MOODY'S INVESTORS SERVICE

CREDIT OPINION
30 November 2017

New Issue

Rate this Research

Contacts

Michael Wertz *VP-Senior Analyst* michael.wertz@moodys.com	+1.212.553.3830
Leonard Jones *MD-Public Finance* leonard.jones@moodys.com	+1.212.553.3806
Alexandra J. Cimmiyotti *VP-Senior Analyst* alexandra.cimmiyotti@moodys.com	+1.415.274.1754

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

Rancho Santiago Community College District, CA

New Issue - Moody's assigns Aa2 to Rancho Santiago CCD's (CA) Santa Ana College Imp. Dist. No. 1 GO Bonds, Outlook STA

Summary Rating Rationale

Moody's Investors Service has assigned an Aa2 rating to the Santa Ana College Improvement District No. 1 (improvement district), CA's General Obligation Bonds, Election of 2012, Series B issued by Rancho Santiago Community College District, CA. The bonds have an expected par value of $71 million. The bonds are secured by an unlimited ad valorem property tax pledge levied on properties within the boundaries of the improvement district only, and is on parity with the district-wide general obligation bonds but not an obligation of the college district as a whole. The outlook is stable.

The Aa2 rating incorporates the district's sizeable assessed valuation, adequate financial position and below-average debt profile, which we expect will remain manageable. The rating also captures the below-average socioeconomic profile of the residents within the improvement district boundaries.

The general obligation bonds of are secured by the district's voter-approved unlimited property tax pledge. The County of Orange rather than the district will levy, collect, and disburse the district's property taxes, including the portion constitutionally restricted to pay debt service on general obligation bonds. County of Orange has approved implementation of the Teeter Plan and thus apportions full ad valorem property taxes levied to pay the bonds irrespective of delinquencies.

Credit Strengths

» Large, growing tax base

» Strong management team

Credit Challenges

» Potential decreases in student population

» Weaker socioeconomic profile of improvement district

Rating Outlook

The stable outlook reflects our expectation that the district will retain a stable fiscal position and sizeable assessed valuation that will continue steady growth.

Factors that Could Lead to an Upgrade

- Trend of significant growth in assessed valuation
- Significant improvement in socioeconomic measures
- Trend of significant improvement in the district's financial position

Factors that Could Lead to a Downgrade

- Significant deterioration in the district's financial position
- Protracted decline in district's assessed valuation

Key Indicators

Exhibit 1

Santa Ana Imp. Dist. 1

Santa Ana Imp. Dist. 1	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 30,071,000	$ 30,509,000	$ 31,377,000	$ 32,932,000	$ 34,529,000
Full Value Per Capita	$ 77,703	$ 78,835	$ 81,078	$ 85,096	$ 89,222
Median Family Income (% of US Median)	N/A	78.9%	77.2%	76.4%	77.0%
Finances					
Operating Revenue ($000)	$ 160,693	$ 181,934	$ 191,461	$ 214,663	$ 262,086
Fund Balance as a % of Revenues	27.8%	21.5%	15.5%	13.4%	25.6%
Cash Balance as a % of Revenues	20.7%	28.1%	24.6%	41.9%	44.1%
Debt/Pensions					
Net Direct Debt ($000)	$ -	$ -	$ -	$ 70,565	$ 50,795
Net Direct Debt / Operating Revenues (x)	0.0x	0.0x	0.0x	0.3x	0.2x
Net Direct Debt / Full Value (%)	0.0%	0.0%	0.0%	0.2%	0.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.7x	1.9x	2.1x	1.9x	1.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.4%	0.5%	0.6%	0.6%	0.6%

Source: Moody's Investors Service

Detailed Rating Considerations

Economy and Tax Base: Well Sized Tax Base that Continues to Expand

The district's assessed valuation grew as expected for 2018 and remains well sized for a California community college district. The tax base will continue to expand and be consistent with the rating category.

The overall district assessed valuation for 2018 is $73.4 billion. The SFID is $38.5 billion, which even as a subset of the larger whole, is still comparable to the median for Aa2-rated California community college districts.

The district grew by 5.9% for 2018 to record its strongest growth rate of the last eight years. The expansion was driven by the district's location within the strong Orange County area economy, which helps to fuel a strong housing market and a stable commercial base. The SFID is 51% residential and benefits as homes turnover and capture higher market values relative to the current assessed value.

The district serves cities of Santa Ana, Orange, Anaheim, Irvine, Garden Grove, Newport Beach, Villa Park, Costa Mesa, Fountain Valley and Yorba Linda. The City of Santa Ana is the largest portion of the SFID's assessed valuation and accounts for 56.3%. The city has a below-average socioeconomic that includes a median family income that is only 77% of the US median. However, unemployment is only 4.2%, which is in-line with the national level.

Financial Operations and Reserves: Satisfactory Fiscal Position that will Remain Solid

The district has produced steady operating results over the last three years and we expect this trend to continue despite the projection of a moderate deficit in fiscal 2018.

The district's actual unrestricted reserves have typically been stronger than budgeted expectations including in fiscal 2017 when the unrestricted reserve was $35.2 million based on unaudited actual results. This exceeded the budgeted expectation of $29.1 million and resulted in a 20% reserve balance as a percentage of unrestricted revenues. This also reflects the district's practice of budgeting to fill every vacant position and then controlling costs over the course of the year.

For fiscal 2018, the district has budgeted for its unrestricted reserves to decline by $4 million. However, even if realized, this would still result in a 17% balance, which is satisfactory for the rating though it would be the lowest level of the last three years. The district anticipates that it will produce nearly balanced operations at year-end that will place the reserve at approximately 20% though it appears that a small deficit is a possibility.

In fiscal 2017 the district received stabilization funding to offset modest enrollment declines. The district is working to generate 28,700 FTEs in 2018. The district is also in negotiations with three of its four bargaining groups. However, we do not anticipate that the resolution of these talks will materially weaken the district's financial profile.

LIQUIDITY

The district's cash position is stable and should remain healthy for the foreseeable future. The general fund ending balance for fiscal 2017 is a strong 46% of revenues. The district has ample internal resources including its self-insurance and retiree and building funds to manage any future cash flow issues. The district has not needed to rely on tax and revenue anticipation notes and does not have plans to in the near-term.

Debt and Pensions

The district-wide debt position (including improvement district debt) remains below-average and manageable. Net direct debt was a low 0.6% of AV in fiscal 2016 and we do not anticipate any debt increases in the next few fiscal years. Favorably, all of the district's voted debt consists of fixed-rate obligations.

DEBT STRUCTURE

The district has only fixed rate, general obligation debt outstanding

DEBT-RELATED DERIVATIVES

The district has no debt-related derivatives.

PENSIONS AND OPEB

Pension-driven budgetary pressures for the overall district are stable, though pension rate increases expected through fiscal 2021 could prove to be a budgetary burden. Projected increases to both CalSTRS and CalPERS will apply budgetary pressure on the district with future contributions anticipated to rise by roughly $9.4 million by fiscal year 2021.

Moody's 3-year average adjusted net pension liability (ANPL) for the overall district, under our methodology for adjusting reported pension data, is 1.76 times operating revenues but a low 0.6% of AV. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities.

The overall district has a relatively large estimated actuarial accrued liability at $129.6 million as of the latest actuarial study dated July 7th 2016. This up from the $82.1 million in fiscal year 2015, but the district is managing this liability. The annual required contribution (ARC) was $11.7 million in fiscal 2016, of which the district contributed 100%. Further the district maintains an OPEB fund. The district has a large $54 million cash balance in its OPEB fund as of June 30, 2017.

Management and Governance

California community college districts have an institutional framework score of “A” or moderate. California community college districts have a low level of revenue raising ability. For most districts, revenues are primarily set by the state with revenue raising ability limited to fund raising or approval of a parcel tax requiring a two-thirds majority vote.

OPERATING HISTORY AND MANAGEMENT

The district's five-year average of operating revenues to expenditures in 2016 is stable at 1.00x, reflecting overall balanced budgeting of operating funds over the last five audited fiscal years.

Legal Security

The bonds are general obligation bonds of the improvement district secure by a voter-approved unlimited property tax pledge of all taxable property within the improvement district.

Use of Proceeds

Proceeds of the bonds will be used to finance the construction, acquisition, furnishing and equipping of College facilities located within the Improvement District.

Obligor Profile

Rancho Santiago Community College District is located in Orange County, California (Aa1 Stable) and serves the residents of the communities of Anaheim Hills, Orange, Santa Ana, Villa Park and portions of Anaheim, Costa Mesa (Aa2), Irvine, Fountain Valley, Garden Grove and Tustin. The district operates two colleges, Santa Ana College and Santiago Canyon College and currently serves over 27,500 FTEs.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of this methodology.

Ratings

Exhibit 2

Santa Ana College Improvement District 1, CA

Issue	Rating
General Obligation Bonds, Election of 2012, 2018 Series B	Aa2
Rating Type	Underlying LT
Sale Amount	$71,000,000
Expected Sale Date	12/05/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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Contacts

Michael Wertz +1.212.553.3830
VP-Senior Analyst
michael.wertz@moodys.com

Alexandra J. Cimmiyotti +1.415.274.1754
VP-Senior Analyst
alexandra.cimmiyotti@moodys.com

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MD-Public Finance
leonard.jones@moodys.com

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