S&P Global Ratings

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Summary:

Solano County Community College District, California; General Obligation

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Summary:

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Credit Profile		
US$90.0 mil GO bnds (Election Of 2012) ser C due 05/01/2047		
Long Term Rating	AA/Stable	New
Solano Cnty Comnty Coll Dist GO rfdg bnds		
Long Term Rating	AA/Stable	Upgraded
Solano Cnty Comnty Coll Dist GO		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded

Rationale

S&P Global Ratings raised its long-term and underlying rating (SPUR) to 'AA' from 'AA-' on Solano County Community College District, Calif.'s outstanding general obligation (GO) bonds. At the same time, S&P Global Ratings assigned its 'AA' rating to the district's election of 2012, series C GO bonds. The outlook is stable.

The raised ratings are based on our view of the district's improved financial and economic positions.

The ratings reflect our view of the district's:

- Large and diverse economic base with above-average wealth and income levels;
- Very strong year-ending general fund reserve levels; and
- Very strong expenditure flexibility, with the ability to reduce class offerings and increase class sizes if necessary.

Partly offsetting the above strengths, in our view, is the district's reliance on state funding for general operations.

The bonds are secured by revenue from unlimited ad valorem taxes levied on taxable property within the district. The Solano 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.

The 800-square-mile Solano County Community College District is located approximately 45 miles north of San Francisco, and its boundaries are largely coterminous with those of the county. The district excludes a portion of the Rio Vista area and incorporates a portion of Yolo County. The district serves an estimated population of 430,000 residents located in the cities of Benicia, Dixon, Fairfield, Suisun, Vacaville, Vallejo, and Winters, as well as Travis Air Force Base (AFB). The district operates one main campus and has three educational centers located in Vacaville, Vallejo, and the Travis AFB.

The district's assessed value (AV) increased by an average annual rate of 5.9% from 2014 to 2017 to a total of approximately $47.4 billion. Management attributes the bump in AV to the rollback of Proposition 8 valuation reductions and increased turnover of residential property as a result of recovering home prices. At the current AV level, we calculate the district's per capita AV, an indicator of wealth, to be $110,000, which we consider extremely strong. Incomes within the district are above average, with median household effective buying income (EBI) at a strong 120% of the U.S. level, and per capita EBI at a good 100% of the U.S. level.

Much of the district's operating revenue comes from state funding, which is allocated based on full-time-equivalent students (FTES). Enrollment has fluctuated in the past several years and is estimated to decrease to 7,179 in fiscal 2017, when the district received 1,109 FTES in stability funding to protect its apportionment revenue. We understand management expects FTES to increase to 8,370 in fiscal 2018. Management indicates stability funding will protect the district's revenues should FTES decline.

In our view, the district's financial operations have strengthened in fiscals 2016 and 2017. The district ended fiscal 2016 with a very large, $7.5 million surplus. This boosted reserves to $12.1 million, or 20.6% of operating expenditures. The district budgeted to end fiscal 2017 with a small, $866,000 draw on reserves, but management reports that it expects to end the year with at least balanced operations. The district does not anticipate needing cash flow support from the county or issuing tax revenue anticipation notes in the near term.

The district had spent reserves in fiscals 2014 and 2015. The district ended fiscal 2014 with a $1.4 million deficit, with reserves at 11.2% of operating expenditures, a level we consider strong. The district ended fiscal 2015 with a $1.4 million deficit, or reserves at 8.2% of operating expenditures, a level we consider strong. The district attributes the deficits to FTES coming in under the 8,500-student base funding and its election to use its reserves to make up for shortfalls in state funding instead of reducing staff, which makes up a significant portion of general fund expenditures.

We changed our view of the district's management practices to "good" from "standard" under our financial management assessment (FMA) methodology. An FMA of "good" indicates that, in our view, practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Key practices include a 5% minimum reserve requirement with a 15% board target, and quarterly budget status reports to the board. Revenue and expenditure assumptions are conservative and incorporate historical trends. The district also has a long-term financial plan that includes data for the current year and three years out. The district also recently adopted a debt management policy. The district has an investment management policy and reports holdings and earnings annually.

In our view, the district's overall net debt burden is moderate on a per capita basis, at $3,083, but low as a percentage of market value, at 2.8%. The series C bond proceeds will be used to finance the acquisition, construction, modernization, and equipping of district sites and facilities. The district has no plans to issue additional debt within the next two years. Management has confirmed that the district has no alternative financing obligations outstanding.

The district participates in both the California State Teachers' Retirement System and the California Public Employees' Retirement System, to which it made 100% of its annual required contributions (ARCs) in the past three years. The fiscal 2016 payment was approximately 3.8% of general fund expenditures. The CalSTRS, the largest pension plan, is 74% funded as of the latest actuarial report. The district has also been overfunding its other postretirement employee benefit (OPEB) contribution, and paid $2.1 million on a $1.8 million ARC. The district has $2.9 million in an irrevocable trust. Total pension and OPEB payments were 5.2% of expenditures in 2016.

Outlook

The stable outlook reflects our view of the district's very strong financial flexibility and our anticipation that the district will continue to maintain at least strong reserves. We expect the district to continue to be protected under the stability mechanism should enrollment decline. We do not expect to change the ratings over the two-year outlook timeline.

Downside scenario

We could lower the ratings should the district return to negative operations, resulting in the ending general fund balance dropping below a level that we consider good.

Upside scenario

Conversely, should the district's economic indicators--especially incomes-- significantly improve, revenues diversify away from state funding, and the district establishes a trend of balanced to positive operations while strengthening its ending general fund balance significantly, we could raise the ratings.

Ratings Detail (As Of March 30, 2017)		
Solano Cnty Comnty Coll Dist GO rfdg bnds		
Long Term Rating	AA/Stable	Upgraded
Solano Cnty Comnty Coll Dist 2014 GO rfdg bnds		
Long Term Rating	AA/Stable	Upgraded

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.globalcreditportal.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.