

RESEARCH

Riverside Community College District, California; Appropriation, Appropriations; Tax Secured, General Obligation

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Credit Profile

US\$57.093 mil GO rfdg bnds ser 2005 dtd 05/05/2005 due
 08/01/2024 AA-
 Sale date: 19-MAY-2005

AFFIRMED

\$55.205 mil. Riverside Comnty Coll Dist GO (MBIA) AAA/AA-(SPUR)
 \$60.000 mil. Riverside Comnty Coll Dist GO tax-exempt &
 taxable bnds ser 2004 A&B AA-
 \$10.985 mil. Riverside Comnty Coll Dist certs of part (2001
 Rfdg Proj) dtd 11/01/2001 due 06/01/2002-2004 & 10/01/2002-
 2017 (AMBAC) AAA/A+(SPUR)

OUTLOOK: STABLE

Rationale

Standard & Poor's Ratings Services assigned its 'AA-' rating to Riverside Community College District, Calif.'s GO refunding bonds, series 2005, and affirmed its various ratings on the district's outstanding GO bonds and certificates of participation.

The 'AA-' rating reflects the district's:

- Location in one of the fastest-growing counties in California, with its own diverse economy as well as proximity to the Los Angeles and Orange County economies;
- Maintenance of good unreserved fund balances, despite weaker financial performance as a result of reductions in state funding and rising operating costs;
- High overall net debt at 4% of market value, although direct debt is a low 0.03% of market value, as most of the district's overall net debt is overlapping debt;
- Inherent ability along with other California community colleges to cut class offerings and costs as needed; and
- Below-average income and wealth indicators, although these indicators have been improving relative to the state averages.

The series 2005 bonds will be used to advance refund the series 2004A bonds. Series 2004A and 2004B bonds represented the first of seven total issues of a \$350 million authorization slated to occur in the next 15-18 years. The bonds are a general obligation of the district secured by a continuing direct ad valorem tax levied on all taxable property in the district.

Located in western Riverside County, the district enjoys close proximity to Los Angeles and Orange counties, enabling residents and business to participate in these economies as well. The district encompasses roughly 440 square miles and serves an estimated population of 808,000. The district has three interrelated campuses: Moreno Valley (known for its health sciences and public service programs), Norco (engineering and technology programs), and Riverside (comprehensive undergraduate program). The district also has an early college and college preparatory program. In addition, Riverside Community College's Ben Clark Public Safety Training Center trains all police, fire, and emergency medical personnel for the county. The district had 24,500 full-time equivalent students (FTEs) for fiscal 2005.

Riverside County is one of California's fastest-growing major counties, driven by the higher cost of land and housing to the south and west. The county's local economy is large, diverse, and growing, with its primary industries consisting of services, trade, government, manufacturing, and construction. County assessed valuation (AV) has grown at double-digit rates for four consecutive years since 2000, to \$123 billion in fiscal 2004 from \$77 billion in fiscal 1999, an annual growth rate of almost 10%, and an overall increase of 60%. The district's tax base is extremely diverse, with the 10 leading taxpayers representing just 2.26% of total AV, with no single taxpayer representing more than 0.34% of total AV. District market value per capita is moderate at about \$48,000, although income levels are below the state average, with per capita and median household effective buying income at 82.6% and 91.6%, respectively, and 82.6% and 103.3% of national levels. County unemployment, at 5.78%, is lower than the state (6.15%) and national (5.49%) averages.

Despite state funding pressures, the district has maintained a good financial position. As a result, the district ended the year with an unrestricted general fund balance of \$6.9 million (7.5%), an increase of \$1.6 million.

Outlook

The stable outlook reflects the expectation that the district's financial reserves and financial flexibility will enable it to withstand growth or funding pressures.

Economy

Riverside County is one of California's fastest-growing major counties, driven by the higher cost of land and housing to the south and west. In Riverside County home values have gone up about 26% from the previous year, with the median home price at a record high \$379,000, as of March 2004. With more than 1.7 million residents as of 2003, the county's population has grown more than 46% since 1990, an average annual rate of 3%. Since 1999, building permit valuations have grown at an annualized rate of 18%. Notably, the district has campuses located in some of the faster growing areas of the county namely Riverside, Moreno Valley, and Norco. Leading employers include the county itself (17,236 employees), University of California Riverside (7,033), Stater Bros. Markets (5,600), Corona-Norco Unified School District (5,000), and Riverside Unified School District (4,000).

Finances

The district's primary funding source is "program-based funding" received from the state. Program-based funding is composed of state apportionment, local property taxes, and student enrollment fees. The primary basis of the apportionment is the calculation of FTEs.

Fiscal 2003 ended with an unrestricted general fund balance of \$5.6 million, a decrease of \$0.6 million but at 6% of expenditures in excess of the state chancellor's office set-aside reserve level of 5%. During fiscal 2002-2003, factored credit FTEs totaled 23,508; noncredit FTEs totaled 213. The state actually funded these FTEs based on 21,819 credit FTEs and 136 noncredit FTEs.

At the outset of fiscal 2003-2004, the district expected the year to end with a \$1.1 million general fund deficit partly due to unfunded FTEs as well as state funding cuts. However, the district closed the budget gap by reducing the number of unfunded FTEs, utilizing enrollment fee increases, some one-time revenues as well as by making more than \$4 million in expenditure cuts, which included no salary increases. As a result, the district ended the year with an unrestricted general fund balance of \$6.9 million (7.5%), an increase of \$1.6 million. The district has had a practice of maintaining a reserve level above 5%; however, in fall 2004, the board codified the reserve level and now has a written policy of 5%. The

district is expecting fiscal 2005 to end with a general fund surplus and a \$10 million general fund balance.

For 2003-2004, the credit FTEs were 22,950; the number of funded credit FTEs were 21,948. Given county demographics, Riverside is expecting FTEs to increase by 5% in the future. The district retains considerable financial flexibility, as a substantial percent of the total faculty of 1,339, as of May 2004, is part-time and the school retains the ability to add or delete courses as needed.

Debt

Overall net debt is moderate at \$1,873 per capita and high as a percentage of market value at 4%. Direct debt is low, however, at 0.03% of market value, as most of the district's overall net debt is overlapping debt. Based on the district's expansion needs and tax limitations, the bond issuance schedule will span the next 15-18 years. This bond series will be overlaid to create a level tax rate at or below the \$18 per \$100,000 of AV promised during the election. Under Proposition 39, the district must certify that it expects the tax rate to be no more than \$25 per \$100,000 of AV, but during the election the district promised a more conservative \$18. The \$25 figure does not restrict the district's ability to raise taxes to whatever amount is necessary to pay debt service on the bonds once issued. The next expected issuance of the \$350 million authorization is expected to occur in 2006, when the district plans to issue \$60 million.

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