MOODY'S INVESTORS SERVICE

CREDIT OPINION

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New Issue

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St. Charles Community College, MO

New Issue - Moody's Assigns Aa2 to St. Charles Community College's (MO) $5M COP, 2017

Summary Rating Rationale

Moody's Investors Service has assigned a Aa2 rating to St. Charles Community College's (MO) $5 million Certificates of Participation, Series 2017. Concurrently, Moody's affirms the Aa1 rating on the district's outstanding general obligation bonds.

The Aa2 rating on the 2017 COPs, which is one notch lower than the college district's general obligation rating, is based on the risk of non-appropriation, the more essential nature of the financed project (school facilities), adequate collateralization and sound legal provisions, as well as the underlying credit quality of the district.

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	2012	2013	2014	2015	2016
Economy/Tax Base					
Total Full Value ($000)	$ 30,630,824	$ 29,673,737	$ 30,035,575	$ 31,941,852	$ 32,604,775
Full Value Per Capita	N/A	$ 81,275	$ 81,225	$ 86,380	$ 88,173
Median Family Income (% of US Median)	130.3%	129.6%	130.3%	N/A	N/A
Finances					
Operating Revenue ($000)	$ 52,460	$ 51,371	$ 54,584	$ 53,769	$ 56,173
Fund Balance as a % of Revenues	33.6%	34.7%	34.4%	-1.0%	-0.1%
Cash Balance as a % of Revenues	39.4%	42.4%	41.9%	46.0%	43.8%
Debt/Pensions					
Net Direct Debt ($000)	$ 37,485	$ 35,650	$ 33,265	$ 29,474	$ 26,845
Net Direct Debt / Operating Revenues (x)	0.7x	0.7x	0.6x	0.5x	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)	N/A	1.8x	1.9x	1.8x	1.7x
Moody's - adjusted Net Pension Liability (3-yr average) to Full Value (%)	N/A	0.3%	0.3%	0.3%	0.3%

Source: Moody's Investors Service; Audited Financial Statements

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 located 30 miles west of St. Louis (A2/negative). 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 1.6% annually over the past five years, with a modest 2.1% increase in fiscal 2016 to $32.6 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 4.2% of total values in fiscal year 2016.

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 October 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. In addition, the St. Charles Association of Realtors recently reported homes are selling in record numbers for record amounts.

Enrollment has been on a slow decline since fiscal 2011 with an average decrease of 3.8% annually through fiscal 2016 to approximately 4,505. 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 budgeted a decline in enrollment of 6.5% in 2017, however, enrollment is trending positively, compared to projections, and is forecast to be down only 3.1% on the year. Going forward, officials believe the building purchase, and the increased space it will bring, will be a driving factor to improve enrollment numbers. Early projections for fiscal 2018 are for enrollment to range from 0% growth to 3% decline.

Financial Operations and Reserves: Stable Operations and Reserves

The college's operations will 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. The conservative budgeting and expense control in fiscal 2016 led to an increase in unrestricted reserves to a negative $75,000 (-0.1% of revenues). While the district's fiscal 2017 budget was balanced, in January 2017 the governor announced an approximate $700 thousand withholding of state funds to the district as part of a broader funding reduction for public higher education facilities. However, management expects to cover this shortfall through conservative budget estimates on enrollment, increased tuitions fees for the year and expenditure controls. Management does not expect a decline in net assets for the year.

Fiscal 2016 revenues totaling $56.2 million were derived primarily from local property taxes (28.8%), net tuition and fees (28.3%), grants (22%) and state appropriations (15.3%). Over the past five years tuition and fees have increased while 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.

LIQUIDITY

The district's cash position has historically been satisfactory, in line with its operating performance. Total cash at fiscal year end 2016 was $24.6 million (46% of adjusted expenditures).

Debt and Pensions: Low Debt Profile with Modest Pension Burdens

The district's debt remains low with a direct debt burden of 0.1% (2.1% overall) on a fiscal year 2016 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 issuance of the certificates of participation is the only non-general obligation debt outstanding. Management opted to issue COPs instead of GO debt due to the timing of the sale of property. The college felt it would not have ample time to purchase the facility if it had to wait for the next bond election.

DEBT STRUCTURE

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

The COPs are subject to annual appropriation which, once appropriated for, cannot be removed from the budget. Non-appropriation risk is mitigated due to the essential nature of the asset (the College's Nursing & Allied Health facility) securing the lease agreement. In the event of appropriation, the district is required to provide the trustee sufficient funds to pay debt service a minimum of five days in advance of the debt service date. Lastly, state law prohibits the college from releasing or substituting part of the leased asset while the debt remains outstanding.

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.moodys.com/pensions.

Management and Governance

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.

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.

Legal Security

The Series 2017 Certificates will be payable solely from Basic Rent under the Lease and certain money held by the Trustee under the Declaration of Trust. The College's obligations to pay Basic Rent and other obligations of the College under the Lease are subject to and dependent on annual appropriations being made by the College for such purpose.

Use of Proceeds

Proceeds from the current sale will finance the acquisition of a two story, 69,692 square foot, building to accommodate the college's Nursing & Allied Health programs.

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 (Aaa/stable). The College is located in east central Missouri approximately 30 miles west of the St. Louis and covers approximately 525 square miles in St. Charles County. Current enrollment is approximately 4,505.

Methodology

The principal methodology used in this rating was US Local Government General Obligation Debt published in December 2016. An additional methodology used in the lease backed rating was Lease, Appropriation, Moral Obligation and Comparable Debt of US State and Local Governments published in July 2016. Please see the Rating Methodologies page on www.moodys.com for a copy of these methodologies.

Ratings

Exhibit 2

St. Charles Community College, MO

Issue	Rating
Certificates of Participation, Series 2017	Aa2
Rating Type	Underlying LT
Sale Amount	$5,000,000
Expected Sale Date	02/22/2017
Rating Description	Lease: Appropriation

Source: Moody's Investors Service

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