



West Valley - Mission

Community College District

Board of Trustees
Audit and Budget Oversight Committee

April 15, 2019

Board Room
West Valley College
14000 Fruitvale Avenue, Saratoga, CA 95070
5:30 p.m. Public Session

Bob Owens, Chair
Susan Fish, Member
Randi Kinman, Member

1.0 CALL TO ORDER – PUBLIC SESSION

- 1.1 Roll Call
- 1.2 Approval of the Order of the Agenda
- 1.3 Oral Communication

2.0 REGULAR ORDER OF THE AGENDA

2.1 Approval of the March 11, 2019, meeting minutes (A) – Chair

2.2 Measure W Bond Rating Reports (I)

This item will include review of the Measure W Rating Reports from S&P and Moody's.

2.3 Solar Photovoltaic Generating Systems at West Valley College and Mission College (A)

This item will include review, discussion and possible action regarding the proposed solar photovoltaic generating systems at West Valley College and Mission College.

3.0 STAFF MEMBERS COMMENTS

This item offers staff members the opportunity to report on issues not listed in the agenda to which no debate or votes are to be taken.

4.0 COMMITTEE MEMBERS COMMENTS

This item offers committee members the opportunity to report on issues not listed in the agenda to which no debate or votes are to be taken.

5.0 ADJOURNMENT

WEST VALLEY/MISSION COMMUNITY COLLEGE DISTRICT
BOARD OF TRUSTEES
AUDIT AND BUDGET OVERSIGHT COMMITTEE

Date of meeting: March 11, 2019

UNAPPROVED MINUTES

Membership: Bob Owens, Chair; Susan Fish, Member; Randi Kinman, Member

1.0 CALL TO ORDER – PUBLIC SESSION

The meeting was called to order at 5:30pm by Mr. Owens.

1.1 Roll Call

	Present	Absent
Fish, Susan	X (arrived at 5:33pm)	
Kinman, Randi	X	
Owens, Bob	X	

Others Present: Javier Castruita, Ngoc Chim, Pat Fenton, Ed Maduli, Danny Nguyen and Patrick Schmitt

1.2 Approval of the Order of the Agenda

The order of the agenda was approved as presented. (Kinman/Owens, 2/0/0, with Fish absent and not voting)

1.3 Oral Communication

None.

2.0 Regular Order of the Agenda

2.1 Approval of the February 11, 2019, meeting minutes (A)

The February 11, 2019, meeting minutes were approved as presented. (Kinman/Owens, 2/0/0, with Fish absent and not voting)

2.2 Review of the June 30, 2018 Actuarial Report (A)

Ms. Chim reviewed the actuarial report. She indicated that the report was based on the earlier GASB 75 valuation as of June 30, 2017, using the standard actuarial “roll-forward” methodology to estimate the total OPEB liability. The District is currently overfunded by approximately \$15M, but this number will fluctuate based on the number of active and retired employees. WVMCCD is one of the few districts that has a positive net position for OPEB liabilities.

There was a motion by Kinman, seconded by Fish, to “accept the June 30, 2018 Actuarial Report and recommend it to the Board for approval.” The motion passed unanimously.

2.3 Solar Photovoltaic Generating Systems at West Valley College and Mission College (A)

Mr. Maduli provided information on the proposed solar photovoltaic generating systems at the colleges, which will be paid through Measure W. The project will be implemented in three phases and consist of new solar panels and battery storage in designated parking lots at each campus. The anticipated start date for the project is this summer at West Valley College. Mr. Maduli indicated that the project is expensive, but the savings generated long-term will outweigh the cost to implement. He also reported that, in addition to the District’s legal counsel, he is having a 3rd party energy specialist review the project documents to validate the project costs. As with the current solar system, all equipment will be maintained by SunPower but for a term of 25 years. He indicated that he will need to work with the Building Trades Council to exclude the Operations & Maintenance Agreement for this project from the PLA due to the specialized knowledge and equipment required for the project.

There was a motion by Fish, seconded by Kinman, to “recommend to the Board approval of new solar photovoltaic generating systems at West Valley College and Mission College.” The motion passed unanimously.

3.0 Staff Members Comments

Mr. Maduli reported that he recently made the district’s rating presentation for the Measure W bonds. He expects the official rating to be released on Monday, March 18, and anticipates that the District will maintain its Aaa Rating. Moody’s and S&P will issue press releases once the rating has been made.

4.0 Committee Members Comments

None.

5.0 Adjournment

The meeting adjourned at 6:00 PM.

CREDIT OPINION

22 March 2019

 Rate this Research

Contacts

Michael Wertz +1.212.553.3830
 VP-Senior Analyst
 michael.wertz@moodys.com

Alexandra J. Cimmiyotti +1.415.274.1754
 VP-Senior Analyst
 alexandra.cimmiyotti@moodys.com

CLIENT SERVICES

Americas 1-212-553-1653
 Asia Pacific 852-3551-3077
 Japan 81-3-5408-4100
 EMEA 44-20-7772-5454

West Valley Mission Community Coll Dist, CA

Update to credit analysis

Summary

The credit quality of [West Valley-Mission Community College District](#) (Aaa, stable) reflects the district's exceptionally large and wealthy assessed valuation, and robust local economy in the heart of the Silicon Valley. The district's credit profile is also strengthened by its strong financial position inclusive of above average operating fund cash and reserves and access to significant levels of alternate liquidity from its land corporation and foundation among other funds. The district's moderate debt and retirement costs are also consistent with the rating level.

Credit strengths

- » Exceptionally large and diverse assessed valuation
- » Very healthy financial profile
- » Status as a basic-aid district
- » Strong resident wealth indicators

Credit challenges

- » Rising pension costs
- » Higher than typical economic dependence on technology sector

Rating outlook

The stable outlook reflects our expectation that the district will continue to benefit from an exceptionally large and wealthy assessed valuation thereby deepening its entrenchment in basic aid status. In addition, the district's fiscal position will remain well above average despite the use of some monies to defease lease obligations.

Factors that could lead to an upgrade

- » N/A

Factors that could lead to a downgrade

- » Loss of basic aid status due to change in enrollment or weakening of AV
- » Significant deterioration of assessed valuation or resident economic profile

» Material decline of cash or reserves

Key indicators

Exhibit 1

West Valley Mission Community Coll Dist, CA	2014	2015	2016	2017	2018
Economy/Tax Base					
Total Full Value (\$000)	\$94,567,265	\$100,864,785	\$110,970,935	\$121,079,186	\$129,907,270
Population	512,600	512,600	512,600	512,600	512,600
Full Value Per Capita	\$184,485	\$196,771	\$216,486	\$236,206	\$253,428
Median Family Income (% of USMedian)	162.6%	164.6%	168.2%	173.2%	173.2%
Finances					
Operating Revenue (\$000)	\$168,817	\$161,571	\$183,349	\$190,501	\$217,344
Fund Balance (\$000)	\$71,235	\$73,508	\$93,088	\$94,990	\$108,726
Cash Balance (\$000)	\$79,750	\$84,169	\$101,098	\$107,257	\$121,703
Fund Balance as a % of Revenues	42.2%	45.5%	50.8%	49.9%	50.0%
Cash Balance as a % of Revenues	47.2%	52.1%	55.1%	56.3%	56.0%
Debt/Pensions					
Net Direct Debt (\$000)	\$362,144	\$491,937	\$486,125	\$459,637	\$545,615
3-Year Average of Moody's ANPL (\$000)	\$209,733	\$230,065	\$241,363	\$271,254	\$305,219
Net Direct Debt / Full Value (%)	0.4%	0.5%	0.4%	0.4%	0.4%
Net Direct Debt / Operating Revenues (x)	2.1x	3.0x	2.7x	2.4x	2.5x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	0.2%	0.2%	0.2%	0.2%	0.2%
Moody's - adjusted Net Pension Liability (3-yr average) to Revenues (x)	1.2x	1.4x	1.3x	1.4x	1.4x

Source: Moody's Investors Service and West Valley-Mission CCD

Profile

The district serves nine areas within Santa Clara County and a small segment of Santa Cruz County. The service area includes portions of the cities of San Jose, Santa Clara, Saratoga, Los Gatos and Campbell among others. The 2019 full-time equivalent students is projected at 11,297.

Detailed credit considerations

Economy and tax base: Exceptionally large and wealthy tax base with solid entrenchment into basic aid

The district's tax base is exceptionally large and wealthy reflecting its position in the heart of Silicon Valley. The district is also well entrenched into basic aid, a status we expect to deepen with further tax base expansion. The district's tax base and local economy will continue to be a key credit strength.

The assessed valuation for 2019 rose by 8.3% to reach \$140 billion, which is well above the median for an Aaa rated community college district. The strong growth rate also matches both the 3 year and 5 year average annual growth rates. Though the district is primarily residential, the commercial component is a key contributor to the tax base. Cisco, Intel, Oracle and Samsung are some of the technology companies within the district and are among the top 20 largest taxpayers, which is only 10% of the total assessed valuation. Other companies such as Google, Facebook and Apple are in proximity to the district and help anchor a large and dynamic employment base. The district has a higher than typical level of exposure to technology, which could slow growth in the event of a downturn in the sector.

The tax base also benefits from a very competitive housing market across the district's several cities including Cupertino, Santa Clara, Los Gatos and Campbell, where median home sales values are more than \$1 million compared to a district-wide median single family

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 for the most updated credit rating action information and rating history.

home assessed valuation of approximately \$631,000. The median family income in Santa Clara county is 162%, which somewhat understates the median family incomes in the district proper.

The district became basic aid in 2013 with locally generated revenues \$51 million greater than what it would otherwise receive through state funding.

Financial operations and reserves: Healthy fiscal position that will remain strong

The district maintains a very strong fiscal position underscored by above average liquidity and reserves. We expect these strengths to remain in place and for the overall financial position to remain well above average and consistent with its rating.

In fiscal 2018, the district's fund balance grew by \$10 million and totaled \$62 million or a robust 37% of revenues. This represents a three-year high for the district on both a total and percentage basis and has been fueled by a \$23 million increase in local revenues in just two years.

In fiscal 2019, the district projects a \$21 million surplus before making a \$20 million transfer to defease some lease debt obligations. The district will also transfer approximately \$13 million to make a contribution to an irrevocable pension trust. The transfers are projected to drive a reduction of reserves to \$49 million. However, that is still 28% of revenues and above the median for the sector. The final balance will also likely be modestly higher as the district captures operating savings through the course of the year.

Due to the high cost of living in the area, recruitment and retention can be challenging. The district has responded by issuing raises to each of its bargaining units starting in 2015. The district anticipates another 5% salary increase for fiscal 2019. The district has been able to maintain a healthy fiscal position despite these increases, which is a trend we expect to continue though future salary adjustments.

LIQUIDITY

The district's fiscal 2018 general fund cash balance was \$72 million and a strong 43.5% of revenues. The inclusion of the district's debt service funds increases cash to \$121 million or 56% percent of revenues. Both levels are unusually strong and indicative of the general financial strength of the district.

The district's board members are also the board members of the district's Mission-West Valley Land Corporation. The corporation was incorporated in 1985 as a 501(c)(3) organization and currently leases 54.4 acres of district land to various lessees. This ground lease was enacted in 1990 for a minimum term of 55 years and not to exceed more than 99 years. The corporation also pays a minimum of 25% of its sublease revenue to the district on an annual basis. The corporation maintains subleases to several commercial tenants who generate \$6 million in annual lease revenue. The corporation has a reserve that ended fiscal 2018 at \$11 million. This reserve can be used for operations per board approval.

The district's foundation also has a balance of \$20 million that can be also be accessed by the district on an unrestricted basis with approval of board.

Debt and pensions: Typical debt burden and modest retirement costs

The district's debt levels are low with direct debt at 0.4% of assessed valuation. After the sale of the district's 2019 GO bonds, the district will have \$548 million in authorized unissued GO debt remaining. The district anticipates exhausting this authorization through three additional issuances. We expect that additional steady growth to the district's already sizeable tax base will maintain a low and manageable debt burden.

DEBT STRUCTURE

With the sale of the district 2019 GO bonds, the district will have \$750 million in general obligation bonds and \$107.6 million in lease revenue obligations (Aa2 stable). All of the district's debt is fixed rate and the final maturity is in 2044.

DEBT-RELATED DERIVATIVES

The district has no debt-related derivatives.

PENSIONS AND OPEB

The district participates in California Public Employees' Retirement System (CalPERS) and California State Teachers' Retirement System(CalSTRS), two multi-employer, defined benefit retirement plans sponsored by the state. Benefit provisions for both systems

are established by the State statutes, as legislatively amended from time to time. In fiscal 2018, the district contributed \$9.7 million to both CalSTRS and CalPERS.

Moody's adjusted net pension liability (ANPL) for the district, under our methodology for adjusting reported pension data, was \$338 million in fiscal 2018, and average ANPL for the last three years represents a low 1.4 times operating revenues. Moody's ANPL reflects certain adjustments we make to improve comparability of reported pension liabilities. The adjustments are not intended to replace the district's reported liability information, but to improve comparability with other rated entities.

Similar to most California CCDs, pension costs will become an increasing budget item as contribution rates increase over the next several years. In fiscal 2018, the district established an irrevocable trust to prefund its pension obligations. The trust's balance is expected to be \$13 million at the end of fiscal 2019.

The district also provides other post-employment benefits (OPEB) to in the form of retiree health care benefits to eligible retirees in a single employer defined benefit health care plan. The district has 555 retired or active employees who were hired before January 1, 1994 and are thus eligible for OPEB benefits. The district has an irrevocable trust for future OPEB liabilities. The balance of the trust is \$68.2 million which is \$11.6 million greater than the total OPEB liability.

Management

California CCDs have an Institutional Framework score of A, which is moderate. Institutional Framework scores measure a sector's legal ability to increase revenues and decrease expenditures. California CCDs' major revenue sources are determined by the state government or, for the most part, can only be raised with voter approval. Ad valorem property tax rates cannot be increased above 1% except to meet GO bond payments, and assessed valuation growth is also generally limited to 2% annually unless a property changes ownership. Unpredictable revenue fluctuations tend to be moderate, or between 5-10% annually. Across the sector, fixed and mandated costs are generally less than 25% of expenditures. However, California has strong public sector unions, which can limit the ability to cut expenditures. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

© 2019 Moody's Corporation, Moody's Investors Service, Inc., Moody's Analytics, Inc. and/or their licensors and affiliates (collectively, "MOODY'S"). All rights reserved.

CREDIT RATINGS ISSUED BY MOODY'S INVESTORS SERVICE, INC. AND ITS RATINGS AFFILIATES ("MIS") ARE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES, AND MOODY'S PUBLICATIONS MAY INCLUDE MOODY'S CURRENT OPINIONS OF THE RELATIVE FUTURE CREDIT RISK OF ENTITIES, CREDIT COMMITMENTS, OR DEBT OR DEBT-LIKE SECURITIES. MOODY'S DEFINES CREDIT RISK AS THE RISK THAT AN ENTITY MAY NOT MEET ITS CONTRACTUAL FINANCIAL OBLIGATIONS AS THEY COME DUE AND ANY ESTIMATED FINANCIAL LOSS IN THE EVENT OF DEFAULT OR IMPAIRMENT. SEE MOODY'S RATING SYMBOLS AND DEFINITIONS PUBLICATION FOR INFORMATION ON THE TYPES OF CONTRACTUAL FINANCIAL OBLIGATIONS ADDRESSED BY MOODY'S RATINGS. CREDIT RATINGS DO NOT ADDRESS ANY OTHER RISK, INCLUDING BUT NOT LIMITED TO: LIQUIDITY RISK, MARKET VALUE RISK, OR PRICE VOLATILITY. CREDIT RATINGS AND MOODY'S OPINIONS INCLUDED IN MOODY'S PUBLICATIONS ARE NOT STATEMENTS OF CURRENT OR HISTORICAL FACT. MOODY'S PUBLICATIONS MAY ALSO INCLUDE QUANTITATIVE MODEL-BASED ESTIMATES OF CREDIT RISK AND RELATED OPINIONS OR COMMENTARY PUBLISHED BY MOODY'S ANALYTICS, INC. CREDIT RATINGS AND MOODY'S PUBLICATIONS DO NOT CONSTITUTE OR PROVIDE INVESTMENT OR FINANCIAL ADVICE, AND CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT AND DO NOT PROVIDE RECOMMENDATIONS TO PURCHASE, SELL, OR HOLD PARTICULAR SECURITIES. NEITHER CREDIT RATINGS NOR MOODY'S PUBLICATIONS COMMENT ON THE SUITABILITY OF AN INVESTMENT FOR ANY PARTICULAR INVESTOR. MOODY'S ISSUES ITS CREDIT RATINGS AND PUBLISHES MOODY'S PUBLICATIONS WITH THE EXPECTATION AND UNDERSTANDING THAT EACH INVESTOR WILL, WITH DUE CARE, MAKE ITS OWN STUDY AND EVALUATION OF EACH SECURITY THAT IS UNDER CONSIDERATION FOR PURCHASE, HOLDING, OR SALE.

MOODY'S CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY RETAIL INVESTORS AND IT WOULD BE RECKLESS AND INAPPROPRIATE FOR RETAIL INVESTORS TO USE MOODY'S CREDIT RATINGS OR MOODY'S PUBLICATIONS WHEN MAKING AN INVESTMENT DECISION. IF IN DOUBT YOU SHOULD CONTACT YOUR FINANCIAL OR OTHER PROFESSIONAL ADVISER. ALL INFORMATION CONTAINED HEREIN IS PROTECTED BY LAW, INCLUDING BUT NOT LIMITED TO, COPYRIGHT LAW, AND NONE OF SUCH INFORMATION MAY BE COPIED OR OTHERWISE REPRODUCED, REPACKAGED, FURTHER TRANSMITTED, TRANSFERRED, DISSEMINATED, REDISTRIBUTED OR RESOLD, OR STORED FOR SUBSEQUENT USE FOR ANY SUCH PURPOSE, IN WHOLE OR IN PART, IN ANY FORM OR MANNER OR BY ANY MEANS WHATSOEVER, BY ANY PERSON WITHOUT MOODY'S PRIOR WRITTEN CONSENT.

CREDIT RATINGS AND MOODY'S PUBLICATIONS ARE NOT INTENDED FOR USE BY ANY PERSON AS A BENCHMARK AS THAT TERM IS DEFINED FOR REGULATORY PURPOSES AND MUST NOT BE USED IN ANY WAY THAT COULD RESULT IN THEM BEING CONSIDERED A BENCHMARK.

All information contained herein is obtained by MOODY'S from sources believed by it to be accurate and reliable. Because of the possibility of human or mechanical error as well as other factors, however, all information contained herein is provided "AS IS" without warranty of any kind. MOODY'S adopts all necessary measures so that the information it uses in assigning a credit rating is of sufficient quality and from sources MOODY'S considers to be reliable including, when appropriate, independent third-party sources. However, MOODY'S is not an auditor and cannot in every instance independently verify or validate information received in the rating process or in preparing the Moody's publications.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability to any person or entity for any indirect, special, consequential, or incidental losses or damages whatsoever arising from or in connection with the information contained herein or the use of or inability to use any such information, even if MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers is advised in advance of the possibility of such losses or damages, including but not limited to: (a) any loss of present or prospective profits or (b) any loss or damage arising where the relevant financial instrument is not the subject of a particular credit rating assigned by MOODY'S.

To the extent permitted by law, MOODY'S and its directors, officers, employees, agents, representatives, licensors and suppliers disclaim liability for any direct or compensatory losses or damages caused to any person or entity, including but not limited to by any negligence (but excluding fraud, willful misconduct or any other type of liability that, for the avoidance of doubt, by law cannot be excluded) on the part of, or any contingency within or beyond the control of, MOODY'S or any of its directors, officers, employees, agents, representatives, licensors or suppliers, arising from or in connection with the information contained herein or the use of or inability to use any such information.

NO WARRANTY, EXPRESS OR IMPLIED, AS TO THE ACCURACY, TIMELINESS, COMPLETENESS, MERCHANTABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE OF ANY CREDIT RATING OR OTHER OPINION OR INFORMATION IS GIVEN OR MADE BY MOODY'S IN ANY FORM OR MANNER WHATSOEVER.

Moody's Investors Service, Inc., a wholly-owned credit rating agency subsidiary of Moody's Corporation ("MCO"), hereby discloses that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by Moody's Investors Service, Inc. have, prior to assignment of any rating, agreed to pay to Moody's Investors Service, Inc. for ratings opinions and services rendered by it fees ranging from \$1,000 to approximately \$2,700,000. MCO and MIS also maintain policies and procedures to address the independence of MIS's ratings and rating processes. Information regarding certain affiliations that may exist between directors of MCO and rated entities, and between entities who hold ratings from MIS and have also publicly reported to the SEC an ownership interest in MCO of more than 5%, is posted annually at www.moody.com under the heading "Investor Relations — Corporate Governance — Director and Shareholder Affiliation Policy."

Additional terms for Australia only: Any publication into Australia of this document is pursuant to the Australian Financial Services License of MOODY'S affiliate, Moody's Investors Service Pty Limited ABN 61 003 399 657 AFSL 336969 and/or Moody's Analytics Australia Pty Ltd ABN 94 105 136 972 AFSL 383569 (as applicable). This document is intended to be provided only to "wholesale clients" within the meaning of section 761G of the Corporations Act 2001. By continuing to access this document from within Australia, you represent to MOODY'S that you are, or are accessing the document as a representative of, a "wholesale client" and that neither you nor the entity you represent will directly or indirectly disseminate this document or its contents to "retail clients" within the meaning of section 761G of the Corporations Act 2001. MOODY'S credit rating is an opinion as to the creditworthiness of a debt obligation of the issuer, not on the equity securities of the issuer or any form of security that is available to retail investors.

Additional terms for Japan only: Moody's Japan K.K. ("MJKK") is a wholly-owned credit rating agency subsidiary of Moody's Group Japan G.K., which is wholly-owned by Moody's Overseas Holdings Inc., a wholly-owned subsidiary of MCO. Moody's SF Japan K.K. ("MSFJ") is a wholly-owned credit rating agency subsidiary of MJKK. MSFJ is not a Nationally Recognized Statistical Rating Organization ("NRSRO"). Therefore, credit ratings assigned by MSFJ are Non-NRSRO Credit Ratings. Non-NRSRO Credit Ratings are assigned by an entity that is not a NRSRO and, consequently, the rated obligation will not qualify for certain types of treatment under U.S. laws. MJKK and MSFJ are credit rating agencies registered with the Japan Financial Services Agency and their registration numbers are FSA Commissioner (Ratings) No. 2 and 3 respectively.

MJKK or MSFJ (as applicable) hereby disclose that most issuers of debt securities (including corporate and municipal bonds, debentures, notes and commercial paper) and preferred stock rated by MJKK or MSFJ (as applicable) have, prior to assignment of any rating, agreed to pay to MJKK or MSFJ (as applicable) for ratings opinions and services rendered by it fees ranging from JPY125,000 to approximately JPY250,000,000.

MJKK and MSFJ also maintain policies and procedures to address Japanese regulatory requirements.

REPORT NUMBER 1167203

Contacts

Alexandra J. Cimmiyotti +1.415.274.1754
VP-Senior Analyst
alexandra.cimmiyotti@moodys.com

Michael Wertz +1.212.553.3830
VP-Senior Analyst
michael.wertz@moodys.com

CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

RatingsDirect®

Summary:

West Valley-Mission Community College District, California; Appropriations; General Obligation

Primary Credit Analyst:

Kaiti Wang, CFA, New York 212-438-0566; kaiti.wang@spglobal.com

Secondary Contact:

Carolyn McLean, New York (1) 212-438-2383; carolyn.mclean@spglobal.com

Table Of Contents

Rationale

Outlook

Summary:

West Valley-Mission Community College District, California; Appropriations; General Obligation

Credit Profile

US\$150.0 mil GO bnds (Election Of 2018) ser 2019A due 08/01/2044		
<i>Long Term Rating</i>	AAA/Stable	New
West Valley-Mission Comnty Coll Dist GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
California Comnty Coll Fincg Auth, California		
West Valley-Mission Comnty Coll Dist, California		
California Comnty Coll Fincg Auth (West Valley-Mission Comnty Coll Dist) GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed

Rationale

S&P Global Ratings assigned its 'AAA' rating to West Valley-Mission Community College District, Calif.'s series of 2019A (election of 2018) general obligation (GO) bonds. At the same time, S&P Global Ratings affirmed its 'AAA' long-term rating and underlying rating (SPUR) on the district's GO debt outstanding and its 'AA+' rating on the district's outstanding lease revenue bonds (LRBs). The outlook on all ratings is stable.

Along with other outstanding GO debt, the 2019A bonds are general obligations of the district; unlimited ad valorem taxes levied on taxable property within the district secure the GO bonds. The Santa Clara and Santa Cruz counties' boards of supervisors have the power and obligation to levy these taxes and are required to deposit such taxes, when collected, into the bonds' debt service fund. The district's GO bonds are eligible to be rated above the sovereign because we believe the district can maintain better credit characteristics than the U.S. in a stress scenario. Under our criteria "Ratings Above The Sovereign: Corporate And Government Ratings--Methodology And Assumptions," U.S. local governments are considered to have moderate sensitivity to country risk. District-derived revenue are the primary revenue sources for the district, and the institutional framework in the U.S. is predictable with significant local government autonomy and flexibility as demonstrated by independent treasury management. We understand the district intends to use the 2019A GO bond proceeds to finance the acquisition, construction, modernization, and equipping of district sites and facilities.

The outstanding 2016C LRBs represent an interest in lease payments made by the district, as lessee, to the California Community College Financing Authority, as lessor, for the use and possession of the leased assets. The district covenants to budget and appropriate lease payments during the life of the LRBs. The rating on the LRBs is one notch off the district's general creditworthiness due to the additional appropriation risk associated with the security structure.

Proceeds from the outstanding 2017B GO refunding bonds and 2016C refunding LRBs were used to advance crossover refund a portion of the district's election of 2004, series C GO bonds and its series 2009A-1 LRBs. Prior to the

crossover date of Aug. 1, 2019, the 2017B GO refunding bonds and 2016C refunding LRBs are secured solely by noncallable federal securities held in an escrow fund, and not by the district. . For these reasons, the rating on the series 2017B GO bonds and 2016C refunding LRBs reflects the U.S. government sovereign rating until the crossover date. After the crossover date, unlimited ad valorem taxes levied on taxable property within the district will secure the 2017B GO bonds and the 2016C refunding LRBs will represent an interest in lease payments made by the district, as lessee, to the California Community College Financing Authority, as lessor, for the use and possession of the leased assets. After the crossover date, the 2017B GO refunding bonds will reflect only the district's long-term rating and the 2016C refunding LRBs will be one notch off to reflect appropriation risk.

The ratings reflect our view of the district's:

- Additional revenue flexibility provided by its basic-aid status;
- Participation in the deep and diverse economy of Silicon Valley and the greater San Francisco Bay Area;
- Very strong available general fund balance;
- Financial flexibility provided by operating reserves held outside of the general fund; and
- Good financial policies and practices.

The district operates two colleges in the heart of Silicon Valley, which is approximately 45 miles south of San Francisco; roughly 99% of the district is located in Santa Clara County. The district overlaps the communities of Santa Clara, Campbell, Los Gatos, Monte Sereno, Saratoga, and portions of San Jose, Cupertino, and Sunnyvale. The district serves a population of roughly 544,000, and local employers include Cisco, Intel, Apple, Netflix, Yahoo, and other tech companies. Levi's Stadium, the home of the San Francisco 49ers National Football League team, is also located in the district. The taxing base is very strong, in our opinion, and assessed value (AV) has declined in only one year of the past 10. AV has increased by a compound annual growth rate of 8.3% between 2014 and 2019, with growth of 8.4% for 2019. In fiscal 2019, the district's AV is \$140.8 billion--equal to \$258,823 in market value per capita, which we consider extremely strong. We view the district's overlapping county median household effective buying income as very strong, at 170% of the national level. The top 10 taxpayers are very diverse, in our view, at 7.6% of total AV in fiscal 2019.

The district's total full-time-equivalent student (FTES) enrollment has generally declined since 2011 at an average annual rate of 4.4%. In fiscal 2019, the district projects 11,297 FTES. We understand the district first qualified as a basic-aid community college district beginning in fiscal 2013. As a result, the district's operating revenue are no longer dependent on the state's per-student funding mechanism, which we believe provides increased financial strength and stability for the district. Basic-aid status occurs when the local tax base generates funding in excess of the state apportionment formula--funds that districts in California are allowed to retain. As a result, the district received roughly an additional \$50.8 million in fiscal 2019 (about 30% of general fund revenue).

During the past several years, the district has continued to improve its financial position through positive operations. In fiscal 2018, the district increased the assigned and unassigned general fund balance to \$59 million, or 44.5% of combined general fund expenditures (including transfers), which we consider very strong. This is up from \$51 million in fiscal 2017. In fiscal 2019, the district is projecting a surplus of \$4.1 million, which we anticipate will result in available reserves that remain at very strong. The district also has additional sources of liquidity available of \$26.2

million held in other funds, which do not need to be repaid. In addition, we consider the district to have relatively low levels of funding interdependencies with the federal government.

The Mission-West Valley Land Corp., which is a nonprofit corporation with a primary mission to promote the success of the district through certain programs, also provides additional flexibility to the district. The land corporation operates by facilitating the leases on 54.4 acres of district land. The lease terms are for five years and currently generate roughly \$6.5 million annually. The corporation contributes roughly \$5.3 million annually to the district. In addition, the land corporation had a fund balance of roughly \$11.1 million in fiscal 2018, which can be made available for general operations through either a loan or a grant by the corporation's board. The members of the corporation's governing board are the same as those of the district's board. We consider the support of the land corporation to be a source of additional financial flexibility for the district.

We consider the district's management practices good under our Financial Management Assessment (FMA) methodology. An FMA of good indicates our view that practices exist in most areas although they may not be formalized or be monitored regularly by governance officials.

Key management polices include:

- A budget formation process that incorporates an internal analysis of historical revenue and expenditure trends;
- An annual budget process with budget-to-actual reports produced every quarter and presented to the district board;
- A five-year financial forecast--updated annually--that incorporates historical information as well as current economic activity to project revenue and expenditures;
- A five-year rolling capital improvement plan, updated annually as part of the budget process, that identifies all known revenue sources to support potential projects in the current year;
- Adherence to the county's investment policy that details permitted instruments and portfolio objectives with quarterly presentation to the board;
- A formal debt management policy adopted in compliance with Senate Bill (SB) 1029 that provides qualitative guidelines for issuing debt; and
- A formal contingency reserve of at least 3% of total unrestricted general fund expenditures, in addition to the 5% general reserve recommended by the state.

We view the district's overall net debt as moderate to high, at 3.1% of market value and roughly \$8,060 per capita. District voters authorized up to \$698 million in GO debt capacity in the election of 2018 (60% approval rate). Following this issuance, the district will have \$548 in remaining bond authorization. Management has confirmed that the district does not have any alternative financings.

The district participates in defined-benefit pension plans managed by the California State Teachers' Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS). In fiscal 2018, the district paid its full required contribution of \$11.6 million, or 5.3% of total operating expenses, toward its pension obligations. CalSTRS, its largest plan, maintained a funded level of 69%, using the district's fiduciary net position as a percentage of the total pension liability. In fiscal 2018, the district established a Pension Stabilization Trust Fund through the Public Agency

Retirement System. This irrevocable trust has roughly \$13.5 million in funds to invest, and will be used to offset future pension rate increases. The district did not have to contribute any additional funds toward its other postemployment benefit (OPEB) in fiscal 2018. The district's irrevocable OPEB trust was overfunded at 112% with \$6.9 million in assets as of fiscal 2018.

Outlook

The stable outlook reflects our view that the district will benefit from its community support status and that its operating revenue stream will remain stable and increase going forward. In addition, the outlook reflects our expectation that the district will maintain very strong reserve levels.

Downside scenario

Although we consider it unlikely, should the district lose its basic-aid status during the next two years due to either significantly increased state funding or to substantial tax base declines, we could lower the ratings.

Ratings Detail (As Of March 19, 2019)		
West Valley-Mission Comnty Coll Dist GO		
<i>Long Term Rating</i>	AAA/Stable	Affirmed
California Comnty Coll Fincg Auth, California		
West Valley-Mission Comnty Coll Dist, California		
California Comnty Coll Fincg Auth (West Valley-Mission Comnty Coll Dist) APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
California Comnty Coll Fincg Auth (West Valley-Mission Comnty Coll Dist) APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
California Comnty Coll Fincg Auth (West Valley-Mission Comnty Coll Dist) APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed
California Comnty Coll Fincg Auth (West Valley-Mission Comnty Coll Dist) APPROP		
<i>Long Term Rating</i>	AA+/Stable	Affirmed

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 for further information. Complete ratings information is available to subscribers of RatingsDirect at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

Copyright © 2018 by Standard & Poor's Financial Services LLC. All rights reserved.

No content (including ratings, credit-related analyses and data, valuations, model, software or other application or output therefrom) or any part thereof (Content) may be modified, reverse engineered, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of Standard & Poor's Financial Services LLC or its affiliates (collectively, S&P). The Content shall not be used for any unlawful or unauthorized purposes. S&P and any third-party providers, as well as their directors, officers, shareholders, employees or agents (collectively S&P Parties) do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Parties are not responsible for any errors or omissions (negligent or otherwise), regardless of the cause, for the results obtained from the use of the Content, or for the security or maintenance of any data input by the user. The Content is provided on an "as is" basis. S&P PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs or losses caused by negligence) in connection with any use of the Content even if advised of the possibility of such damages.

Credit-related and other analyses, including ratings, and statements in the Content are statements of opinion as of the date they are expressed and not statements of fact. S&P's opinions, analyses and rating acknowledgment decisions (described below) are not recommendations to purchase, hold, or sell any securities or to make any investment decisions, and do not address the suitability of any security. S&P assumes no obligation to update the Content following publication in any form or format. The Content should not be relied on and is not a substitute for the skill, judgment and experience of the user, its management, employees, advisors and/or clients when making investment and other business decisions. S&P does not act as a fiduciary or an investment advisor except where registered as such. While S&P has obtained information from sources it believes to be reliable, S&P does not perform an audit and undertakes no duty of due diligence or independent verification of any information it receives. Rating-related publications may be published for a variety of reasons that are not necessarily dependent on action by rating committees, including, but not limited to, the publication of a periodic update on a credit rating and related analyses.

To the extent that regulatory authorities allow a rating agency to acknowledge in one jurisdiction a rating issued in another jurisdiction for certain regulatory purposes, S&P reserves the right to assign, withdraw or suspend such acknowledgment at any time and in its sole discretion. S&P Parties disclaim any duty whatsoever arising out of the assignment, withdrawal or suspension of an acknowledgment as well as any liability for any damage alleged to have been suffered on account thereof.

S&P keeps certain activities of its business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain business units of S&P may have information that is not available to other S&P business units. S&P has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

S&P may receive compensation for its ratings and certain analyses, normally from issuers or underwriters of securities or from obligors. S&P reserves the right to disseminate its opinions and analyses. S&P's public ratings and analyses are made available on its Web sites, www.standardandpoors.com (free of charge), and www.ratingsdirect.com and www.globalcreditportal.com (subscription), and may be distributed through other means, including via S&P publications and third-party redistributors. Additional information about our ratings fees is available at www.standardandpoors.com/usratingsfees.

STANDARD & POOR'S, S&P and RATINGSDIRECT are registered trademarks of Standard & Poor's Financial Services LLC.

PREPARED BY: JAVIER CASTRUITA

REVIEWED BY: ED MADULI

APPROVED BY: PATRICT SCHMITT

SUBJECT: AWARD OF PROPOSAL FOR PHOTOVOLTAIC SOLAR ELECTRIC GENERATING SYSTEM PROJECTS AT MISSION COLLEGE AND WEST VALLEY COLLEGE

CHANCELLOR’S RECOMMENDATION:

That the Board of Trustees approve the responsive and responsible proposal in the amount of \$25,434,629 from SunPower Corporation. The award of the contract is based on the Proposal Price for both colleges as follows:

West Valley College:

<u>Contractor</u>	<u>Agreement Type</u>	<u>Amount</u>	<u>Allowance</u>	<u>Award Amount</u>
SunPower Corp.	Solar and Storage	\$11,142,106	\$250,000	\$11,392,106
SunPower Corp.	O&M (including PeGu)	\$ 2,086,884*	\$0	\$ 2,086,884*
SunPower Corp.	Demand Assurance	\$ 0	\$0	\$ 0
Subtotal WVC				\$13,478,990

Mission College:

<u>Contractor</u>	<u>Agreement Type</u>	<u>Amount</u>	<u>Allowance</u>	<u>Award Amount</u>
SunPower Corp.	Solar and Storage	\$9,992,828	\$250,000	\$10,242,828
SunPower Corp.	O&M (including PeGu)	\$1,712,812*	\$0	\$ 1,712,812*
Subtotal MC				\$11,955,639

Award Amount – WVC + MC: \$25,434,629

*Sum total of 25 years of annual Operations and Maintenance payments (including the Performance Guarantee)

Funding Source/Fiscal Impact

The funding for this project is through Measure W, line item DS – 04, Alternative Energy projects, on the Project Priority List.

Reference(s)

This item is associated with the implementation of the WVC and MC Facilities Master Plans, the WVMCCD 5-Year Construction Plan, and the Measure W Project Priority List.

Background/Alternates

On November 16, 2010, the Board of Trustees approved a contract with SunPower Corporation to install and operate a solar electric energy system consisting of photovoltaic elevated carports at Mission College and West Valley College. Both systems generate approximately two million kilowatt hours per day, thereby saving approximately 30% in annual energy costs per college. SunPower has proven to be reliable and efficient through the installation at both colleges. Both systems were completed and approved on April 17, 2012.

On March 19, 2019, the Board of Trustees passed Resolution No. 19031901, which authorized the District to develop additional energy conservation facilities for generation of electrical power and enter into energy service contracts pursuant to Government Code §4217.

In accordance with Resolution No. 19031901, and to stay consistent with the standard of the existing solar photovoltaic system, the District has negotiated an energy service contract with SunPower Corporation to install a new solar photovoltaic system at each college as follows:

1. West Valley College:	Solar Photovoltaic Power System:	2.94 MW
	Energy Storage System:	1.00 MW
2. Mission College:	Solar Photovoltaic Power System:	2.50 MW
	Energy Storage System:	1.00 MW

The award of the contract is in accordance with Government Code Section 4217, which allows public agencies to enter into an energy conservation contract that is in the best interest of the public agency. Award of the contract is also in accordance with Resolution No. 19031901. The negotiated proposal has established construction contract of \$25,434,629

Coordination

This project includes work of the Executive Director of Facilities Maintenance, Operations and Construction; Executive Director of General Services; Vice Chancellor of Administrative Services; and West Valley College and Mission College Administration.

Follow-up/Outcome

Following Board approval, a contract will be issued to SunPower Corporation in the amount of \$25,434,629 for the West Valley College and Mission College Photovoltaic Solar Electric Generating System.