance of FTESs in the funding formula, and increase the importance of student demographics and performance (although FTES will still be the single-most important factor). 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 governor's fiscal 2018-2019 budget shows a $396 million increase in funding and is allocating $275 million in one-time funding for deferred maintenance to community colleges. The district is budgeting for modest general fund deficit in 2019, but we note the district has outperformed its budgets in recent years. We believe the district will monitor its budgets and adjust operational expenditures to maintain its very strong financial position.

Management

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. 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 FTES 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 two years beyond the current budget year and updated annually;
- Lack of a comprehensive formal capital plan with forward looking timelines, however construction and projects are documented, updated, and reported annually;
- A formal investment policy that covers most key areas, with annual reporting on holdings and performance to the board;
- Recently adopted debt policy that provides guidance for issuing debt; and
- Formal reserve policy at a minimum of 5% of expenditures for economic uncertainty, as well as informal target of 10%.

Debt

The district's direct and overlapping debt totaled $4.4 billion as of mid-year of 2018. The district's debt burden is moderate, in our opinion, at $3,625 per capita, and 4.1% of market value. The district has approximately $40 million remaining from its 2004 authorization, which it may issue within the next few years to address capital project needs, though we note this would not change the district's debt profile.

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 contribution to both plans for fiscal 2017 for a total of roughly 4.8% of total general fund expenditures. The district also contributed approximately 94.2% of its annual required contribution toward its OPEBs. Overall, pension and OPEB contributions totaled about 5.8% of total general 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, 2017, was $21.3 million for CalSTRS and $176.8 million for CalPERS. CalSTRS, its largest plan, maintained a funded level of 69%, using its fiduciary net position as a percentage of the total pension liability.

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 to contribute $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, the district were to strengthen its financial polices as measured by our FMA, and if the district were to maintain available general fund balances at or above current levels.

Downward scenario

We could lower the rating if the district is unable to maintain balanced operations and draws reserves down to levels below what we consider very strong.

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