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Summary:
Riverside Community College District, California; General Obligation

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Table Of Contents

Summary:

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Credit Profile		
US$105. mil GO bnds ser 2010D due 08/01/2040		
Long Term Rating	AA/Stable	New
US$5. mil GO bnds (Tax-Exempt) ser 2010D-1 due 08/01/2040		
Long Term Rating	AA/Stable	New
Riverside Comnty Coll Dist GO bnds ser 2007C dtd 06/21/2007 due 08/01/2007-2010 2025-2027 2032		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Riverside Comnty Coll Dist GO tax-exempt 2004 ser A due 08/01/2011-2026 2029 & taxable ser B due 08/01/2005-2007		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
Riverside Comnty Coll Dist GO		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services raised its rating to 'AA' from 'AA-' on Riverside Community College District, Calif's outstanding general obligation (GO) bonds. The rating action reflects our view of the district's track record of maintaining healthy reserves. At the same time, Standard & Poor's assigned its 'AA' rating to the district's series 2010D GO bonds and taxable series 2010D-1 GO Build America Bonds (BABs).

The ratings reflect our view of the district's:

- Flexibility to manage enrollments and class offerings to maximize state funding;
- Strong income and wealth indicators; and
- History of maintaining healthy financial operations.

Partially tempering our view of the above credit strengths is our view of the district's historical level of unfunded full-time equivalent students (FTEs), as well as recent volatility in the district's tax base.

Unlimited ad valorem taxes levied on taxable property within the district secure the GO bonds. The Riverside County Board of Supervisors has the power and obligation to levy these taxes at the district's request for the bonds' repayment. The county is required to deposit such taxes, when collected, into the bonds' debt service fund. The district has stated that it intends to designate the series 2010D-1 of the bonds as Build America Bonds, as authorized by the American Recovery and Reinvestment Act (ARRA) of 2009. Under ARRA, the district expects the bonds to qualify for a cash subsidy from the U.S. Treasury equivalent to 35% of the amount of each interest payment. It is our understanding that the district is obligated to pay 100% of principal and interest on the bonds. It is our understanding the proceeds of the bonds will be used to finance the acquisition and maintenance of certain district facilities.

Riverside Community College District is in the western side of Riverside County, spanning 440 square miles. The district includes Riverside City Community College, Moreno Valley Community College and Norco Community College. The county, with a population of 2.1 million)=, had been one of California's fastest-growing counties in terms of population, employment, commercial and industrial development, and AV due to the higher cost of land and housing in the greater Los Angeles region and in San Diego and Orange counties. However, growth has slowed considerably in the past three years. Formerly a single-college district, beginning in fiscal 2011, the district plans to operate as multi-college district, which management has expressed will qualify the district for an additional $1.3 million state appropriation per year, per college.

The district's assessed value (AV) has declined during the past two years, following three years of growth at an average rate of nearly 15%. Fiscal 2010 AV declined by 11%, with an additional 2.7% decline for fiscal 2011, down to $70.8 billion. The district's AV trend is in line with the overall trend of the county. Approximately 75% of the district's AV comprises residential space, with the remaining 25% categorized as commercial and industrial. We consider the district's leading 10 property taxpayers to be very diverse, as they account for only 2.1% of total AV. The district's resident wealth indicator, reflected by market value per capita is what we consider to be strong, at $68,158 for fiscal 2011. Income indictors measured by median household effective buying income (EBI) are strong and by per capita EBI are good at 110% and 82%, respectively, of the national levels.

The district has attracted a growing number of students during the past decade, as FTEs hit a decade high of 31,696 in fiscal 2010. Similar to other community college districts in California, in fiscal 2010, the state lowered the number of FTEs they were funding in the district, to 26,245 from 27,237 in the prior year. The lower number of funded FTEs resulted in approximately 5,000 unfunded FTEs for 2010, nearly 16% of that fiscal years' FTE student enrollment. The district has expressed that in order to mitigate the large number of unfunded FTEs, a total reduction of 1,000 class sections took place throughout fiscal 2010. As a result, the district's fiscal 2011 budget projects FTEs enrollment to be reduced by 7%. Together with the lowering of the California Community Colleges System funding to 26,823 FTEs, the reduction of unfunded FTEs has been reduced to approximately 2,400, or 8% of FTE enrollment. The district's management aims to maintain the level of unfunded FTEs at approximately 1,500, as the district aims to manage its enrollment to maximize state funding and class sizes. The district projects its fiscal 2011 base revenue limit funding of $4,565 and $2,745 for credited and non-credit FTEs, respectively, to remain unchanged from the prior fiscal year, but the district increased its fill rate to 106% from approximately 95% in the previous year to maximize enrollment growth without increasing costs. The district also educates a small proportion of international students -- about 400 out of the 29,675 FTEs -- who pay higher tuition.

General fund operating results have generally been positive for the past four fiscal years, with the exception of fiscal 2009 which incurred an operating deficit of $1.3 million. Fiscal 2009 operations include a "one-time," $6.3 million administration of certain grants by the district, which has been expressed to us by management as equally affecting revenues and expenditures, resulting in a net-zero impact on finances. For fiscal 2010, general fund revenues were approximately 1% less than the prior year if the $6.2 million grant administration receipt is excluded. However management reduced expenditures by $4 million, to $167 million, primarily by the reduction of 1,000 class sections, and projects to close fiscal 2010 with an unreserved fund balance of $10.5 million, or what we consider to be a good level, 6.2% of expenditures. The total general fund balance for fiscal 2010 is projected by management to be $22.4 million, or what we consider to be strong, at 13% of expenditures. Management has expressed to us that the class section reduction did not result in furlough days or layoffs, as the district was able to benefit from its largely part-time faculty. For fiscal 2011, the district will continue to benefit from the section reduction savings, zero compensation growth, and the additional state apportionment for being a multi-college district, and the district projects that it will maintain the same level of general fund reserves as in fiscal 2010.

We consider the district's management practices "good" under our Financial Management Assessment (FMA) methodology. An FMA of "good" indicates that financial reporting practices exist in most areas although not all may be formalized or regularly monitored by government officials. Highlights of the district's policies and practices include monthly budget reports to the board; informal, longer-term financial planning that incorporates major revenue and expense items; and a five-year capital plan that identifies funding sources. The district has a formal written reserve policy that requires a minimum of 5% of the combined balance of last year's ending fund balance and the current years' revenues to be held as a reserve in the general fund. Riverside Community College District invests its funds with the county and provides investment reports to the board upon request. The district does not have a formal debt management policy.

The overall debt burden is what we consider to be moderate, at 4.8% of market values and moderate, $3,392, on a per capita basis. The $110 million in aggregate issuances for the series 2010D bonds will be from the remaining 2004 election authorization, which will have approximately $85 million in authorized but unissued in GO debt remaining after this issuance. A 2007 actuarial study calculated the district's Other Post Employment Benefits (OPEB) unfunded liability at $9.8 million, with an annual required contribution of $1.4 million, of which the district funds on a pay-as-you-go basis.

Outlook

The stable outlook reflects Standard & Poor's expectation that the district's financial reserves and financial flexibility will likely allow it to withstand growth or possible future state funding pressures. If we believe the district is able to substantially build its reserves, the rating could be raised. If, however, in our view, the district's finances become substantially volatile and heavily reliant on its reserves to what we view to be a marginally thin reserve balance, the rating could be lowered.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

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