

## CREDIT OPINION

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### New Issue

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## St. Charles Community College, MO

New Issue - Moody's Assigns Aa1 Rating to St. Charles Community College's (MO) \$18.2M GO Refunding Bonds, Series 2016

### Summary Rating Rationale

Moody's Investors Service has assigned a Aa1 rating to St. Charles Community College's (MO) \$18.2 million General Obligation Refunding Bonds, Series 2016. Moody's maintains the Aa1 rating on the district's outstanding general obligation bonds. Post-sale total debt outstanding totals \$25.7 million.

The Aa1 rating reflects the district's growing tax base, stable financial operations and elevated wealth levels. The rating also incorporates the district's negligible debt burden, rapid principal amortization with modest borrowing plans.

### Credit Strengths

- » Large and growing tax base
- » Strong industry partnerships supporting work force training programs
- » Low debt burden with modest future debt plans

### Credit Challenges

- » Declining enrollment

### Rating Outlook

Moody's generally does not assign outlooks to local government credits of this size.

### Factors that Could Lead to an Upgrade

- » Strong operating performance, leading to material improvement in reserves
- » Substantial taxable valuation growth

### Factors that Could Lead to a Downgrade

- » Deterioration of operating performance and reduction of reserves
- » Additional debt issuances without corresponding taxable value growth

## Key Indicators

Exhibit 1

St. Charles Community College, MO	2011	2012	2013	2014	2015
Economy/Tax Base					
Total Full Value (\$000)	\$ 30,091,759	\$ 30,630,824	\$ 29,673,737	\$ 30,035,575	\$ 31,941,852
Full Value Per Capita	\$ 84,511	\$ 84,922	\$ 81,275	\$ 81,225	\$ 82,839
Median Family Income (% of US Median)	130.4%	130.3%	129.6%	130.5%	130.5%
Finances					
Operating Revenue (\$000)	\$ 52,887	\$ 52,460	\$ 51,371	\$ 54,584	\$ 53,769
Fund Balance as a % of Revenues	36.0%	33.6%	34.7%	34.4%	33.9%
Cash Balance as a % of Revenues	42.6%	39.4%	42.4%	41.9%	46.0%
Debt/Pensions					
Net Direct Debt (\$000)	\$ 39,640	\$ 37,485	\$ 35,650	\$ 33,265	\$ 29,474
Net Direct Debt / Operating Revenues (x)	0.7x	0.7x	0.7x	0.6x	0.5x
Net Direct Debt / Full Value (%)	0.1%	0.1%	0.1%	0.1%	0.1%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.2x	2.2x	1.9x	1.7x	1.9x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.2%	0.4%	0.3%	0.3%	0.3%

\*The district reported an increased liability (negative unrestricted net position) in fiscal 2015 reflective of GASB 68 recognition, this was added back for comparison reasons. Source: St. Charles Community College, MO Annual Financial Reports FY 2011-2015; Moody's Investors Service

## Recent Developments

Recent developments are captured in the detailed rating considerations.

## Detailed Rating Considerations

### Economy and Tax Base: Large Tax Base That Benefits from Greater St. Louis Economy

The college district's large tax base will grow modestly in the near term due to continued economic activity and industrial development. St. Charles Community College is comprised of twelve buildings in an "educational village" situated on 228 acres. The district is mostly coterminous with St. Charles County (NR) located 30 miles west of [St. Louis](#) (A1/stable). The local economy is diversified with a mix of aerospace, financial, health-care, manufacturing, and tourism industries. Given the diversity, the local economy is stable and growth in the respective industries has been modest recently averaging 0.1% annually over the past five years, with a strong 6.3% increase in fiscal 2015 to \$31.9 billion. Officials report positive new construction growth and are budgeting a conservative 2% increase in values over the near to medium term. The top 10 taxpayers report stable operations, accounting for a modest 3.9% of total values in fiscal year 2015.

The district's tax base will continue to benefit from the growth of industries in the greater St. Louis area. Economic development within the area is strong and Moody's Analytics reported in June 2016 that the St. Louis economy is in a recovery period with growth advancing at a modest pace. Job growth in health-care, hospitality and financial services are expected to overcome cutbacks in manufacturing leading to strong linkages with the national economy through 2016 and into 2017.

Enrollment has been on a slow decline since fiscal 2011 with an average decrease of 3.1% annually through fiscal 2015 to approximately 4,620. Community college enrollment is considered to be counter cyclical to the economy, and as the local economy improved, more students have chosen to continue working or return to the work force, rather than enroll with the district. Despite the negative enrollment trend, the district has initiated several strategic programs aimed at increasing academic preparedness and meeting work force demand inclusive of partnering with local school districts, expanding nurse readiness programs and expanding offerings in information technology. Management anticipates enrollment will stabilize over the near term, in conjunction with taxable value growth projections and program initiatives.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the ratings tab on the issuer/entity page on [www.moody's.com](http://www.moody's.com) for the most updated credit rating action information and rating history.

### Financial Operations and Reserves: Stable Operations and Reserves

The college's operations should remain stable given historical performance, financial flexibility, and conservative budgeting. Unrestricted net assets declined to a negative \$523,000 (-0.97% of revenues) in fiscal 2015 from \$18.8 million (34.4% of revenues) in fiscal 2014. The substantial drop resulted from an \$18.7 million adjustment relating to adoption of GASB 68 pension standards. Fiscal 2015 revenues totaling \$53.8 million were derived from local property taxes (29.5%), net tuition and fees (28.1%), grants (20.9%) and state appropriations (14.8%). Over the past five years tuition and fees have increased while the other revenue sources remained stable. The district maintains a degree of financial flexibility within its general fund levy (operations). The fiscal 2016 levy of \$1.74 per \$1,000 of taxable values could be increased by the lesser of 5% or the CPI. Management recently decreased the levy and reports no plans to increase it. Fiscal 2016 is expected to end with a surplus strengthening the unrestricted net assets by approximately \$200,000. The fiscal 2017 adopted operating budget is balanced but management reports utilizing reserves for various renovations projects.

Tuition for the fall of 2016 was \$98 and \$149 per credit hour for in-district and out of district students, respectively. Management reports plans to increase tuition by approximately \$5 in the near term to fund upcoming campus upgrades.

### LIQUIDITY

The college district's cash position has historically been satisfactory, in line with its operating performance. Total cash at fiscal year end 2015 was \$24.7 million (47.2% of adjusted expenditures). The cash position is expected to remain stable in fiscal 2016, parallel to anticipated operating performance.

### Debt and Pensions: Low Debt Profile with Modest Pension Burdens

The district's debt remains low with a direct debt burden of 0.1% (2.2% overall) on a fiscal year 2015 valuation. The higher overall debt burden is due to overlapping debt entities including the County and several school districts. Amortization is rapid with 100% of principal retired in 10 years. The district reports plans to issue revenue bonds (\$10 million) in the first half of 2017 which will be secured by tuition payments.

### DEBT STRUCTURE

All of the district's debt is fixed rate and amortizes over the long term.

### DEBT-RELATED DERIVATIVES

The district is not party to any interest rate swaps or other derivative agreements.

### PENSIONS AND OPEB

The district has a manageable employee pension burden, based on unfunded liabilities for its share of two multiple-employer plans. Moody's has allocated liabilities of state cost-sharing plans in proportion to its contributions for the Public Education Employee Retirement System (PEERS) and Public School Retirement System (PSRS) as of June 30, 2015. The fiscal 2015 annual contribution of \$2.8 million reflects 0.05% of the operating budget, including debt service payments. Moody's fiscal 2015 adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, is \$99.9 million, or 0.48 times operating revenues. The adjustments are not intended to replace the district's reported contribution information, or the reported liability information of the statewide cost-sharing plans, but to improve comparability with other rated entities. For more information on Moody's insights on employee pensions and the related credit impact on companies, governments, and other entities across the globe please visit Moody's on Pensions at [www.moody.com/pensions](http://www.moody.com/pensions).

### Management and Governance

Missouri community college districts have an institutional framework score of 'Aa', or strong. Community Colleges in Missouri benefit from a diverse revenue makeup, with local control to increase tuition rates. This combined with the ability to adjust offerings based on demand yield substantial financial flexibility.

The College is governed by a six-member Board of Trustees, whose members are elected at large to serve six-year terms. The Board makes all final decisions concerning employment, termination of services, expenditures of funds, contracts, establishment of new programs, student fees, tax levies and construction of facilities. The day-to-day affairs are managed by the President of the College under direction of the board.

## Legal Security

The bonds are general obligations of the College and are payable as to both principal and interest from ad valorem taxes, which may be levied without limitation as to rate or amount upon all taxable tangible property, real and personal, within the territorial limits of the college.

## Use of Proceeds

Proceeds from the current sale will advance refund the district's outstanding Series 2009 debt for an expected net present value savings of 7%, with no extension of final maturity.

## Obligor Profile

The College was established as a junior college district on April 1, 1986 and is currently the fourth largest community college district in the State of Missouri. The College is located in east central Missouri approximately 30 miles west of the City of St. Louis and covers approximately 525 square miles in St. Charles County. Current enrollment is approximately 4,620.

## Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in January 2014. Please see the Ratings Methodologies page on [www.moodys.com](http://www.moodys.com) for a copy of this methodology.

## Ratings

Exhibit 2

### St. Charles Community College, MO

Issue	Rating
General Obligation Refunding Bonds, Series 2016	Aa1
Rating Type	Underlying LT
Sale Amount	\$18,210,000
Expected Sale Date	09/29/2016
Rating Description	General Obligation

Source: Moody's Investors Service

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