

Summary:

# Hartnell Community College District, California; General Obligation

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## Summary:

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US\$64.455 mil GO bnds (Election Of 2016) ser 2017A due 08/01/2047		
Long Term Rating	AA/Stable	New
Hartnell Comnty Coll Dist GO		
Long Term Rating	AA/Stable	Upgraded

## Rationale

S&P Global Ratings raised its long-term and underlying (SPUR) rating to 'AA' from 'AA-' on Hartnell Community College District (CCD), Calif.'s outstanding general obligation (GO) bonds. At the same time S&P Global Ratings assigned its 'AA' long-term rating to the district's election of 2016A GO bonds. The outlook is stable.

The rating action is based upon our view of the district's improved full-time equivalent students (FTES) trend, strengthening within the local economy, reduction of the district's other postemployment benefit (OPEB) liability due to funding into an irrevocable trust, and our opinion of the district's strong financial management policies and practices.

### Security & key rating factors

Unlimited ad valorem taxes levied on taxable property within the district secure the GO bonds. The Monterey and San Benito counties' boards of supervisors have the power and obligation to levy these taxes at the district's request for the

## District overview

The 2,633-square-mile Hartnell Community College District generally straddles the U.S. Route 101 corridor and stretches from Castroville near the Pacific Coast in the northwest corner of Monterey County to Bradley in the southeast corner. Its main campus is in Salinas, which is the county's largest city. In addition to the Salinas campus, the district offers an education center in King City and a Center for Advanced Technology in East Salinas. The district was founded in 1920 and is one of the oldest community college districts in the state of California.

The district offers an array of general, career/technical and specialized programs that include an array of specialized agricultural technology programs under the district's Agricultural Business and Technology Institute. Other popular programs include offerings in arts, career technical, nursing, physical education, STEM, social and behavioral sciences, and humanities. We note that the district has demonstrated a track record of timely program offerings that address key needs within the region. Supporting our view is the district's recent introduction of an innovative three-year computer science program that is entirely cohort-based. We believe that this is the only program of its kind within the United States within a community college. At the time of this writing, the current enrollment within the program is about 90 FTES, although we expect the program will grow considerably within the coming years.

## Economy

The district serves a population of roughly 262,300 and a local economy that centers on agriculture, energy production, and food processing and excludes the wealthier coastal cities of Monterey and Carmel-by-the-Sea. As a result, we consider local income indicators to be good to adequate, as demonstrated by the county's per capita effective buying income (EBI) at 108% of the national level and median household EBI at 84% of the national level. In addition, the Monterey County unemployment rate is trending lower at about 7.2%, despite rather volatile seasonal fluctuations influenced by seasonal agriculture employment. The current level is notable as the county produced a monthly unemployment rate of 17.6% in January 2010 at the peak of the economic recession. We also note that the city of Salinas posted a 21.9% unemployment level in December 2010, or one of the highest monthly unemployment rates in the nation at the time.

The district's assessed value (AV) totaled about \$25.5 billion for fiscal 2017, a strong 2.9% increase from the fiscal 2016 level of \$24.8 billion. The district's overall AV is in the midst of a strong period of multiyear growth since the fiscal 2017 growth represents the fifth consecutive year of growth. Looking ahead, we are anticipating continued growth within the tax base as the preliminary fiscal 2018 AV figures for Monterey County (relatively coterminous with the district's taxing area) grew by 5.7% for the year. The net result is a pro forma market value per capita of about \$103,000 or a level that we view as 'very strong'. Offsetting our view of the positive AV forecast, the district's AV was hit relatively hard during the economic recession as AV shed about \$3.1 billion (12.8%) over the course four years. The majority of the loss occurred during fiscal 2010 when the district posted an extremely negative 8% AV decline (\$1.9 billion) though this level of decline has not rematerialized since the recession.

As previously mentioned, the district's tax base covers a broad area within Monterey and San Benito counties although the primary jurisdiction is Salinas, which contributes 41% of total AV (\$10.4 billion). Soledad is a distant second with a 3% (\$833 million) contribution followed by King City and Greenfield at 3.0% and 2.5%; respectively. As is typical in agricultural taxing areas, agricultural AV contributions in the form of unincorporated areas from both counties dominate the tax base as about 48%, or \$12.7 billion stems from the category. Finally, we consider the district's tax

base to be very diverse, with the leading 10 taxpayers--a broad mix of agricultural, commercial retail, supply chain management, and service-providers--accounting for 5.6% of total AV.

Looking ahead, we are anticipating at least stable AV trends as we are forecasting stable-to-positive growth for the urban regional centers in California as continued home-price appreciation has helped boost local government tax receipts throughout much of the region, including the AV results in community colleges. As a result, we expect the broader macroeconomic forces to support our view and expectation of a stable-to-positive AV result within the near-term future. For additional information, please refer to our "U.S. State And Local Government Credit Conditions Forecast" (published July 24, 2017, on RatingsDirect)

### **Enrollment & financial profile**

Similar to other community college systems in the state, the district's full-time equivalent student (FTES) count is influenced by employment cycles and tuition rates, the latter of which are set by the state. The district can enroll students from within and outside its direct service area although it does have regional competitors. As a result, the district plans to capture about 1% annual FTES growth as it continues to increase its share of enrollment from the service area. In fiscal 2017, the district's funded FTES level was 7,345 or about 1% growth from the prior year FTES level. Looking ahead, we are also expecting steady enrollment growth at or near the 1% level as the district's broad array of program offerings and competitive position within the local education market should ensure stable FTES growth. We note that the district's FTES jumped 5% between fiscals 2014 and 2015 as the district opened an outreach center with a focus on adult students.

The district's financial flexibility is very strong in our view, with an available general fund balance of 19.6% of operating expenditures or \$11.0 million in audited fiscal 2016, which was led by a very strong \$1.1 million general fund operating surplus. The large surplus was partly driven by one-time mandated cost reimbursement from the state and the district's budgeting practices. Historically, the district's general fund operating results echo the fiscal 2016 year-end, as the district has a strong track record of positive operations. Looking ahead, we expect this trend to continue as the district expects to close fiscal 2017 with a slight deficit of \$400,000, followed by a very strong planned surplus of about \$2.9 million for fiscal 2018. Altogether, the district's fund balance position is likely to increase and maintain around a 20% of general fund operating expenditures or a level that we view as very strong.

An important element to the credit is the recent donation of a 215-acre property from a local family. As this is a new development, we do not have a cash value for the donation at this time, although we do have the property's fiscal 2016 AV (\$28 million). While we do expect the cash value of the donation to be greater than \$28 million, we believe this transaction to be one of the largest philanthropic transfers of wealth to a community college in the state. Looking ahead, we are uncertain about the use of the property and if all or a portion of the property will be converted to a cash or cash-equivalent asset. We estimate that a full cash conversion at the recent AV would increase our view of the district's available fund balances to about 70% of operating expenditures from the current level of about 20%. This perspective could lead to our placement of the credit on positive outlook or an upward rating change as we believe the credit quality could be improved further if the district were to increase its unrestricted cash balances as a result of the donation.

## Financial Management Assessment

We view the district's financial management policies and practices as strong under our financial management

### Upside scenario

We could raise the rating within our two-year outlook horizon if the district's economy were to dramatically improve in line with those of higher rated peers. We could also raise the rating if the district were to substantially improve its fund balance position should the district convert the donated property to cash.

### Downside scenario

We could lower the rating if the district's available fund balances were to reduce to a level in line with lower rated peers. We could also lower the rating if the district's economic indicators were to materially weaken, as indicated by the district's EBI figure or AV trend.

## Related Research

U.S. State And Local Government Credit Conditions Forecast, April 18, 2017

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at [www.standardandpoors.com](http://www.standardandpoors.com) for further information. Complete ratings information is available to subscribers of RatingsDirect at [www.globalcreditportal.com](http://www.globalcreditportal.com). All ratings affected by this rating action can be found on the S&P Global Ratings' public website at [www.standardandpoors.com](http://www.standardandpoors.com). Use the Ratings search box located in the left column.

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