

CREDIT OPINION

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Rio Hondo Community College District, CA

Update following assignment of positive outlook

Summary

[Rio Hondo CCD](#) (Aa2 positive) benefits from sound financial performance that will remain stable supported by conservative budgeting practices, an adopted reserve policy, and expectations for continued budget outperformance in fiscal 2025. Fiscal 2024 ending results reflect a strong available fund balance of 46.3%. The district's consistent trend of operating surpluses will allow flexibility in financing some identified capital projects from cash. While enrollment remains below pre pandemic levels, officials project that future increases will be supported by dual enrollment and career education offerings. Combined debt, pension and OPEB liabilities are somewhat elevated when compared with operations at 4.1x, but more modest when compared with the tax base at 1.3% of assessed value.

Credit strengths

- » A large and growing tax base in eastern Los Angeles County
- » Solid financial position with ample liquidity
- » Manageable debt and pension liabilities

Credit challenges

- » Enrollment that remains below pre pandemic levels
- » Below average income levels

Rating outlook

The positive outlook reflects our expectation that the district's sound financial performance will continue given conservative budgeting. It also incorporates the expectation for resumed enrollment growth and manageable leverage.

Factors that could lead to an upgrade

- » Resumed enrollment growth in line with projections
- » Continued budget outperformance with maintenance of reserves above 30%
- » Revenue that remains above the state's "hold harmless" floor

Factors that could lead to a downgrade

- » Erosion of reserves or liquidity to less than 30%
- » Growth in the combined debt and pension burdens to above 5x operating revenues
- » Enrollment declines that pressure operating results

Key indicators

Exhibit 1

RioHondoCommunityCollegeDistrictCA	2020	2021	2022	2023	2024
Economy/Tax Base					
Total Full Value (\$000)	\$41,542,856	\$43,644,803	\$45,609,020	\$48,929,431	\$51,653,193
Population	385,939	385,939	385,939	385,939	385,939
Full Value Per Capita	\$107,641	\$113,087	\$118,177	\$126,780	\$133,838
Median Family Income (% of US Median)	97.6%	97.6%	97.6%	97.6%	97.6%
Finances					
Operating Revenue (\$000)	\$140,824	\$122,390	\$155,157	\$212,664	\$178,741
Fund Balance (\$000)	\$33,343	\$30,800	\$50,046	\$79,001	\$82,743
Cash Balance (\$000)	\$54,476	\$53,315	\$85,848	\$120,487	\$136,836
Fund Balance as a % of Revenues	23.7%	25.2%	32.3%	37.1%	46.3%
Cash Balance as a % of Revenues	38.7%	43.6%	55.3%	56.7%	76.6%
Debt/Pensions					
Net Direct Debt (\$000)	\$180,946	\$182,518	\$187,424	\$254,491	\$268,532
3-Year Average of Moody's ANPL (\$000)	\$246,462	\$291,802	\$324,703	\$307,833	\$254,174
Net Direct Debt / Full Value (%)	0.4%	0.4%	0.4%	0.5%	0.5%
Net Direct Debt / Operating Revenues (x)	1.3x	1.5x	1.2x	1.2x	1.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.6%	0.7%	0.7%	0.6%	0.5%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.8x	2.4x	2.1x	1.4x	1.4x

Source: Audited financials of Rio Hondo CCD and Moody's Ratings

Profile

Rio Hondo Community College District provides educational services to residents of eastern [Los Angeles County](#) (Aa1 stable) including the cities of Whittier, Pico Rivera, Santa Fe Springs, South El Monte, as well as portions of Norwalk, La Mirada, Downey, La Puente and Industry, certain unincorporated areas of the County and the portion of the City of El Monte south and east of the Rio Hondo River. In fiscal 2025, the district serves approximately 12,329 full-time equivalent students.

Detailed credit considerations

Economy and tax base: large and growing tax base in eastern Los Angeles County

The district's tax base and service area will remain credit strengths with residents benefiting from the strength of the southern California economy and its diverse employment opportunities. Over the past decade, the district's assessed value (AV) has increased an average of 5.5% annually, with future growth supported by ongoing housing and industrial development and turnover of existing housing stock. Given the strength of the regional economy and strong demand for relatively affordable housing, we expect that AV will continue to increase well above the Proposition 13 limit of 2% annually.

Resident income falls below average at 97.6% of the US, although property wealth is more favorable given the district's industrial component, with an estimated AV per capita of \$140,814 that continues to strengthen. County unemployment (5.7% as of December 2024) somewhat exceeds that of the state (5.2%) and nation (3.8%).

Financial operations and reserves: healthy reserve position enhanced by conservative budgeting, adopted policy and revenue growth

District finances will remain sound, supported by prudent budgeting, anticipated revenue growth, and an adopted policy requiring a minimum reserve of 20%. Consistent budgetary outperformance and consecutive operating surpluses have produced strong financial results, with available operating fund balance (general and debt service funds) averaging close to 33% over the past five years. A \$13.5 million operating surplus in fiscal 2024 resulted in an ending available operating balance equal to a robust \$82.7 million or 46.3%.

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District officials now project outperformance of a balanced budget in fiscal 2025, with a total ending general fund balance of close to \$106 million (58% of revenue). The district's strong reserve levels provide flexibility to cash fund identified capital improvements, and potential draw downs include \$10 million to develop student housing and a \$23 million heating project. However, even assuming this allocation, ending general fund balance would remain above 35%. Budgeted figures are also enhanced by settled union agreements with faculty through fiscal 2026 and classified staff through fiscal 2025, reducing uncertainty around budget outperformance.

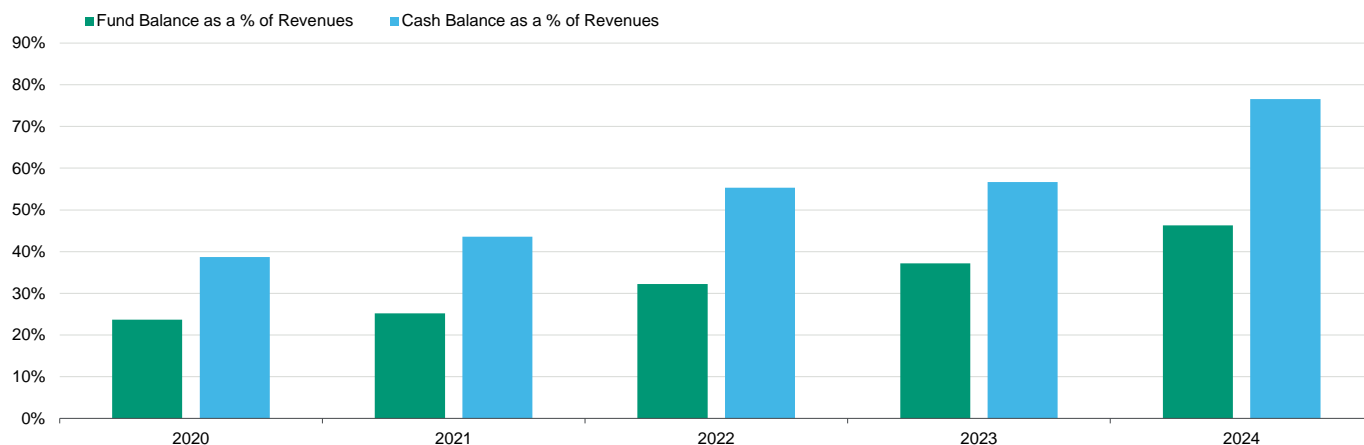
Enrollment continues to recover to pre pandemic levels, and officials project that enrollment will gradually increase, supported by growing dual enrollment with feeder high schools, career development and college preparation ("CDCP") non-credit FTEs and contract education. Under the student centered funding formula (SCFF) the district expects to receive \$108.7 million, exceeding the state's hold harmless figure in fiscal 2025 of \$96.7 million. Future credit quality will largely hinge on the district's ability to grow revenue and enrollment.

Liquidity

In line with robust reserves, the district's liquidity is exceptionally strong, with ending cash equal to \$136.8 million or 76.6%. This figure will remain favorable, even with planned spending on capital projects.

Exhibit 2

Reserves and liquidity have improved and will remain solid



Source: Audited financials of Rio Hondo CCD and Moody's Ratings

Debt and pensions: manageable levels of debt and pensions, low OPEB liabilities

The district's leverage will remain modest, with direct net debt equal to less than 1% of AV and 2.6x operating revenue. Following the issuance of the 2025 Series A-1, the district will retain approximately \$242.2 million in remaining GOULT authorization approved by voters in November 2024, which officials expect to issuer through 2031.

Debt structure

All of the district's outstanding debt consists of fixed rate obligations. Amortization falls below average with 30.5% of principal repaid within 10 years, but is generally in line with California CCDs.

Pensions and OPEB

The bulk of California CCDs' pension exposure is associated with the California State Teachers' Retirement System (CalSTRS). The strength of contributions by participating governments and the state to CalSTRS has improved significantly over the past decade. As of the retirement system's fiscal 2023 reporting, government contributions amounted to about 26.9% of payroll in aggregate, above our tread water indicator of 20.7% of payroll.

Based on the CalSTRS system in aggregate, we project that the district's adjusted net pension liability (ANPL) will fall by 20% in fiscal 2025 based on our aggregate estimates, due to rising interest rates and above-target investment returns in 2024.

ESG considerations

Environmental

Environmental considerations are not a material driver of the district's credit profile. The district is located in Los Angeles County, which has low exposure to environmental risks such as carbon transition, water management, natural capital, and waste and pollution. Climate change risks are also generally low, except for projected water stress and wildfires, which are relatively high. Exposure to these risks is largely offset by strong regional planning and conservation efforts.

Social

Social considerations are factored into the district's credit profile, including its improving property wealth measures. Similar to many California community college districts, the district experienced enrollment declines during the pandemic. Management has implemented various enrollment strategies and enrollment continues to rebound, supported by dual enrollment and career workforce education programs.

Governance

Rio Hondo CCD is governed by a five-member board elected to four-year terms. The district has a formal reserve policy that requires a minimum reserve of 20% of general fund expenditures.

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