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CREDIT OPINION

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New Issue

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Solano Community College District, CA

New Issue - Moody's assigns Aa3 to Solano CCD, CA's Election of 2012, Series C GO Bonds

Summary Rating Rationale

Moody's Investors Service has assigned an Aa3 rating to the Solano Community College District's $90 million Election of 2012 General Obligation Bonds, Series C. Concurrently, we have also affirmed the Aa3 rating on the district's outstanding, parity GO debt. The district has approximately $212.5 million in outstanding GO debt.

The Aa3 rating assignment reflects the district's sizeable and growing base, with solid socio-economic indicators. Additionally incorporated into the district's rating is an improved financial position, in part reflecting the receipt of one time money from the state in fiscal year 2016 and slowly abating enrollment declines. The district's debt burden is slightly above average, however, manageable and the pension burden is also manageable.

The assignment of the GO rating includes the nature of the GO pledge which is secured by the district's voter-approved unlimited property tax pledge. The counties 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.

Credit Strengths

» Large and growing tax base

» Improving area economy and solid resident socio-economic profile

» Strong funding environment for California community college districts

Credit Challenges

» Recent trend of declining enrollment

» Increasing pension costs facing all California CCD's

Rating Outlook

Outlooks are usually not assigned to local government credits with this amount of debt outstanding.

Factors that Could Lead to an Upgrade

» Stabilization of student enrollment

» Significant and sustained improvement of financial profile including larger reserve levels

Factors that Could Lead to a Downgrade

- Ongoing trend of material enrollment declines
- Significant decrease in available reserves or cash
- Protracted period of large assessed valuation decreases

Key Indicators

Solano Community College District	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 38,312,706	$ 37,784,015	$ 39,085,717	$ 42,243,182	$ 44,585,802
Full Value Per Capita	$ 86,485	$ 85,291	$ 88,230	$ 95,357	$ 100,645
Median Family Income (% of US Median)				112.0%	
Finances					
Operating Revenue (General Fund & Debt Service Fund $000)	$ 59,024	$ 60,698	$ 70,202	$ 73,526	$ 84,894
Fund Balance as a % of Revenues (Operating Funds, Available Fund Balance)	11.4%	11.2%	16.0%	18.7%	16.9%
Cash Balance as a % of Revenues (Operating Funds)	3.7%	14.0%	19.1%	28.6%	33.3%
Debt/Pensions					
Net Direct Debt ($000)	$ 104,728	$ 215,283	$ 229,210	$ 238,729	$ 232,088
Net Direct Debt / Operating Revenues (x)	1.77x	3.55x	3.27x	3.25x	2.73x
Net Direct Debt / Full Value (%)	0.3%	0.6%	0.6%	0.6%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	--	--	--	--	1.4x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	--	--	--	--	0.3%

Source: Moody's Investors Service and Solano Community College District

Detailed Rating Considerations

Economy and Tax Base: Large Tax Base With Increasing Growth Rates

The district's $47.4 billion assessed value is large and will remain sizable as its post-recession recovery accelerates on the strength of an improving housing market and regional economy. The tax base eclipsed its pre-recession peak valuation for the first time in fiscal year 2017 and it remains comparably sized relative to the median tax base for a Moody's-rated community college district.

The district tax base is in its fourth consecutive year of healthy tax base growth, posting 6.2% growth in fiscal year 2017. Much of the tax base improvement is attributable to a strengthened housing market in which prices and the pace of sales have improved. Despite significant losses in home values during the Great Recession, the current median home sales price estimate of approximately $390,000 outpaces the median home assessed value of $254,000. Though this margin is not particularly wide, it is nonetheless a solid improvement from the recent period of significant value depreciation.

The district's top ten taxpayers are a fairly diverse group though the largest payer, an oil refinery, Valero Refining Company of California represents 2.2% of the total assessed value, an unusually large amount for a taxpayer in a district of this size. Still, this is not a material weakness considering the totality of the tax base and the ongoing growth in district AV.

Solano CCD's service area includes seven largely middle income cities. The median family income in the district is comfortably above the national median at 112%. The district's boundaries are nearly coterminous with Solano county where unemployment is 5.1% and comparable to the state mark having fallen each year since 2010 and its peak of 13.5%. Employment is bolstered by the institutional presence of Travis Air Force Base, the largest employer in the county.

Financial Operations and Reserves: Improved Financial Position as State Revenue Support Increases

The district posted healthy growth in reserves in fiscal year 2016 reflecting the receipt of one time moneys from the state. In fiscal year 2016 the district ended with a $7.5 million General Fund surplus and grew reserves to a healthier $12.1 million or 18% of revenues. Included in the district's results were $5 million in one time money from the state. Future stability of the district's finances will also be reliant on the district's ability to stabilize enrollment at the projected 8,300 FTE level.

The district's enrollment has been relatively volatile, fluctuating significantly from 8,500 FTE in fiscal year 2012 to 6,966 FTE in fiscal year 2013. The sharp declines in enrollment contributed to the district's decline in fund balance from a high of 12.3% of revenues in fiscal year 2011 to 8.3% of revenues in fiscal year 2015. The enrollment decline was driven by the improved economy and the district's effort to reduce costs by not holding a summer session. The full effect of the enrollment decrease was offset by stability funds, which fund the district at a baseline enrollment of 8,300 students. The district hopes to restore its summer session and surpass its new baseline funding target and reach 8,300 students in 2018.

Solano CCD may be challenged to reach this target given the improved local economy, which will attract many would-be students back into the labor force. In response to this challenge, much of the district's marketing and recruitment efforts are centered on strengthening vocational offerings such as auto tech courses in Vallejo. The district is also creating partnerships with area four-year institutions to increase its count of degree seeking students who will eventually transfer to a college that awards bachelor's degrees.

The district projects to end fiscal year 2017 with a $1.3 million surplus, and increase total General Fund reserves to 20.6% of revenues. The district's projections are better than its initial $865,000 budgeted use of reserves and reflects a conservative budgeting of expenditures. The district also has exceeded its 5% reserve policy and has a target to maintain reserves at 15%.

LIQUIDITY

The district's General Fund net cash for fiscal year was $13.9 million, or a healthy 20.7% of revenues. The district has an additional $6.8 million in funds outside of the General Fund that could be used on an unrestricted basis. This brings the total amount of available liquidity to a very strong 30.8% of revenues.

Debt and Pensions: Above Average Debt Burden; Debt and Pensions are Manageable

The district's debt burden is above average at 0.64% of district AV, where the median for California community college districts is 0.5% of AV. Despite the above average debt burden, we expect debt to remain manageable given our expectation of continued tax base growth. After the current sale the district will have $138 million in authorized but unissued general obligation bonds. In addition, the district has $10.2 million in outstanding lease obligations. The net lease burden in fiscal year 2016 was a minimal 1.7% of General Fund revenues.

DEBT STRUCTURE

Debt service on the GO bonds gradually escalates before final maturity in 2047. The district's fiscal year 2016 total fixed costs resulting from debt service, lease payments, retirement and OPEB obligations was $21.13 million or an above average 24.9% of fiscal 2016 operating revenues (General Fund and Debt Service Funds).

DEBT-RELATED DERIVATIVES

The district does not have any debt -related derivatives.

PENSIONS AND OPEB

District employees participate in the California Public Employee Retirement System (CalPERS) and California State Teachers Retirement System (CalSTRS). The Moody's adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, was $126,609 million in fiscal year 2016. The three-year average of ANPL to full value is low at 0.3% of full value given the large size of the district's tax base. The district's the three-year average of ANPL to operating revenues is on par with peer district levels at 1.4 times. 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's combined pension contribution to CalPERS and CalSTRS in fiscal 2016 was $3.2 million, equal to 7.4% of operating expenditures. Similar to most California community college districts, pension costs will become an increasing budget pressure as rates increase over the next several years.

The district funds its other post-employment benefits (OPEB) on a pay-as-you-go basis. Its unfunded actuarial accrued liability for OPEB was $18 million as of the most recent actuarial valuation date September 1, 2015. The district's annual required OPEB contribution (ARC) for 2016 was $1.76 million, and the district contributed $2.13 million. The district has contributed more than the ARC over the last several years. Additionally, the district has set aside $2.9 million in an irrevocable OPEB trust.

Management and Governance

INSTITUTIONAL FRAMEWORK

California Community College Districts have an institutional framework score of “A”. Revenues primarily consist of tuition, state aid and property taxes, which are moderately predictable. Revenue-raising ability is moderate as voter approval is required to increase most revenues. Expenditures, which primarily consist of personnel costs, are highly predictable. CCD's have a moderate ability to reduce expenditures with respect to staffing and course offerings.

MANAGEMENT AND GOVERNANCE

The district is managed by a superintendent/president that is appointed by the board. The district is governed by a seven member Board of Trustees.

The district's management team is currently being challenged to maintain enrollment at 8,300 FTE's through its projection period in 2020.

The district participates in the California Chancellor's institutional effectiveness improvement program. As a participant, the district receives $150,000 to help it make progress against 18 organizational effectiveness goals. Solano's accreditation was affirmed in 2014 with the next comprehensive review set to begin in 2017.

Legal Security

The general obligation offering is secured by an unlimited property tax pledge of all taxable property within the district boundaries. Debt service on the rated debt is secured by the district's voter-approved unlimited property tax pledge. The counties 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

Bond proceeds will fund various district facility improvements under the Measure Q Bond Program approved in 2012.

Obligor Profile

The Solano Community College District is essentially coterminous with Solano County and also covers a very small portion of unincorporated Yolo County. The District is a single college institution, with a campus located in Fairfield, California and three satellite sites in Vallejo, Vacaville, and Travis Air Force Base. The district population is approximately 443,000 and it currently serves nearly 9,590 students per semester. The district's full time equivalent students (FTEs) in 2016 was 8,288. Solano Community College is currently fully accredited by the Accrediting Commission for Community and Junior Colleges of the Western Association of Schools and Colleges. The District's service area encompasses the communities of Benicia, Dixon, Fairfield, Suisun, Vacaville, Vallejo and Winters, as well as Travis Air Force Base.

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

Solano Community College District, CA

Issue	Rating
Election of 2012 General Obligation Bonds, Series C	Aa3
Rating Type	Underlying LT
Sale Amount	$90,000,000
Expected Sale Date	04/06/2017
Rating Description	General Obligation

Source: Moody's Investors Service

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