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Ratings

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Grossmont-Cuyamaca Community College District, California; General Obligation

Primary Credit Analyst:
Adriana Artola, San Francisco + 415-371-5057; Adriana.Artola@spglobal.com

Secondary Contact:
Alexandra Rozgonyi, Englewood + 1 (303) 721 4824; alexandra.rozgonyi@spglobal.com

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Grossmont-Cuyamaca Comnty Coll Dist GO rfdg bnds		
Long Term Rating	AA/Stable	Current

Credit Highlights

- S&P Global Ratings' long-term rating on Grossmont-Cuyamaca Community College District, Calif.'s general obligation (GO) bonds is 'AA'.
- The outlook is stable.

Security

Revenue from unlimited ad valorem taxes levied on taxable property within the district secure the GO bonds. The board of supervisors of San Diego County has the power and obligation to levy these taxes at the district's request for the bonds' repayment. As of fiscal 2023 year-end, the district had $466.4 million in total debt outstanding, inclusive of its GO bonds and $38.3 million in accreted interest.

Credit overview

The rating reflects our view of the district's strong enterprise risk profile and strong financial risk profile. The enterprise risk profile reflects the district's sizable enrollment base, which is experiencing recovery after pandemic-related declines, and its tenured management team with good strategic and financial management policies and practices. The financial risk profile reflects our view of the district's positive operations and good financial resources, offset by its elevated debt burden and our expectations for softened financial performance in the next few years. The rating also reflects the depth and breadth of the district's growing and diverse property tax base, which provides meaningful support for the district's operations and debt obligations.

The rating reflects our opinion of the district's:

- Participation in the San Diego area economy;
- Recovering enrollment trend;
- A stable and long-tenured management team, coupled with good formal policies and practices;
- Positive financial performance and good financial resources;
- Elevated debt burden with additional debt plans; and
- Manageable pension and other postemployment benefit (OPEB) liabilities.

Environmental, social, and governance

In our view, the district has elevated exposure to seismic risk that could damage its facilities or cause enrollment losses if the district's service area were to sustain losses to its housing stock. However, we consider this risk partly mitigated by strong state building codes. The district also has elevated exposure to wildfire risk. We understand the district has invested in preventative measures to mitigate risk to district facilities. We consider the district's social and governance factors neutral in our credit analysis.

Outlook

The stable outlook reflects our expectation that the district's enrollment levels will continue to recover and that it will maintain structurally balanced operations and sufficient cash levels. While we understand the district plans to issue debt in the near-term, we do not expect debt metrics to materially weaken during the outlook period.

Downside scenario

We could lower the rating if the district were to experience structural deficits that result in a sustained deterioration in its adjusted full-accrual operating performance and weakened financial resource ratios. In addition, we could lower the rating if the district experiences sustained enrollment declines.

Upside scenario

We could consider a positive rating action if the district's debt burden moderated and it significantly grew its cash relative to total debt to levels in line with its higher-rated peers.

Credit Opinion

Enterprise Risk Profile

Residential tax base with access to the San Diego metropolitan area

The district encompasses about 1,138 square miles with a service area population of about 410,000 residents in the eastern portion of San Diego County, including a sparsely populated area that stretches to the borders of Imperial County. The district operates two colleges, Grossmont and Cuyamaca.

We believe that the district benefits from access to the broad and diverse San Diego metropolitan statistical area. During the past three years, the district's tax base grew at an average annual year-over-year rate of 6.4%, totaling $68.3 billion as of fiscal 2024.

Recovering enrollment base that experienced pandemic-driven declines

The district reached a full-time equivalent students (FTES) peak of about 17,697 in fiscal 2019, which was followed by three consecutive years of pandemic-driven enrollment losses, resulting in total FTES of about 13,282 in fiscal 2023. The district has since seen some recovery, with a large rebound estimated for fiscal 2024. Management estimates total annualized FTES of around 16,000 for fiscal 2024 and is projecting continued recovery for fiscal 2025 based on fall enrollment numbers to-date. Management is projecting to reach pre-pandemic levels by fiscal 2027 and attributes enrollment recovery to its online course offerings.

Long-tenured management team and robust financial management practices

We view the management team as experienced and long tenured. The district chancellor has served in the role for more than four years and the chief financial officer has been with the district for 18 years, serving in her current role for nearly five years. Financial management policies and practices are in line with state peers and include regular budget-to-actual updates to the board, investment through the county's local government investment pool, and a formalized debt management policy. In addition, the district has a formal board-approved reserve policy to maintain a minimum unrestricted general fund balance of two months (17%) of expenditures, in accordance with the recommendation of the state chancellor's office, as well as formal policies for allocating excess funds to various committed reserves.

Financial Risk Profile

Positive operations and healthy financial resources, offset by an elevated debt burden

A positive state funding environment and revenue protections under the state funding formula have supported sizeable margins in recent years, which we anticipate will moderate in the near-term. After applying adjustments to operating revenues and expenses, we calculate the district's net operating margin at fiscal 2023 year-end to be 12% on a full-accrual operating basis. General fund performance has also been healthy, with 9% surplus reported for fiscal 2023, and management is projecting another year of positive results for fiscal 2024. The state's student-centered funding formula (SCFF) is primarily driven by FTES. Under the state's emergency conditions allowance (ECA) provision, the district's funding had been based on its pre-pandemic FTES level of 17,035. The state's ECA provision expired in fiscal 2023, and as of fiscal 2024 the district is funded based on a rolling three-year historical average of FTES under the state funding formula. We expect financial performance to moderate during the next two years as the district adjusts to lower FTES, in the absence of COVID-relief funds, and in a less favorable state funding environment. The enacted fiscal 2025 state budget reflects significant revenue shortfalls and a budget deficit of $45 billion. It includes a 1.07% cost-of-living adjustment to the SCFF, in contrast to historically high adjustments in recent years. We believe the district's financial resources provide solid financial flexibility should it need to adjust operations for a smaller enrollment base and a weaker state funding environment.

Cash and investments relative to operations were 109%, and 70% relative to total debt for fiscal 2023. However, we note the district's cash levels are slightly inflated, as they include previously issued bond proceeds, and without these proceeds the cash and investment ratios would be approximately 86% of operations and 55% of total debt. Our cash calculations include cash and investments held by its foundation.

We view the district's overall MADS burden as elevated at 13% of operating expenditures. The district has $92 million in authorized but unissued debt from its election of 2012 bond authorization. The district expects to issue the remaining authorization in the next year. We do not expect its near-term debt plans to materially weaken debt metrics.

We do not view pension liabilities as a near-term source of credit pressure for the district despite lower funding levels and our expectation that costs will increase. The district has been transferring excess funds to an irrevocable OPEB trust, which had a net position of $10.4 million at fiscal 2023 year-end.

The district participates in the following plans reported as of June 30, 2023:

- California State Teachers' Retirement System (CalSTRS): 81% funded with a net pension liability of $52.0 million;
- California Public Employees' Retirement System: 70% funded with a net pension liability of $63.0 million; and
- Single-employer OPEB plan: 44% funded with a net OPEB liability of $13.2 million.

Grossmont-Cuyamaca Community College District, California--Enterprise and financial statistics

	--Fiscal year ended June 30--			
	2024	**2023**	**2022**	**2021**
Enrollment and demand				
Full-time-equivalent enrollment	N.A.	13,282	13,280	14,297
Annual full-time-equivalent change (%)	21.05	0.02	(7.11)	(14.74)
Tax base				
Service area population	409,775	409,775	409,775	409,775
Total AV ($000s)	68,250,601	64,013,011	59,107,850	56,750,934
Top 10 taxpayers as % of total AV	2.3	1.8	2.0	2.1
Market value per capita ($)	166,556	156,215	144,245	138,493
Per capita EBI as % of U.S.	N.A.	111	113	112
Median household EBI as % of U.S.	N.A.	123	124	124
Annual unemployment rate (%)	4.4	3.9	3.5	6.5
Income statement				
Total adjusted operating revenue ($000s)	N.A.	334,430	304,415	274,769
Total adjusted operating expense ($000s)	N.A.	298,435	273,715	270,419
Net adjusted operating income ($000s)	N.A.	35,995	30,700	4,350
Net adjusted operating margin (%)	N.M.	12.06	11.22	1.61
State appropriations dependence (%)	N.M.	24.6	24.6	27.8
Student dependence (%)	N.M.	5.9	6.3	7.8
Taxes and other local support dependence (%)	N.M.	26.0	26.2	26.9
Financial resources				
Cash and investments, including foundation ($000s)	N.A.	325,684	290,384	299,214
Cash and investments to operations (%)	N.M.	109.1	106.1	110.6
Total cash and investments to total debt (%)	N.M.	69.8	59.9	59.7
Debt				
Total debt ($000s)	N.A.	466,375	484,480	501,180
MADS ($000s)	N.A.	38,778	38,778	38,778
MADS Burden (%)	N.M.	13.0	14.2	14.3
Pro forma metrics				
Total pro forma debt ($000s)	N.A.	N.A.	N.A.	N.A.
Total cash and investments to total pro forma debt (%)	N.M.	N.A.	N.A.	N.A.
Pro forma MADS ($000s)	N.A.	N.A.	N.A.	N.A.

Grossmont-Cuyamaca Community College District, California--Enterprise and financial statistics (cont.)

	--Fiscal year ended June 30--			
	2024	**2023**	**2022**	**2021**
Pro forma MADS burden (%)	N.M.	N.A.	N.A.	N.A.

Total adjusted operating revenue = total operating revenues + institutionally funded financial aid + government appropriations + government grants + endowment spending + tax revenues - realized and unrealized gains/losses. Total adjusted operating expense = operating expenses + institutionally funded financial aid + interest expense – noncash pension and other postemployment benefits expenses. Net operating margin = 100*(net adjusted operating income/adjusted operating expense). Student dependence = 100*(gross tuition revenue + auxiliary revenue) / adjusted operating revenue. MADS burden = 100*(MADS/adjusted operating expenses). Cash and investments = cash + unrestricted and restricted financial investments + foundation cash and investments. Total outstanding debt = tax supported debt + revenue/ enterprise-secured debt + foundation debt + other debt. All debt metrics include revenue/enterprise-secured and foundation debt if applicable.
FTE--Full-time-equivalent. AV--Assessed value. EBI--Effective buying income. MADS--Maximum annual debt service. N.A.--Not available. N.M.--Not meaningful. N.A.--Not available. N.M.--Not Meaningful.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

This article does not constitute a rating action.

Ratings Detail (As Of July 30, 2024)

Grossmont-Cuyamaca Comnty Coll Dist GO bnds		
Long Term Rating	AA/Stable	Current
Grossmont-Cuyamaca Comnty Coll Dist GO bnds election of 2012		
Long Term Rating	AA/Stable	Current
Grossmont-Cuyamaca Comnty Coll Dist GO rfdg bnds		
Long Term Rating	AA/Stable	Current
Grossmont-Cuyamaca Comnty Coll Dist GO (ASSURED GTY)		
Unenhanced Rating	AA(SPUR)/Stable	Current

Many issues are enhanced by bond insurance.