S&P Global
Ratings

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Summary:

Rancho Santiago Community College District, California; General Obligation

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Summary:

Rancho Santiago Community College District, California; General Obligation

Credit Profile		
US$71.0 mil GO bnds (Orange Cnty) ser 2017 B due 08/01/2041		
Long Term Rating	AA/Stable	New
Rancho Santiago Comnty Coll Dist GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' rating to Rancho Santiago Community College District, Calif.'s election of 2012 series 2017B general obligation (GO) bonds, issued for Rancho Santiago Community College District Improvement District No. 1 (Santa Ana College). At the same time, we affirmed our 'AA' long-term rating and underlying rating (SPUR) on Rancho Santiago Community College District, Calif.'s GO bonds outstanding. The outlook on all ratings is stable.

The ratings reflect our opinion of the districts':

- Participation in the deep and diverse Orange County and greater Los Angeles economies;
- Robust tax bases, which are supported by very strong income and extremely strong property wealth indicators;
- Currently very strong reserves, which are projected to drop to a level we consider strong in fiscals 2017 and 2018; and
- Moderate to low overall debt burden.

In our view, the preceding credit strengths are partly offset by the district's projected draw on reserves, although it is expected to be smaller than budgeted.

Unlimited ad valorem taxes levied on taxable property (except certain personal property that is taxable at limited rates) within Santa Ana College Improvement District No. 1 (the improvement district) secure the series 2018B GO bonds. The county board of supervisors has the power and obligation to levy these taxes at the improvement district's request for the bonds' repayment. We understand the series 2018B bonds are the second issuance under a $198 million Measure Q bond authorization, approved by voters in 2012, and will fund multiple projects on the Santa Ana College campus. Issuance of the balance of the authorization is currently planned for 2020 or 2021.

Unlimited ad valorem taxes levied on taxable property (except certain personal property that is taxable at limited rates) secure the Rancho Santiago Community College District's (the district) 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 district formed the improvement district in 2008. The boundaries encompass the Santa Ana College service area, which includes all of the Santa Ana Unified School District and a portion of the Garden Grove Unified School District, and has an estimated population of about 388,000, according to management. After growing 16% over three years, the improvement district's assessed value (AV) reached $38.5 billion for fiscal 2017, equal to over $101,000 per capita, which we consider extremely strong. In addition, we consider the improvement district's overall net debt to be low, at 2.4% of fiscal 2017 market value. Overall net debt includes debt issued by entities whose taxing boundaries overlap the improvement district's. The improvement district's tax base includes a mix of commercial (33% of AV), industrial (15%), and single-family residential (33%) properties. The taxpayer composition is very diverse, in our view, with the top 10 taxpayers representing 7.1% of secured AV.

Rancho Santiago Community College District encompasses 193 square miles in central Orange County and is located 30 miles southeast of downtown Los Angeles. The district serves over 700,000 residents in portions of Santa Ana, Orange, Anaheim, Irvine, Garden Grove, Newport Beach, Villa Park, Costa Mesa, Fountain Valley, and Yorba Linda. The county's median household buying income is very strong, in our view, at 138% of the national level. While some of the cities in the district have lower incomes, some may also have higher incomes. District AV trends have also been positive during the last three years, including 4.1% annual growth since fiscal 2013 to reach $73.8 million, or an extremely strong $115,881 per capita.

The district's facilities include Santa Ana College, Santiago Canyon College, and five education centers. Operating revenue is subject to a state funding formula that uses full-time-equivalent students (FTES), up to a maximum allocated to each district, as its primary component. State aid backfills the gap between local property taxes and state-set tuition rates to meet the statutory funding formula. The district is one of the state's largest community colleges by FTES. Due to state budget pressure, the district began to reduce the number of unfunded FTES in fiscal 2010 and eliminated all unfunded FTES by fiscal 2011. We understand management intends to maintain enrollment at the state-funded level going forward. Enrollment dropped 4.8% in fiscal 2017, but because the state funding formula funds enrollment at the higher of the current year or prior year, the district received funding for 28,902 students. Consistent with other districts in the state, which are seeing declining enrollment, every other year the district includes an additional summer session in its FTE formula, which lends stability to the funded FTEs. State-funded FTES are 28,902 for fiscal 2018, consistent with the prior two years. Santa Ana College is the larger of the two colleges, with about twice the number of students as Santiago Canyon College.

In our opinion, district general fund reserves have been at least strong. The fiscal 2016 audit shows a very large general fund surplus of $11.8 million, which boosted available reserves to $36.9 million, or a very strong 18.1% of expenditures. The surplus is primarily due to significant one-time revenues from the state and is consistent with those of other districts. The fiscal 2017 unaudited actuals show a small draw on reserves of $1.7 million. As a result, and coupled with a projected increase in expenditures, the available fund balance fell to what we consider a strong 16.9% of expenditures. The fiscal 2018 budget reflects a drawdown of the general fund balance of $4.1 million, after transfers, which would reduce the unrestricted general fund balance to $31.2 million, or 11.5% of total general fund expenditures. Management anticipates that the deficit will not be as large due to conservative budgeting, including budgeting for all positions to be fully funded. However, management reports that union agreements for fiscal 2018 have not been settled and expects to see a growth in employment costs which are not included in its budget projections. Management reports that any additional drawdown on reserves due to increased employee costs would be paid out of the colleges' budgets. We also note that district expenditures have included contributions at the annual required contribution (ARC) for other postemployment benefits (OPEBs) to a revocable retiree health benefits fund designated for retiree health care. The retiree health benefit fund totaled $55 million at Sept 30, 2017, which was equal to about 55% of the actuarial accrued liability.

S&P Global Ratings considers the district's financial management practices strong under its Financial Management Assessment (FMA) methodology, indicating financial practices are well embedded and that governance officials have formalized and regularly monitor all of them. Management uses several years of historical trends in conjunction with the state budget to project revenue and expenditures, and it performs five-year revenue and expenditure forecast modeling. The district reports budget-to-actual performance to elected officials quarterly. Management invests its funds according to state requirements and provides quarterly reports to the board. Officials maintain and annually update a formal five-year capital plan that identifies funding sources for projects in the early years. The district has implemented a debt policy that is in compliance with state requirements for new debt issuances. The board's policy is to maintain a minimum 5% reserve fund balance above its state-mandated requirement.

In our opinion, overall net debt for the district is low as a percentage of fiscal 2017 market value, at 1.9%, and moderate on a per capita basis, at $2,192. We do not expect that the final issuance of the 2012 bond election will weaken the district's debt metrics.

The district participates in the California State Teachers' Retirement System, the California Public Employees' Retirement System, and the California Public Agency Retirement System to manage its pensions. The district has historically made 100% of the required contributions to all three plans. The district also provides OPEBs for retirees and funds the actuarial accrued liability on a pay-as-you-go basis. Combined, the pension and OPEB contributions were 6.5% of primary government expenditures for fiscal 2016. The most recent pension actuarial study, dated Feb. 1, 2016, shows an accrued liability of $129.6 million. The district funds the OPEB actuarial accrued liability on a pay-as-you-go basis and makes additional contributions to a revocable retiree health benefit fund, which had a cash balance of $55.0 million as of Sept. 30, 2017. We understand that the district has made its full ARC for nine years, although the funds are not set aside in an irrevocable trust.

Outlook

The stable outlook reflects our expectation that management will make the necessary operational adjustments given a community college's inherent flexibility to adjust course offerings, allowing the district to maintain reserves that we consider at least strong. We do not expect to change the ratings over the two-year outlook time frame.

Upside scenario

We could consider a higher rating if the district were to achieve and sustain positive operations and consistently maintain reserves at a very strong level.

Downside scenario

We could take a negative rating action if reserves were to decrease to and remain at a level we consider just adequate.

Ratings Detail (As Of November 30, 2017)

Ratings Detail (As Of November 30, 2017) (cont.)		
Rancho Santiago Comnty Coll Dist GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
Rancho Santiago Comnty Coll Dist GO		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed
Rancho Santiago Comnty Coll Dist, California		
Rancho Santiago Comnty Coll Dist Imp Dist No. 1 Santa Ana Coll, California		
Rancho Santiago Comnty Coll Dist (Rancho Santiago Comnty Coll Dist Imp Dist No. 1 Santa Ana Coll) GO bnds (Rancho Santiago Comnty Coll Dist Santa Ana		
Long Term Rating	AA/Stable	Affirmed

Many issues are enhanced by bond insurance.

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.