S&P Global
Ratings

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Summary:

Grossmont-Cuyamaca Community College District, California; General Obligation

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Summary:

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Credit Profile		
US$126.0 mil GO bnds (Election Of 2012) ser 2018B due 08/01/2047		
Long Term Rating	AA/Stable	New
US$82.84 mil GO rfdg bnds ser 2018 due 08/01/2024		
Long Term Rating	AA/Stable	New
Grossmont-Cuyamaca Comnty Coll Dist GO bnds		
Long Term Rating	AA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AA' long-term rating to Grossmont-Cuyamaca Community College District, Calif.'s series 2018B general obligation (GO) bonds and to the district's 2018 GO refunding bonds. At the same time, S&P Global Ratings affirmed its 'AA' long-term rating and underlying rating (SPUR) on the district's existing GO bonds. The outlook is stable.

Revenue from unlimited ad valorem taxes levied on taxable property within the district secures the GO bonds. The board of supervisors of the county 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 tax revenue, when collected, into the bonds' debt service fund. We understand that the district is issuing the series 2018B bonds to finance the acquisition, construction, modernization, and equipping of sites and facilities, and that it is issuing the 2018 refunding bonds to current refund certain of its outstanding 2008 GO refunding bonds for savings.

The ratings reflect our view of the district's:

- Participation in the vibrant San Diego area economy;
- Record of general fund surpluses since fiscal 2015, with a currently favorable state funding environment for community colleges, as well as our understanding that the district is well positioned under the new funding framework that Gov. Brown has proposed for fiscal 2019;
- Strong available fund balance as of fiscal 2017; and
- Good financial management policies and practices.

Partially offsetting these strengths, in our view, are the district's drawdown of its available fund balance in fiscal 2017 and expectation that it will make a further drawdown in fiscal 2018, as well as its lack of revenue flexibility outside the state funding formula.

Economy and tax base

The district encompasses about 1,140 square miles with a population of about 410,000 residents in the eastern portion of San Diego County, including a sparsely populated area that stretches to the borders of Imperial County. The district operates two colleges, Grossmont and Cuyamaca. Grossmont College is located about 15 miles northeast of downtown San Diego and accounts for about 70% of the district's total enrollment, while Cuyamaca College is located further east. The district was created in the 1960s during the suburban expansion period and has since grown to be the primary higher-education provider for the eastern San Diego region. We understand that the district's accreditation will be reviewed by the Accrediting Commission for Community and Junior Colleges (ACCJC) in 2019, and that it has received no ACCJC sanctions over the past 10 years.

We believe that the district benefits from access to the broad and diverse San Diego metropolitan statistical area. We consider its income and wealth indicators to be strong to good, as demonstrated by median household effective buying income (EBI) of 118% of the national level and per capita EBI of 107% of the national level in 2016. We view the district's market value per capita (an indicator of wealth) as extremely strong, at about $117,000. San Diego County's unemployment rate was 4.0% in calendar 2017, below both the state and national rates.

The district's tax base was relatively stable during the Great Recession, with assessed value (AV) declining by only 6.6% cumulatively from its peak in fiscal 2009 to its trough in fiscal 2011. Since then, AV has grown by 3.5% annually to about $48 billion in fiscal 2018, and growth has accelerated in recent years--it has been above 5.0% annually since fiscal 2016. The district's tax base is also very diverse, with the top 10 taxpayers accounting for only 2.9% of total AV. Looking ahead, we expect the district to benefit from a positive near-term credit environment for local governments, as we discuss in our most recent U.S. State And Local Government Credit Conditions Forecast (published on April 26, 2018, on RatingsDirect). In particular, we expect local governments in the Pacific states--including in San Diego County--to experience robust growth in housing prices through 2019.

Financial profile

Under the state's funding system for community colleges, the district's revenue is largely determined by its full-time-equivalent students (FTES) count. Although the district's FTES count declined from fiscal 2010 to fiscal 2013 as the economy improved from the recession and the state cut funding to community colleges, it grew by 2.9% annually from fiscal 2013 to fiscal 2017. The district expects that FTES will decrease modestly in fiscals 2018 and 2019 (by 0.8% and 1.3%, respectively), but remain relatively stable thereafter. Management does not expect that the district will have any unfunded FTES within the next two years.

The district has achieved consecutive general fund surpluses from fiscal 2015 to fiscal 2017, following a period of three consecutive deficits ending in fiscal 2014. Although its fiscal 2017 surplus was 1.6% of expenditures, it drew down its available fund balance that year by nearly $1 million, to $13.4 million, or 8.7% of expenditures. (We consider the district's unrestricted general fund balance to be its available balance.) In fiscal 2018, district management expects that the district will run an overall general fund deficit, but a smaller one than the $9.7 million (negative 5.4% of expenditures) indicated in its most recent formal projections. Given the district's history of favorable budget-to-actual variances, we expect the district to post a moderate general fund deficit in fiscal 2018, but that its available fund balance will remain toward the higher end of the range we consider good (i.e., 4%-8% of expenditures). We also note that management expects the district would receive additional funding under the new community college funding formula that Gov. Brown has proposed as part of his fiscal 2019 state budget, and that any changes the legislature makes to the proposed formula are unlikely to adversely affect the district's funding. Accordingly, we do not believe it is likely that the district will become structurally imbalanced over the next two years.

Financial management

We consider the district's financial management practices to be good under our Financial Management Assessment (FMA) methodology. An FMA of good indicates our view that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Key practices and policies include:

- A robust process for developing budgetary assumptions that is based on a model of future enrollment and consultations with local high schools, the state, and other external advisers;
- Quarterly reporting of budget-to-actuals to the board;
- A lack of long-term financial projections;
- A five-year, bond-funded capital improvement plan that identifies anticipated expenditures for each project and is updated annually;
- A formal investment policy, with nearly all funds invested in the county treasury pool, and quarterly investment reports provided to the board;
- A formal debt management policy that covers most main areas but lacks significant quantitative guidance; and
- A reserve policy that requires minimum reserves equal to 5.0% of unrestricted general fund expenditures, increasing by 0.25% of unrestricted general fund expenditures in each year where there is no base decrease in state funding and where there is a cost-of-living increase of at least 0.25%, until the reserve level equals one month of total compensation or one month of expenditures (as of fiscal 2018, the minimum reserve level under this policy was 6.25%).

Debt, pension, and other postemployment benefit (OPEB) liabilities

We consider the district's overall net debt burden to be moderate, at about $4,500 per capita and 3.9% of market value, including the series 2018B GO bonds and the 2018 refunding bonds. In fiscal 2017, the district's debt carrying charge was 9.9% of operating and nonoperating expenditures, which we view as moderate. The district's amortization schedule is slow, however, with only 39% of debt repaid over the next 10 years. The district will have $192 million in authorized GO bonding capacity remaining after the series 2018B bonds, and we understand that it plans to issue its next series of GO bonds in two to three years; we do not expect that the issuance of its remaining authorized GO bonding capacity will change our view of its debt burden. Finally, we note that the district does not have direct purchase or private placement debt outstanding.

The district participates in the California State Teachers' Retirement System (CalSTRS) and the Public Employees' Retirement System (CalPERS). It has historically made its full required contributions to both plans (statutorily determined for CalSTRS, actuarially determined for CalPERS), which was equal to 4.3% of operating and nonoperating expenditures in fiscal 2017. The district's CalSTRS and CalPERS plans had funded ratios of 70.0% and 73.9%, respectively, as of the end of fiscal 2017, which are somewhat low and therefore pose a moderate risk of cost acceleration in the coming years, but the district is aware of scheduled increases in contribution rates and is planning accordingly. The district's OPEBs consist of a single-employer defined benefit health care plan, and it has established, and is contributing to, an irrevocable trust to prefund these expenses even as it makes pay-as-you-go OPEB payments. Including the trust, its OPEB funded ratio was 39.8% at end-fiscal 2017, and its pay-as-you-go OPEB cost accounted for 0.5% of operating and nonoperating expenditures.

Outlook

The stable outlook reflects our expectation that the district's growing economy and good financial management practices, combined with the favorable state funding environment, will likely allow the district to maintain structurally balanced operations and good to strong available fund balances. Accordingly, we do not expect to change the ratings within the two-year outlook horizon.

Downside scenario

We could lower the ratings if we come to believe that the district's operations are structurally imbalanced, or if the district draws down its available fund balance to the lower end of the range we consider good (i.e., 4%-8% of expenditures) without a robust plan to return to a level we consider strong.

Upside scenario

We would consider a higher rating if the district were to commit to and maintain available reserves that we consider very strong, in combination with securing a significant local revenue source outside of the state funding formula.

Related Research

U.S. State And Local Government Credit Conditions Forecast, April 26, 2018

Ratings Detail (As Of June 6, 2018)		
Grossmont-Cuyamaca Comnty Coll Dist GO rfdg bnds		
Long Term Rating	AA/Stable	Affirmed
Grossmont-Cuyamaca Comnty Coll Dist GO (ASSURED GTY)		
Unenhanced Rating	AA(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

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