S&P Global Ratings to Mount San Antonio Community College District

December 3 2019

S&P Global Ratings assigned its 'AA' long-term rating to Mount San Antonio Community College District, Calif.'s series 2019 general obligation (GO) refunding bonds, series A and series B (both federally taxable). We also affirmed our 'AA' long-term rating on the district's series 2017 GO bond anticipation notes (BANs), our 'AA' long-term rating on the district's outstanding GO bonds, and affirmed our 'AA' issuer credit rating (ICR) on the district. The outlook on all ratings is stable.

The ratings reflect our view of the district's:

- Participation in the broad and diverse Los Angeles metropolitan statistical areas, supported by good wealth indicators;
- Very strong reserves and a strong 10% minimum general fund reserve policy; and
- Moderate pro forma debt burden on a per capita basis and as a percentage of total market value and proactive funding of pension and other postretirement employee benefits (OPEB) liabilities.

While we consider the district’s income indicators strong, they do not compare as well with those of other higher-rated community college credits. Also, the district's annual debt service burden is moderately elevated relative to its fiscal 2018 total governmental expenditures.

All references to fiscal 2019 are based on draft financials provided by management, which they do not expect will materially vary from audited figures.

Unlimited ad valorem taxes levied on taxable property (except certain personal property, which is taxable at limited rates and which accounts for an immaterial portion of the total tax base) within the district secure the existing and proposed series 2019A and 2019B refunding GO bonds.

The 2019 GO refunding bonds, series A and series B, with a total par of $91.6 million will be used to advance refund on a taxable basis the district's 2008 series 2013A current interest term bonds, 2008 series 2013A capital appreciation bonds, the 2008 series 2013B bonds, and the 2013 refunding bonds for interest rate savings. A portion of the series 2008A bonds will be advance refunded on a crossover basis, with a 2023 crossover date. In January 2019, the district issued a three-month, $25.7 million BAN with a bank intended as short-term interim financing for projects. Management intends to repay and convert this to longer-term debt. Securing the series 2017 BANs are the proceeds of the future sale of GO bonds issued pursuant to the district's 2008 GO authorization. It is our understanding that the district has covenanted to issue certificates of participation (COPs) to pay all or a portion of the maturing principal of and interest on the BANs in the event that it is not able to issue additional enough GO debt to completely repay the BANs. The notes are not subject to redemption before the BANs' five-year maturity. S&P Global Ratings based the 'AA' BAN rating on our view of the BANs five-year maturity schedule, the authorization to issue long-term bonds to retire the BANs, historical access to the long-term capital markets, the district's low market risk profile and our assessment of the district's overall creditworthiness as indicated by our 'AA' ICR on the district. The district has a remaining bond authorization issuance of approximately $439 million. We understand this debt may not occur over our two-year outlook period. We will evaluate the impact of any additional debt on the district's credit profile at the time of issuance.

The district is located in Los Angeles County and has an estimated population of 764,753 (based on 2017 most recent available data). The 189-square-mile district includes the cities of Baldwin Park, Industry, Covina, Diamond Bar, Glendora, Irwindale, La Puente, La Verne, Pomona, San Dimas, Walnut, and West Covina, as well as the unincorporated communities of Bassett, Charter Oak, Hacienda Heights, Rowland Heights, and Valinda. Median household effective buying income (EBI) and per capita EBI are 108% and 96% of the national levels, respectively, which we consider good. The local economy has continued to strengthen over the past several years reflecting strong growth in the district's tax base. Total assessed value (AV) in the district increased by another healthy 4.6% in fiscal 2020 to $96.7 billion relative to $92.4 billion in fiscal 2019. On an average annual basis, AV growth was 6% over fiscal 2016 through 2020, which is healthy. Fiscal 2020 valuations equate to what we consider an extremely strong market value per capita of roughly $126,394. We consider the tax base very diverse, with the top 10 taxpayers accounting for only 2.1% of total AV in fiscal 2020. We expect a continuation of healthy AV growth trends in the foreseeable future. Residential valuations account for the vast majority of total AV and median home sales prices have increased in recent years.

The district operates Mt. San Antonio College, which opened in 1946, fully accredited, on a 420-acre campus about 25 miles east of the city of Los Angeles. The district's enrollment levels have generally increased over the past several years in part due to the growing regional population levels as well as growing demand for the district's educational programs, according to district management. We view this favorably as many community colleges nationally are still witnessing enrollment decreases given the countercyclical nature of their enrollment to local economic trends.

For fiscal 2019, the district reported flat full-time equivalent students (FTEs) at 32,671 from 32,720 in fiscal 2018. Management has budgeted for a small 0.5% FTE increase for the current fiscal 2020 year which we consider reasonable given its historical enrollment stability. The district's primary revenue source is state funding (not including grants and based on total governmental revenues; accounting for 41.2% of fiscal 2018 total revenues), and the amount is primarily determined by the number of students the district serves in a given year. Since fiscal 2016, the district has little-to-no unfunded FTEs, which we view favorably. We expect a continuation of these positive enrollment and state funding trends over our outlook period. Management projects a modest less than 1% annual enrollment increase over the longer term.

The district has posted persistent general fund surpluses for several years, which is a testament to management's conservative budgeting practices as it typically shows general fund deficits in its budgets and vastly outperforms in year-end financials. Its financial position is very strong, in our opinion, with a combined available (unreserved and reserved) general fund balance of $60.2 million equal to 24.7% of total general fund expenditures for fiscal 2019, higher than 22% in fiscal 2018. On an unrestricted basis only, the unreserved general fund balance of $55.9 million equaled 27% of unreserved general fund expenditures for fiscal 2019, up from 24.2% of unreserved general fund expenditures for fiscal 2018. The district has consistently maintained its available reserves at very strong levels historically and management projects this practice to continue for the next several years including the current fiscal 2020 fiscal year.

We consider the district's 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 policies and practices include using past trends and third party resources to project future enrollment and revenue, monthly updates of the district's budget-to-actuals to the district board, and the adoption of a formal investment policy with investment results received and presented quarterly to the district board. The district also maintains a formal 15-year capital improvement plan (CIP) that is formally reviewed annually and updated as needed. Additional policies include a policy of maintaining a minimum unrestricted general fund balance equal to a minimum 10% of unrestricted general fund expenditures and a formal debt management policy that provides guidelines on the types of debt that can be issued and for a specific purpose and includes certain limitations on maturity length and total debt outstanding based on district AV. Management confirmed the district does not do multi-year financial projections beyond the current fiscal year and budgeting for the upcoming fiscal year.

In our view, the district's pro forma overall net debt burden is moderate, at about $4,196 per capita and 3.5% of total AV in fiscal 2019.

Pension and other postemployment benefit highlights

We do not view pension and OPEB liabilities as a near-term source of credit pressure despite lower funding levels and our expectation that costs will increase.

While the district's pension contributions are set to increase for the next few years (similar to its peers), the statutory funding policy for the district's larger pension plan mitigates the risk of dramatic cost escalation contributions because the state is required to absorb most of any needed future cost increases. The cost of pensions under the state's plan is expected to increase over the next several years. Management indicates they are aware of the increasing costs and will be monitoring these costs going forward. During fiscal year 2016, the district established an irrevocable trust for the purpose of funding future employer contributions associated with its pension obligations. In fiscal year 2018, it contributed $2 million to the pension trust. As of Jan. 31, 2019, the net value of assets in the pension trust was $10.4 million.

While this remains well below the outstanding pension liabilities for both plans, it demonstrates a willingness by management to tackle these liabilities, which we view favorably.

While the district is not making full actuarially determined contributions toward its OPEB liability (it funds OPEBs on a pay-as-you-go basis), its liability is not material, in our view, relative to the size of the district's operations and reserve levels. On May 27, 2015, the district's board of trustees approved a funding plan for OPEBs, which consists of funding $2.5 million from the unrestricted general fund and paying the retirees health premiums from the interest earned on the OPEB trust. Moreover, the district has legal flexibility to alter OPEB benefits, limiting adverse credit impacts from its OPEB liability in our view.

The district participated in the following plans as of June 30, 2018:

- Academic employees are members of the California State Teachers' Retirement System (CalSTRS): 71% funded with a collective net pension liability of $133.9 million;
- Classified employees are members of the California Public Employees' Retirement System (CalPERS): 71.2% funded with a collective net pension liability of $90.1 million; and
- Single-employer defined-benefit OPEB plan: As of an actuarial report dated June 30, 2018, the district's net OPEB liability was $51.2 million and currently holds reserves for these purposes totaling $69.8 million in an irrevocable trust.

Combining both pension and OPEB costs, the district paid 6.3%% of total fiscal 2018 governmental fund expenditures which we consider typical relative to California community colleges we rate. We do not view this as a major budgetary risk at this time due to management's proactive focus on tackling these liabilities and healthy district finances, which can absorb the impact of these increased costs, although a continued upward trajectory for these expenses over a longer timeframe could prove financially constraining.

Outlook

The stable outlook reflects our anticipation that the district will maintain very strong general fund reserves, enrollment will be steady, and its AV trends and general fund operating performance will be similar to recent years. We do not anticipate changing the rating during our two-year outlook horizon.

Upside scenario

We could consider a positive rating action if the district's local economy strengthens, reflecting stronger income and wealth levels commensurate with higher rated peers, while maintaining its other core credit characteristics.

Downside scenario

Should the district meaningfully reduce its available general fund reserves resulting from declines in state funding or other factors, or if there are large and unexpected drops in enrollment levels, then we could consider a negative rating action.