

RatingsDirect®

Summary:

Riverside Community College District, California; General Obligation

Primary Credit Analyst:

Li Yang, San Francisco (1) 415-371-5024; li.yang@standardandpoors.com

Secondary Contact:

Misty L Newland, San Francisco (1) 415-371-5073; misty.newland@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Riverside Community College District, California; General Obligation

Credit Profile

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 Affirmed

Riverside Comnty Coll Dist GO bnds ser 2010D due 08/01/2040

Long Term Rating AA/Stable Affirmed

Riverside Comnty Coll Dist GO

Unenhanced Rating AA(SPUR)/Stable Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AA' long-term and underlying rating (SPUR) on Riverside Community College District, Calif.'s existing general obligation (GO) bonds. The outlook is stable.

The ratings reflect our view of the district's:

- Local economy situated in western Riverside County, coupled with strong income and wealth indicators;
- Flexibility to manage enrollment and class offerings to maximize state funding; and
- Good unreserved general fund balances maintained during the past few years.

Partly 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.

Riverside Community College District spans 440 square miles in the western side of Riverside County. The district includes Riverside City Community College, Moreno Valley Community College, and Norco Community College. The county, with a population of roughly 2.26 million according to the state Department of Finance, had been one of California's fastest-growing counties in terms of population, employment, commercial and industrial development, and assessed value (AV) due to the higher cost of land and housing in the greater Los Angeles region and San Diego and Orange counties. After a nearly five-year slowdown, the county's local economy has improved, as demonstrated by an increase in residential property values.

The district's assessed value (AV) has declined during the past two years due to the regional housing market downturn. However, the district's most recent AV results for fiscal 2014 reflect an increase up to a total AV of \$77.7 billion or a market value per capita of roughly \$169,400, which we consider extremely strong. 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. Income indicators measured by median household effective buying income (EBI) are strong, and per capita EBI is good at 105% and 79%, respectively, of the national level.

Demand for the district's educational services remains strong and the district has maintained a total full time equivalent student (FTES) count above the state funded cap during the past few years. In fiscal 2012, the district's total FTES count reached 26,327, which is above the state funded cap of 24,845 resulting in roughly 1,485 unfunded FTES. Coupled with decreased state funding for community college districts in fiscal 2012, the large number of unfunded FTES have resulted in increased budgetary strain on the district's operations. Management indicates they have reduced the amount of unfunded FTES to only 524 in fiscal 2013, resulting in an improvement in general fund operations. Going forward, management aims to maintain the level of unfunded FTES at approximately 280 by fiscal 2014 or approximately 1% of total enrollment.

The state funding environment for community college districts has deteriorated since fiscal 2011 and that deterioration continued into fiscal 2012. The district's unrestricted general fund balance fell to only \$6.6 million (4% of general fund expenditures) in fiscal 2012, down from \$12.4 million in the prior year. Management indicates this decline in fund balance levels during fiscal 2012 is a direct result of lower state apportionment and the lack of sufficient spending cuts to balance operations during the fiscal year. However, management indicates they ended fiscal 2013 with a general fund operating surplus after implementing a series of spending cuts in the form of staff reductions, reduced salaries, and reducing the number of unfunded FTES. Combined with the passage of Proposition 30 in the state, which kept state funding for community colleges even, the district expects to end fiscal 2013 with an unreserved general fund balance of \$10.9 million or 6.1% of total general fund expenditures, which we consider good. Going forward, management does not anticipate additional spending cuts during the next two years and anticipates that fiscal 2014 will result in balanced operations.

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.

The overall debt burden is what we consider to be moderate at 4.7% of market value, although the debt burden is considered high at \$7,688, on a per capita basis in fiscal 2012. The district contributes to California State Teachers' Retirement System (CalSTRS) and California Public Employees' Retirement System (CalPERS) for its pension requirements and contributed 100% of its roughly \$8.8 million required contribution in fiscal 2012. The district also provides other postemployment benefits (OPEB) and contributed roughly \$1.2 million or 52.5% of its annual required contribution in fiscal 2012. Management has a total unfunded actuarial accrued liability of \$15.8 million based on the district's most recent actuarial valuation. Total contributions after combining both pensions and OPEB totaled roughly \$10 million or 5.9% of total general fund expenditures in fiscal 2012.

Outlook

The stable outlook reflects our view of the district's good local economy, continued demand for the district's

educational services and the improved state funding environment for community college districts. Although the district's reserve levels dipped in fiscal 2012, we note that the district has implemented sufficient spending cuts to bring its reserves back up to good levels in fiscal 2013. However, if the district's general fund reserves fall below the state recommended reserve level of 5% of expenditures for community colleges during the next two years, then the rating could be lowered. We do not expect to raise the rating during the next two years.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of October 15, 2013)

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

Affirmed

Many issues are enhanced by bond insurance.

Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2013 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED, OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses, and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw, or suspend such acknowledgement at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal, or suspension of an acknowledgement as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain nonpublic information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription) and www.spcapitaliq.com (subscription) and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

McGRAW-HILL