

RatingsDirect®

Summary:

**Rancho Santiago Community College
District, California**

**Rancho Santiago Community College
District Improvement District No. 1
(Santa Ana College); General
Obligation**

Primary Credit Analyst:

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

Secondary Contact:

Jaime B Trejo, San Francisco (1) 415-371-5033; jaime.trejo@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

Rancho Santiago Community College District, California

Rancho Santiago Community College District Improvement District No. 1 (Santa Ana College); General Obligation

Credit Profile

US\$71 mil GO bnds (Rancho Santiago Comnty Coll Dist Santa Ana Coll Imp Dist No. 1)(Elect 2012) ser 2014A due 08/01/2044

Long Term Rating

AA/Stable

New

Rancho Santiago Comnty Coll Dist GO

Unenhanced Rating

AA(SPUR)/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating to Rancho Santiago Community College District, Calif.'s series 2014A 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 property wealth indicators;
- Currently strong reserves, which are budgeted to drop to a level we consider good in fiscal 2015; and
- Low overall debt burden.

In our view, the preceding credit strengths are partly offset by the district's recent fund balance drawdowns, which are budgeted to continue for fiscal 2015.

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 2014A 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 2014A bonds are the first 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 2017 and 2020.

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 378,523, according to management. After growing 10% over three years, the improvement district's assessed value (AV) reached \$32.9 billion for fiscal 2015, equal to \$87,000 per capita, which we consider very strong. In addition, we consider the improvement district's overall net debt to be low, at 2.6% of fiscal 2015 market value. Overall net debt includes the improvement district's series 2014A GO bonds and debt issued by entities whose taxing boundaries overlap the improvement district's. The improvement district's tax base includes a mix of commercial (32% of AV), industrial (16%), and single-family residential (34%) properties. However, the taxpayer composition is diverse, in our view, with the top 10 taxpayers representing 7.5% 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 an estimated 623,000 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. District AV trends have also been positive during the last three years, including 5% year-over-year growth for fiscal 2015 to \$63.5 billion, or \$97,102 per capita, which we consider very strong.

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. State-funded FTES were 28,628 for fiscal 2014, and the district budgeted for 3% growth for fiscal 2015. Santa Ana College is the larger of the two colleges; it had 20,030 FTES in fiscal 2014 compared to 8,598 for Santiago Canyon College.

In our opinion, district general fund reserves have been very strong. Fiscal 2014 unaudited actuals show a drawdown of the general fund balance of \$9.9 million, after transfers, reducing the unrestricted general fund balance to \$27.3 million, or 16% of total general fund expenditures (18% of unrestricted general fund expenditures). Before transfers, the general fund is balanced. Management attributes most of the deficit on planned spending for capital projects, including about \$7.4 million to capital outlay for projects at two of its centers. We also note that district expenditures have included contributions above the pay-as-you go amount for other postemployment benefits (OPEBs) to a revocable retiree health benefits fund designated for retiree health care. The retiree health benefit fund totaled \$38 million at the end of fiscal 2014, which was equal to 46% of the actuarial accrued liability. We understand that the fiscal 2015 budget includes about \$1.6 million of funding above the OPEB pay-go amount. The fiscal 2015 projection includes a \$10 million deficit, which includes \$6 million for part-time adjunct faculty. The projected unrestricted general fund balance is \$18.4 million, or 9.7% of total general fund expenditures. In addition, the unrestricted general fund balance includes

\$1.1 million in earmarked funds for a cost-of-living adjustment, pending current labor negotiations. For fiscal 2016, the district is projecting an additional deficit, which would reduce the unrestricted general fund balance to \$6.7 million, slightly less than its 5% reserve policy. Management informed us that it expects to generate additional savings not included in the projections from a planned hiring freeze, elimination of all unspent and uncommitted unrestricted appropriations from the campuses discretionary budgets, and possibly layoffs, if necessary, in fiscal 2016.

Standard & Poor's considers the district's financial management practices "good" under its Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas but that governance officials might not formalize or 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 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 board's policy is to maintain a minimum 5% reserve fund balance for contingencies.

In our opinion, overall net debt for the district is low, at 2.4% of fiscal 2015 market value. 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 7.6% of primary government expenditures for fiscal 2013. The most recent actuarial study, dated Feb. 1 2014, shows an accrued liability of \$82.1 million, with an annual required contribution (ARC) of \$8.3 million for fiscal 2015. 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 \$38 million as of June 30, 2014, according to management. We understand that for fiscal 2015 management has budgeted a \$7.7 million OPEB expense, equal to 92% of the ARC.

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 good. We do not expect to raise the ratings during the two-year outlook time frame given declining reserves. We could take a negative rating action if reserves were to decrease to and remain at a level we consider just adequate. We could consider a higher rating if the district were to achieve balanced operations and consistently maintain reserves at a very strong level.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

Ratings Detail (As Of October 6, 2014)

Ratings Detail (As Of October 6, 2014) (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

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 © 2014 Standard & Poor's Financial Services LLC, a part of McGraw Hill Financial. 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.