

MOODY'S

RATINGS

Rating Action: Moody's Ratings affirms San Diego CCD's (CA) Aa1 rating; outlook stable

18 Dec 2024

New York, December 18, 2024 -- Moody's Ratings (Moody's) has assigned Aa1 ratings to San Diego Community College District's (CA) Election of 2024 General Obligation Bonds, Series A-1 (Dedicated Unlimited Ad Valorem Property Tax Bonds) and Election of 2024 General Obligation Bonds, Series A-2 (Federally Taxable) (Dedicated Unlimited Ad Valorem Property Tax Bonds). The estimated par amounts are \$700 million and \$150 million, respectively. We also affirmed the Aa1 rating on the district's outstanding general obligation unlimited tax (GOULT) bonds. Post issuance, the district will have about \$2.1 billion in long-term debt. The outlook is stable.

The affirmation primarily reflects the district's large and diverse tax base, which is poised for continued solid growth, and sound financial position supported by prudent governance.

RATINGS RATIONALE

The Aa1 rating incorporates the district's exceptionally large tax base supported by a dynamic economy, strong property wealth and favorable resident income. The rating also favorably considers the district's sound, stable financial position. That stability is largely due to management's commitment to maintain reserves at a minimum of two months of expenses or 16.7% of unrestricted general fund expenses.

Based on unaudited fiscal 2024 results, the district will generate a \$41 million surplus. The surplus is largely from the carryover of restricted funds and student centered funding formula revenue coming in above budget, due to an increase in full time equivalent students. Available general fund balance will increase to about \$77 million or a solid 15% of total general fund revenue.

The district's long-term liabilities, including long-term debt, unfunded pension and OPEB obligations are manageable and will remain so despite the size of the current offering and the district's remaining, authorized but unissued GO debt. The rating additionally reflects the strong security features of California community college

district general obligation bonds. These include collection by San Diego County (Aaa stable) and direct transfer to the paying agent of property taxes restricted for debt service.

RATING OUTLOOK

The stable outlook reflects our expectation that management will sustain a sound financial position given its adopted policies and conservative budget practices.

FACTORS THAT COULD LEAD TO AN UPGRADE OF THE RATINGS

- Sizeable and sustained increases in available general fund balance, such that it exceeds 20% of total general fund revenue
- Ongoing enrollment growth to above pre-pandemic levels

FACTORS THAT COULD LEAD TO A DOWNGRADE OF THE RATINGS

- Ongoing declines in available general fund balance, such that the balance falls below 10% of total general fund revenue
- Material increase in leverage with debt to operating revenue exceeding 3x

LEGAL SECURITY

The bonds are secured by the levy of ad valorem taxes, unlimited as to rate or amount, upon all taxable property within the district. The portion of the total, annual property tax levy restricted for debt service is collected, held, and transferred directly to the paying agent by San Diego County (Aaa stable) on behalf of the district.

USE OF PROCEEDS

The GOULT bonds will fund new facilities and various infrastructure needs throughout the district.

PROFILE

San Diego Community College District is one of the largest community college districts in the country, providing educational services to 39,021 full time equivalent students (projected fiscal 2025) at three accredited two-year colleges and one accredited two-year college of continuing education operating on seven campuses. The district is governed by a five-member board, and day-to-day operations are administered by a Chancellor appointed by the board.

METHODOLOGY

The principal methodology used in these ratings was US Special Purpose District General Obligation Debt Methodology published in November 2022 and available at

<https://ratings.moodys.com/rmc-documents/394972>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

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