

CREDIT OPINION

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San Jose - Evergreen Community Coll. Dist., CA

Update to credit analysis following upgrade to Aaa from Aa1; outlook revised to stable

Summary

[San Jose Evergreen Community College District, CA's](#) (Aaa stable) credit profile incorporates its robust financial position that will remain strong given good governance. Fiscal 2024 estimated actuals indicate that the district will record its seventh consecutive surplus increasing available general fund balance to \$50 million or a strong 23% of total general fund revenue. The district's robust financial position is further supported by its community funded status, which insulates the district from declines or deferrals of state funding as well fluctuations in enrollment. The district benefits from strong economic factors including a large and diverse assessed value (AV) of \$205 billion that will continue to experience solid growth and strong property wealth with AV per capita of \$230,209. The district's low debt burden and moderate pension liability are factored into its credit profile.

Credit strengths

- » Large and growing tax base that supports strong property wealth
- » Becoming increasingly anchored in community funded status
- » Strong and stable financial position

Credit challenges

- » Growing environmental risks, including variable precipitation and wildfire
- » Increasing healthcare costs; district covers full costs of health care insurance for employees

Rating outlook

The stable outlook incorporates the benefits of this community funded district's exceptionally large and wealthy tax base and likely maintenance of consistently solid reserves and liquidity.

Factors that could lead to an upgrade

- » Not applicable

Factors that could lead to a downgrade

- » Significant decline of general fund cash and reserves to 15% or below
- » Material increase in the district's adjusted net pension liability to above 2.5x

Key indicators

Exhibit 1

San Jose - Evergreen Community Coll. Dist., CA

| San Jose Evergreen CCD | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---------------|---------------|---------------|---------------|---------------|
| Economy/Tax Base | | | | | |
| Total Full Value (\$000) | \$150,932,461 | \$162,339,698 | \$172,045,539 | \$179,902,445 | \$192,931,637 |
| Population | 896,060 | 890,562 | 890,562 | 890,562 | 890,562 |
| Full Value Per Capita | \$168,440 | \$182,289 | \$193,188 | \$202,010 | \$216,640 |
| Median Family Income (% of US Median) | 159.6% | 162.2% | 163.4% | 164.4% | 164.4% |
| Finances | | | | | |
| Operating Revenue (\$000) | \$233,677 | \$221,799 | \$238,877 | \$249,194 | \$305,527 |
| Fund Balance (\$000) | \$85,822 | \$79,599 | \$104,065 | \$102,786 | \$123,665 |
| Cash Balance (\$000) | \$199,174 | \$588,313 | \$559,662 | \$134,242 | \$633,713 |
| Fund Balance as a % of Revenues | 36.7% | 35.9% | 43.6% | 41.2% | 40.5% |
| Cash Balance as a % of Revenues | 85.2% | 265.2% | 234.3% | 53.9% | 207.4% |
| Debt/Pensions | | | | | |
| Net Direct Debt (\$000) | \$540,717 | \$929,240 | \$934,480 | \$907,161 | \$1,097,516 |
| 3-Year Average of Moody's ANPL (\$000) | \$318,502 | \$348,384 | \$422,880 | \$474,450 | \$457,179 |
| Net Direct Debt / Full Value (%) | 0.4% | 0.6% | 0.5% | 0.5% | 0.6% |
| Net Direct Debt / Operating Revenues (x) | 2.3x | 4.2x | 3.9x | 3.6x | 3.6x |
| Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%) | 0.2% | 0.2% | 0.2% | 0.3% | 0.2% |
| Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x) | 1.4x | 1.6x | 1.8x | 1.9x | 1.5x |

Sources: US Census Bureau, US Bureau of Economic Analysis, San Jose Evergreen CCD's financial statements (reported cash in FY 2020, 2021 and 2023 includes bond proceeds dedicated for capital projects) and Moody's Ratings

Profile

San Jose-Evergreen Community College District is located in Santa Clara County and encompasses approximately 303 square miles in the heart of Silicon Valley, including a portion of the [City of San Jose](#) (Aa1 stable) and all of the City of Milpitas. The district operates San Jose City College (SJCC) and Evergreen Valley College, each of which is fully accredited by the Accrediting Commission for Community and Junior Colleges, in addition to its Community College Center for Economic Mobility and SJCC Extension at Milpitas. The district is governed by a seven-member board of trustees. The district's full-time equivalent students are projected at 10,550 for fiscal 2025.

Detailed credit considerations

Economy and tax base: large, diverse tax base will continue to experience healthy growth

San Jose-Evergreen Community College District will continue to benefit from a large and wealthy tax base that is poised for ongoing solid growth within the vibrant Silicon Valley economy. The district's assessed valuation (AV) reached \$205 billion in fiscal 2024, a strong 6.3% increase over the prior year, and places the district among the largest community college districts in the state as measured by AV. Solid tax base growth will continue largely due to housing turnover and new residential and commercial developments currently underway. The district's resident wealth measures are also strong, with median family income representing 176% of the US. The City of San Jose's unemployment rate, which serves as a proxy for the district was 4.4% as of July 2024, which is below the state (5.8%) and almost equivalent to the US (4.5%).

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Financial operations and reserve: strong financial position supported by good governance

We expect that the district will maintain a strong financial position largely due to its community funded status and management's prudent fiscal practices. Based on fiscal 2024 estimated actuals, the district will generate its seventh consecutive surplus, and available general fund balance will remain in line with the prior year at about 23%. The projected \$3.9 million surplus is largely due to property taxes coming in above budget coupled with expenditures savings from vacant positions. The district's adopted fiscal 2025 budget is structurally balanced, and salary increases have been settled with all bargaining units through 2026, providing budget certainty for about 75% of expenses. Management's outyear projections show small deficits over the next three years with general fund balance declining to 19%, however given management's conservative approach to financial planning and track record of outperforming budget projections, we expect that reserves will remain in line with recent years.

The district continues to become more entrenched into community funded status with local property revenues exceeding what the district would otherwise receive from the state by about \$40 million (estimated for fiscal 2025) or 23% of general fund revenue. The community funded status also insulates the district from enrollment declines as well as reductions in state funding during economic downturns. Total enrollment in 2025 (projected) is 10,550 for fiscal 2025, a slight increase over the prior year. Management expects enrollment will continue to slightly grow given the efforts being implemented to reengage students and the expansion of program offerings.

Liquidity

Similar to the district's reserve position, we expect that liquidity will remain solid and favorable compared to peers. At the end of fiscal 2023 the district's unrestricted general fund cash position was strong at \$76.6 million or a strong 35.2% of total general fund revenue. Available operating cash, which includes funds for GOULT debt service, was stronger at \$150 million or a robust 50% of operating revenue.

Debt, pensions and OPEB: debt and pension burden remain moderate; OPEB fully funded

The district has a low net direct debt burden that will remain so as its tax base continues to expand. The district's net direct debt represents a minimal 0.5% of the fiscal 2024 assessed valuation but a somewhat elevated 3.6 times of fiscal 2024 operating revenue. The district does not have any remaining general obligation bond authorization or any plans to seek additional authorizations in the near-term.

Legal security

The general obligation bonds are secured by an unlimited property tax pledge of all taxable property within the district boundaries. [Santa Clara County](#) (Aa1, stable) rather than the district will levy, collect, and disburse the district's property taxes, including the portion constitutionally restricted to pay debt service on general obligation bonds.

Debt structure

The district's GO bonds are long-term fixed rate obligations with a final maturity in 2045.

The district's OPEB Bonds are privately-placed variable rate obligations with a final maturity in 2043. The interest rate is based off of SOFR, and the bonds are subject to a mandatory tender on May 1, 2027. The variable rate bonds should not cause any undue stress to the district's credit quality since they only represent 4.6% of the district's total debt portfolio and are currently hedged with a fixed-payor swap. The OPEB Bonds are a general fund obligation and annual effective debt service currently represents a low 1.3% of general fund revenue.

Debt-related derivatives

The district's variable rate OPEB bonds are swapped to fixed-rate through a swap agreement with Deutsche Bank AG (A1) that will expire on July 1, 2043. Under the swap, the district pays the counterparty a fixed payment of 4.239% and receives a variable payment based on SOFR. The rating termination triggers for the swap are a function of the district's and the swap provider's ratings, with the district's option to terminate if the counterparty's rating falls below Baa1 and the counterparty's option to terminate if the district's rating falls below Baa2.

Pensions and OPEB

The bulk of California community college districts' 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 around 6% in fiscal 2024 because of a modest increase in interest rates. While results will vary across US public pension systems, we generally expect local governments' fiscal year 2025 ANPLs to fall by around another 20% based on our aggregate estimates, because of rising interest rates and above-target investment returns in 2024.

The district's OPEB liability has been fully funded by proceeds of its OPEB bonds. As of fiscal end 2023, the district reported a total OPEB liability of \$30.2 million and had about \$38 million in an OPEB irrevocable trust. Moody's adjusted OPEB liability for the district is \$36 million, also sufficiently covered by assets in the OPEB irrevocable trust.

ESG considerations

Environmental

Environmental considerations are incorporated into the district's credit profile. The district is located in Santa Clara County, which has relatively high exposure to projected water stress and wildfires. Exposure to these risks is largely offset by strong regional planning and conservation efforts.

Social

Social considerations are inherent to the district's credit profile, including its strong socioeconomic profile. Similar to many California community college districts, San Jose- Evergreen CCD has experienced enrollment declines in recent years largely because of the coronavirus pandemic. Management has implemented various enrollment strategies and enrollment continues to rebound.

Governance

The district benefits from an experienced, fiscally prudent management team that has maintained a stable financial position. The district has a reserve policy to maintain unrestricted general fund at no less than 16.7% of expenditures, which equates to two months of expenses. In addition, the district maintains a fiscal stability fund that has a minimum balance of 2.5% of expenditures.

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