

Global Credit Research - 19 Oct 2010

**APPROXIMATELY \$236 MILLION IN DEBT AFFECTED INCLUDING CURRENT ISSUE**

Primary & Secondary Education  
CA

**Moody's Rating**

**ISSUE** **RATING**

General Obligation Bonds Series 2010D Aa2

**Sale Amount** \$5,101,922

**Expected Sale Date** 10/30/10

**Rating Description** General Obligation

General Obligation Bonds Series 2010D-1 Aa2

**Sale Amount** \$104,895,000

**Expected Sale Date** 10/30/10

**Rating Description** General Obligation

**Opinion**

NEW YORK, Oct 19, 2010 -- Moody's Investors Service has assigned an Aa2 rating to the Riverside Community College District's Election of 2004 General Obligation Bonds, Series 2010D and D-1. Moody's has also affirmed the rating on the district's existing general obligation bonds.

**RATINGS RATIONALE**

The rating reflects the district's very large though economically pressured tax base. Despite some significant assessed valuation deterioration since 2009, it remains exceptionally large for a community college district and sizeable enough to absorb additional declines while still remaining soundly above average. The rating also reflects the district's fiscal position that has maintained solid general fund reserves despite small operating deficits in each of the last two years. The rating incorporates our expectation that the district will continue its practice of producing actual results that are superior to budgeted expectations. However, even if the district realizes its budgeted fiscal 2011 \$5.6 million shortfall, the resulting reserve fund would still be comparable to other California CCD general fund reserve levels. The rating assignment includes our view of the district's debt profile, which is somewhat weak given a fairly high overall debt burden and very slow 10-year principal payout rate. The bonds are secured by the district's unlimited property tax pledge.

**VERY LARGE THOUGH ECONOMICALLY PRESSURED TAX BASE**

The district's principal cities are Corona, Moreno Valley, Norco, Perris, Riverside and unincorporated portions of Riverside County. The district's taxpayers are 91% residential. This area has been hard hit by the economic downturn and its effect on home values. Since 2009, the district has absorbed assessed value losses of 10.7% and 2.8% in 2010 and 2011 respectively. Zero percent growth is expected for 2012. These declines come on the heels of rapid housing expansion through 2008 that saw significant increases in home values. As the market has corrected, the district's 2010 home values are down approximately 50% from 2006. The downturn has also taken a toll on unemployment, which is 15.4% in the City of Riverside and virtually the same in the county as a whole. This is weaker than the overall state unemployment rate of 12.4% and underscores the extent to which the local economy has been impacted by the recession. Despite the slowdown, the district's \$74 billion tax base is very large. The base is large due to sheer geographic size, which is among the larger in the state. However, the impressive total magnitude of assessed value does not reflect particularly strong per capita wealth in the district. Per capita resident incomes are somewhat below the state median.

**STABLE FISCAL POSITION DESPITE TWO CONSECUTIVE YEARS OF MODEST OPERATING DEFICITS; DISTRICT TYPICALLY OUTPERFORMS BUDGET**

The district's fiscal 2009 and 2010 general fund balances at 13% of general fund revenue are quite typical for a Moody's rated California community college district. The district did absorb minor deficits in 2009 and 2010, minimizing these by making large reductions in class offerings rather than laying off permanent staff.

The fiscal 2011 budget shows a \$5 million deficit due to full funding of all positions. However, these position will not all be filled due to a hiring freeze, so the district expects to actually finish the year with essentially balanced general fund operations. Even if the 2011 budget deficit comes to fruition, reserves would still be 12.3% of total revenues and still solid for a Aa2-rated California community college district. Moody's notes that the district has finished each of the last three years with ending fund balances significantly greater than the budgeted amount as their practice is to overestimate costs and underestimate revenues. The district has also extended its labor contracts for an additional year through fiscal 2011 with no raises.

**HIGH OVERALL DEBT LEVEL AND SLOW PAYOUT AMID OTHERWISE TYPICAL DEBT PROFILE**

While the district direct debt level of 0.3% is average for a Moody's rated California community college district, the overall debt of 4.6% is somewhat high, driven up primarily by debt issued by the cities of Riverside and Moreno Valley and Riverside County. The district's debt profile has a very slow 10-year rate of principal payout of just 14%. The district does not have any variable rate debt. For the Build America Bonds

portion of the current issue, the district will be levying for total gross debt service including the expected subsidy. The district also anticipates issuing another \$85 million in general obligation bonds in 2013. Proceeds from the current sale will finance a range of capital improvement and expansion projects throughout the district.

#### WHAT WOULD CHANGE THE RATING -UP

The rating could be adjusted up should the tax base exhibit an extended period of stable growth and the general wealth profile of the district materially improves. The district would also have to demonstrate operational stability including the elimination of general fund deficits.

#### WHAT WOULD CHANGE THE RATING-DOWN

The rating could undergo negative rating pressure if the tax base deterioration accelerates significantly over a material period of time. The rating could also become pressured if the district's fiscal operations weaken significantly.

#### KEY STATISTICS

2011 assessed value: \$74 billion

2010 unaudited general fund balance as a % of revenue: 13.3%

Expected 2011 general fund balance as a % of revenue: 12.3 %

Direct debt: 0.4%

Overall debt: 4.6%

The principal methodology used in rating Riverside Community College District (CA) was General Obligation Bonds Issued by U.S. Local Governments published in October 2000. Other methodologies and factors that may have been considered in the process of rating this issuer can also be found on Moody's website.

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#### Analysts

Michael Wertz  
Analyst  
Public Finance Group  
Moody's Investors Service

Justin Resuello  
Backup Analyst  
Public Finance Group  
Moody's Investors Service

#### Contacts

Journalists: (212) 553-0376  
Research Clients: (212) 553-1653

Moody's Investors Service  
250 Greenwich Street  
New York, NY 10007  
USA



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