

## CREDIT OPINION

13 March 2017

### New Issue

Rate this Research >>

#### Contacts

Alexandra J. Cimmiyotti 415-274-1754  
 VP-Senior Analyst  
[alexandra.cimmiyotti@moody.com](mailto:alexandra.cimmiyotti@moody.com)

Helen Cregger 415-274-1720  
 VP-Sr Credit Officer  
[helen.cregger@moody.com](mailto:helen.cregger@moody.com)

# Mt. San Antonio Community College District, CA

New Issue: Moody's Assigns Aa1 to Mt. San Antonio CCD's (CA) 2017 GO BANs; Outlook is Stable

## Summary Rating Rationale

Moody's Investors Service has assigned an Aa1 rating to Mt. San Antonio Community College District's (CCD) \$90 million 2017 General Obligation Bond Anticipation Notes. Concurrently, we have upgraded the district's GO bond rating to Aa1 from Aa2, affecting \$357 million. The outlook has been changed to stable from positive.

The upgrade reflects the district's continued moderate growth in assessed value, sustained healthy financial position and continued practice of funding its pension and OPEB liability above the minimal required levels. The Aa1 reflects the district's significantly large tax base, healthy financial position that is expected to remain stable, low direct debt burden and strong management team. The rating also incorporates the district's manageable OPEB liability and moderate pension burden.

The Aa1 rating also incorporates that the general obligation bonds are secured by the district's voter-approved unlimited property tax pledge. The county 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.

The Aa1 rating assigned to the BANs reflects the district's fundamental credit strength, and our expectation that the district is well positioned to permanently finance the notes at maturity (2022) with GO bonds or Certificates of Participation, if necessary.

## Credit Strengths

- » Large tax base that is expected to continue to experience moderate growth
- » Healthy reserves and liquidity position
- » Strong management team
- » Operating expenditure flexibility inherent to California Community College Districts (CCDs)

## Credit Challenges

- » No significant revenue raising ability inherent to CA CCDs
- » Rising pension and OPEB costs

- » Limited ability to issue GO bonds; tax rate constraint

## Rating Outlook

The stable outlook reflects the district's large and primarily residential tax base poised for additional moderate growth and healthy financial position supported by stable reserve levels.

## Factors that Could Lead to an Upgrade

- » Continued trend of operating surpluses leading to considerable growth in reserves
- » Noteworthy increase in assessed value
- » Becoming a Basic Aid district

## Factors that Could Lead to a Downgrade

- » Trend of declining reserves
- » Narrowing of liquidity
- » Protracted decline in assessed value

## Key Indicators

Exhibit 1

<b>Mt. San Antonio Community College District, CA</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>
<b>Economy/Tax Base</b>					
Total Full Value (\$000)	\$ 67,610,158	\$ 68,611,869	\$ 71,460,285	\$ 75,358,151	\$ 79,177,416
Full Value Per Capita	\$ 91,318	\$ 92,603	\$ 96,519	\$ 101,784	\$ 106,942
Median Family Income (% of USMedian)				106%	106%
<b>Finances</b>					
Operating Revenue (\$000)	\$ 154,169	\$ 153,153	\$ 165,468	\$ 178,725	\$ 226,526
Fund Balance as a % of Revenues	28.3%	29.3%	28.1%	28.4%	25.3%
Cash Balance as a % of Revenues	2.0%	11.3%	19.2%	20.2%	19.1%
<b>Debt/Pensions</b>					
Net Direct Debt (\$000)	\$ 222,841	\$ 212,077	\$ 367,870	\$ 359,170	\$ 398,042
Net Direct Debt / Operating Revenues (x)	1.4x	1.4x	2.2x	2.0x	1.8x
Net Direct Debt / Full Value (%)	0.3%	0.3%	0.5%	0.5%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.5x	1.9x	2.2x	2.3x	1.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.3%	0.4%	0.5%	0.5%	0.6%

Source: Mt. San Antonio Community College District, Moody's Investors Service

## Detailed Rating Considerations

### Economy and Tax Base: Large and Diverse Tax Base Poised to Experience Moderate Growth

The district's sizeable assessed value (AV) reached a peak at \$83.1 billion in fiscal 2017, this marks the sixth consecutive year of growth. The district is primarily residential, mature and largely built out yet AV growth in 2017 was a moderate 5.01%. The growth was mostly a result of a strengthened housing market increasing the volume of housing turnover. The district's median home assessed valuation of approximately \$280,000 across its 16 cities is still well below the median sales price for the area. Looking forward, we expect that the gradual improvement of property values and the favorable mechanics of Proposition 13 will support steady growth to the district's AV.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

There are a couple of notable development currently underway; the Indigo Project and Arrow Canyon Crossing in the City of Diamond Bar that will also support AV growth in the near-term.

Not surprisingly for a district of its size amid the greater Los Angeles area, there is no significant taxpayer concentration. The top ten taxpayers represent only 1.83% of the secured assessed valuation with no single taxpayer representing more than 0.33%. The district is well integrated into the Los Angeles metroplex with easy access to the diverse range of economic opportunity within the region.

The district is not on the teeter plan, which means that its property taxes are subject to delinquency. However, the district is part of the California Statewide Delinquent Tax Finance Authority, which is a joint powers agency that exists to purchase delinquent property taxes from its members. Districts with delinquent property taxes are made whole by selling the accounts to the authority. The authority then pursues collection and keeps the receipts of any fines or charges accrued by the delinquent account.

### **Financial Operations and Reserves: Healthy Financial Position Expected to Remain Stable**

The district has maintained a sound financial position despite state funding pressure over the recent years. We expect that the district will continue to produce solid operations given the improving funding environment for CCDs and management's prudent budgetary practices.

Fiscal 2016 marked the district's third consecutive operating surplus, increasing available general fund balance to \$40.9 million or a healthy 18.1% of general fund revenues. The positive variance is primarily due to the receipt of one-time revenues coupled with tight expenditure controls. Beyond the general fund, the district's reserve position is broadened by the availability of the bond interest and redemption fund monies that are restricted in use to support payments on the general obligation bonds. Including these monies, the district's available operating reserve rises to a strong 25% of operating fund revenues.

The district has a practice of appropriating fund balance as revenue to balance the budget. The fiscal 2017 adopted budget includes a \$22.2 million draw on fund balance. Similar to previous years, management expects to outperform budget projections, and the deficit is likely to be \$2.4 million and general fund balance is expected to remain strong at \$40.7 million or 18.5% of revenues. These projections seem reasonable given management's prudent fiscal practices and the large amount of carry-over funds expected to finance one-time expenditures, such as capital projects, over the next few years. The district's financial policy includes maintaining general fund balance at a minimum of 10%, yet management is committed to keeping reserves within current levels of eighteen percent to twenty percent, which furthers strengthens the district's financial position.

Contrary to national trends, the district has been experiencing enrollment growth since fiscal 2014. Management expects its enrollment growth to continue through the near-term, which is reasonable given the recent growth trend and strong demand for services that have gradually been restored given the improving state funding environment.

### **LIQUIDITY**

The district ended fiscal 2016 with an unrestricted cash position of \$43.2 million or a healthy 19.1% revenues. Further bolstering the district's liquidity position are reserves outside the general totaling \$19.8 million (projected balance for fiscal 2017 yearend). Per board approval, these monies could be used for operations. Similar to its reserve position, we expect that the district's liquidity position will also remain healthy.

### **Debt and Pensions: Debt Burden Expected to Remain Low; Moderate Pension Burden**

The district's direct debt burden is low at 0.5% of assessed value and the overall debt burden is higher yet consistent with the national median at 3.5% of assessed value. Our expectation is that the district's continued AV growth will keep the district's direct debt burden as a percentage of AV relatively low and in-line with the California direct debt burden median of 0.4% of AV

### **DEBT STRUCTURE**

All of the district's debt is fixed rate and final maturity is in 2043. Debt service is level through maturity, and the district promised voters a maximum tax rate of \$25 per \$1,000 AV, which it is currently at, for GO bonds authorized under both Measure R- 2001 Election and Measure RR- 2008 Election.

Post issuance, the district will have \$115.6 million in authorized but unissued debt of which \$90 million will be used to permanently finance the current offering at maturity in 2022. Should the district fall short in having sufficient tax rate capacity to issue the GO

bonds, district management, which has the support from the board, plans to issue a combination of GO bonds and Certificates of Participation to permanently finance the BANs.

#### DEBT-RELATED DERIVATIVES

The district has not entered into any derivative agreements.

#### PENSIONS AND OPEB

Pension-driven budgetary pressures for the district are stable, though pension rate increases expected through fiscal 2021 could prove to be a budgetary burden. The district's contribution to the state's retirement system is reasonable relative to the district's overall expenditures.

Moody's adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, the three year average ANPL is \$435 million or a moderate 1.92 times of operating revenues. 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 district established an irrevocable OPEB trust in 2008, which has a current balance of \$70 million. The district contributes \$2.5 million annually to the trust and uses the investment earnings to fund the pay-go portion of the liability. The district's unfunded accrued OPEB liability as of March 1, 2016 is manageable at \$35.7 million.

Management has been notably proactive in funding its OPEB liability and has recently decided to manage pension cost increases with the same strategy. The district established an irrevocable pension trust with an initial contribution of \$4 million in fiscal 2016 and appropriated a \$4 million contribution in 2017. The recent contributions have been funded by one-time state revenues and contribution levels moving forward, have yet to be finalized.

### Management and Governance

California CCDs have an Institutional Framework score of A, which is moderate compared to the nation. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. California CCDs' major revenue sources are determined by the state government or, for the most part, can only be raised with voter approval. Ad valorem property tax rates cannot be increased above 1% except to meet GO bond payments, and assessed valuation growth is also generally limited to 2% annually unless a property changes ownership. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, California has strong public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

### Legal Security

The Bond Anticipation Notes are payable from general obligation bonds from Measure R (expected, authorized funding source) or any legally available revenues.

The district's outstanding general obligation bonds are secured by the district's voter-approved unlimited property tax pledge. The county 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.

### Use of Proceeds

The Notes are being issued to repair, upgrade, acquire, construct and equip certain district sites and facilities.

### Obligor Profile

Mt. San Antonio Community College District is the state's largest single-campus community college and is located in Los Angeles County serving over 60,000 students annually. The district is governed by an eight-member board of trustees and the day-to-day operations are managed by the board-appointed President & CEO.

### 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.moody.com](http://www.moody.com) for a copy of this methodology.

## Ratings

Exhibit 2

### Mt. San Antonio Comm. Coll Dist., CA

Issue	Rating
2017 General Obligation Bond Anticipation Notes	Aa1
Rating Type	Underlying LT
Sale Amount	\$90,000,000
Expected Sale Date	03/21/2017
Rating Description	Note: Bond Anticipation

Source: Moody's Investors Service

© 2017 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL, FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER.

ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY SUCH RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for appraisal and rating services rendered by it fees ranging from \$1,500 to approximately \$2,500,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at [www.moody.com](http://www.moody.com) under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors. It would be reckless and inappropriate for retail investors to use MOODY'S credit ratings or publications when making an investment decision. If in doubt you should contact your financial or other professional adviser.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for appraisal and rating services rendered by it fees ranging from JPY200,000 to approximately JPY350,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

## Contacts

Alexandra J. Cimmiyotti      415-274-1754  
VP-Senior Analyst  
alexandra.cimmiyotti@moodys.com

## CLIENT SERVICES

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