

### Summary:

# Redwoods Community College District, California; General Obligation

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### Credit Profile

#### Redwoods Comnty Coll Dist GO

*Unenhanced Rating*

A(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services affirmed its 'A' underlying rating (SPUR) on Redwoods Community College District, Calif.'s general obligation (GO) bonds. The outlook is stable.

The rating reflects our view of the district's:

- Tax base in California's north coast region that continues to show growth,
- Available liquidity in the form of a legally available fund for other postemployment benefits equal to 10% of general fund expenditures, and
- Low debt burden.

Partially offsetting these strengths, in our view, are:

- A record of uneven financial performance and a funding environment that we expect will continue to be adverse for community college districts in the state, as well as
- The potential to lose accreditation by the end of fiscal 2013 should the regional accreditation oversight board find in its January 2013 meeting that the district continues to deviate "significantly" from certain criteria.

Redwoods Community College District serves an estimated population of 200,000 and primarily serves Humboldt County in the far northwest corner of the state. Historically concentrated in timber production, the county, we understand, has more recently become a destination for retirees. Income levels in the country are adequate, in our opinion, with median household effective buying income at 77% of the national average. Market value in the district has grown by an annual average of 1.9% since 2008 to \$15.1 billion in fiscal 2011, which we consider strong at \$75,557 per capita.

In our view, the district has shown uneven financial performance, and a sustained adverse state funding environment for community college districts has made budgeting challenging, but we expect the district's financial position to remain good through fiscal year 2012. After a six-year period of negative or virtually balanced general fund operations that pushed its available balance down to 4.4% of expenditures in fiscal year 2008, we understand that the district largely stabilized its operations in fiscal years 2009 and 2010 after adjusting for one-time grants received in fiscal year 2009 and largely spent in fiscal year 2010. We understand that the district reduced discretionary spending from its baseline by about \$1.5 million in fiscal year 2010 (about 4% of expenditures) to address state funding reductions and has been reducing course offerings to match the maximum full-time equivalent student

enrollment level that the state will fund. We believe that this helped the district to post virtually balanced operations for fiscal year 2011 (a surplus of less than 1% of expenditures) and its ending available balance stood at \$2.3 million, or 6.3% of expenditures, which we consider good. The district also held \$3.7 million, or 10% of general fund expenditures, in a legally unrestricted fund designated for the district's long-term other postemployment benefits (OPEB) liability. However, we understand that, due largely to state deferrals of payments to community college districts, the district plans to continue to issue tax and revenue anticipation notes to address liquidity needs.

Looking ahead, management reports that fiscal year 2012 expenditure reductions and retirements under an incentive program reduced expenditures from their baseline by about 1% but that the district's available balance will likely fall to about 4% of expenditures, which we still consider good. We understand that management is preparing a budget recommendation for fiscal year 2013 that will include expenditure reductions sufficient to close a \$1.2 million gap (about 3% of expenditures) assuming that the district must absorb trigger cuts under the state governor's budget proposal that would adjust state aid midyear if voters turn down proposed statewide tax increases in the November 2012 election.

We believe that a notice from the district's accrediting board that the district could lose its accreditation if it does not meet certain criteria has complicated the district's efforts to balance its operations but that the changes to bring it back into compliance appear to require organizational changes rather than significant additional spending. In January 2012, the district's accrediting body, the Accrediting Commission for Community and Junior Colleges of the Western Association of Schools and Colleges, placed the district on "Show Cause" notice. The board requested that the district address eight recommendations by Oct. 15, 2012 and placed the burden on the district to show why its accreditation should not be revoked. We understand that the board will then conduct a field evaluation and, in January 2013, will potentially decide revoke the district's accreditation at the end of fiscal 2013 if it does not believe the district has met the board's criteria. The district's committee addressing the accreditation notice has posted detailed periodic reports on its progress with respect to each recommendation on its website, and management has stated that costs associated with responding to the recommendations have largely been related to information systems adjustments, particularly to improve tracking of student learning outcomes. We view the loss of accreditation as potentially disrupting the district's operations to the extent that students in the district's geographically isolated service area decline to enroll in the district's courses because of concerns that other educational institutions will not consider the district's courses as valid for transferring course credits. However, we understand that in the event of a loss of its accreditation, another community college district could agree to serve as the accrediting institution, thereby improving the likelihood that students will be able to transfer their credits to other colleges and universities.

We consider district's management practices "standard" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of standard indicates our view that the finance department maintains adequate policies in some but not all key areas.

The district's overall net debt burden is very low in our view at \$993 per capita and 1.3% of market value. Carrying charges are 3.5%, which we likewise consider low. Management has stated that the district may issue new debt by exercising its remaining authorization of \$7.3 million in GO debt under its 2004 authorization, or via appropriation debt to finance capital improvements. However, the district indicates it does not have immediate plans to issue new debt.

The district participates in the California State Teachers Retirement System and California Public Employees

Retirement System and contributed \$1.9 million in fiscal year 2011. The district also pays for OPEB on a pay-as-you-go basis. Most recently, in 2011, the district contributed \$857,000. As of the most recent valuation date, Sept. 1, 2011, the district's unfunded actuarial accrued liability for its OPEB liability was \$7 million. The combined pension and OPEB contributions represented 4.5% of total government expenditures for fiscal year 2011.

## Outlook

The stable outlook reflects our expectation that the district will take the steps necessary to balance operations in light of a continuing difficult budgeting environment for community college districts in the state during our two-year outlook horizon. We could lower the rating if operating imbalances cause the district to draw its available general fund balance below an adequate level or if the loss of accreditation, should it occur, causes significant disruptions to the district's operations. We do not expect to raise our rating in the next two years due to a state funding environment that we expect will continue to be a difficult.

## Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008

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