STANDARD & POOR'S RATINGS SERVICES

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Summary:

Cook County Community College District No. 508 (City Colleges of Chicago). Illinois; General Obligation

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Credit Profile		
US$250.0 mil unltd tax GO bnds (dedicated rev) ser 2013 due 12/01/2048		
Long Term Rating	AA/Stable	New
Cook Cnty Comnty Coll Dist #508 (City Coll of Chicago) unltd tax GO bnds (dedicated rev) ser 2013 due 12/01/2048		
Long Term Rating	AA/Stable	Rating Assigned

Rationale

Standard & Poor's Ratings Services assigned its 'AA' rating and stable outlook to Cook County Community College District No. 508 (City Colleges of Chicago), Ill.'s series 2013 unlimited-tax general obligation (GO) bonds.

The rating reflects our view of the district's:

- Participation in the deep and diverse economy of Chicago, which is the center of a major multicounty metropolitan area;
- Large tax base that includes downtown Chicago;
- Recent history of positive financial operations before transfers to capital funds, with diverse operating revenue streams; and
- Strong available reserves, including working cash.

Partly offsetting these factors are the district's adequate, but below-average, income and moderately high overall debt burden.

The bonds are general obligations of the district payable from tuition and fees, state grants and other pledged revenues. The bonds are also secured by unlimited ad valorem property taxes to the extent that pledged revenues are insufficient. Under the bond resolution and trust indenture, City Colleges of Chicago (CCC) will abate the annual tax levy only to the extent that pledged revenues are on deposit in the pledged revenues account to pay debt service. The district will use bond proceeds to finance a new allied health building at one of its campuses, a transportation, distribution, and logistics center at another campus, and various improvements at its other buildings. The projects are part of the district's five-year $555 million capital plan.

CCC operates seven community colleges in the city, serving a population of 2.7 million. Although total enrollment peaked at 127,517 in fiscal 2010 (June 30), full-time equivalent credit course enrollment grew 40% from fiscal 2008 to fiscal 2012 to 29,602. According to management, the rise in credit course enrollment is due in good part to CCC's efforts to improve its performance by increasing the graduation rate and the number of degrees awarded for credit programs. Since a new chancellor came on board in 2010, CCC has been undergoing reforms to improve its ability to deliver educational and career training services. Among the changes are centralizing specialized services and eliminating duplicated special programs in order to deliver programs more efficiently.

Most of the district's tax base is in Cook County, with a small portion in DuPage County. Equalized assessed valuation (AV) for the district's Cook County tax base fell 23% between levy years 2009 and 2012 to $65.3 billion. Estimated market value for the district's Cook County tax base is about $196 billion, which is a strong $72,000 per capita. The district's operating levy is subject to the Property Tax Extension Limitation Law, which limits levy growth to the lesser of 5% and the rate of inflation, with additional levy allowed for new construction. Because of the drop in equalized AV, the district now taxes at 75% of its education fund rate and is at its maximum operations and maintenance (O&M) rate, despite maintaining its operating levy since 2010. Median household and per capita effective buying income for Chicago are adequate at 87% and 96% of the nation's level, respectively.

CCC's operating revenues are diverse and are mainly made up of tuition and fees (44% of total educational fund revenues), property taxes (30%), and state grants (25%). The district's hourly tuition charges are among the lowest in the state at $89 per credit hour, and management reports that CCC could increase its hourly rate by $5 to $10 in fiscal 2015 and still maintain its full state funding.

Including all funds, CCC reported unrestricted net assets of $92.82 million at the end of fiscal 2012 (June 30), a 38% increase from 2009. That amount represents 21% of operating expenses. Total revenue for the education and unrestricted O&M funds exceeded expenses and net transfers by $462,000 in fiscal 2012, which increased the combined fund balance to $13.3 million, or a good 5.4% of expenses.

The magnitude of the district's educational fund surpluses is reflected in the fund's annual transfers to capital funds. The district since 2009 has maintained a policy to transfer its educational fund balances in excess of 3% of educational and unrestricted O&M fund combined expenses to the restricted O&M and plant funds. It transferred $19 million from the educational fund to these funds in fiscal 2013, $42.3 million in fiscal 2012, $25.2 million in 2011, and $17 million in 2010. The district operates the restricted O&M fund as a capital projects fund; the restricted O&M fund reported a fund balance of $176 million at the end of fiscal 2012, of which $165 million will be used for capital projects described in CCC's capital improvement plan, according to management.

Liquidity is strong with $140 million of cash and cash equivalents held in all funds at the end of fiscal 2012, which constituted 33% of total operating expenses less depreciation. Of that amount, $67.3 million was held in the working cash fund, which represented 27% of combined education and unrestricted O&M fund expenses.

For 2013, management projects that CCC will report a $18.5 million surplus before $23 million of transfers for the combined educational and unrestricted O&M funds. The district structured its 2014 budget with break-even educational and unrestricted O&M fund operations. The budget was amended to spend additional state grant money that materialized when the state budget was finalized.

The district's financial management practices are considered "strong" under Standard & Poor's Financial Management Assessment. This indicates that the district's practices are strong, well embedded, and likely sustainable. Management uses zero-based budgeting at the department level and five-year financial projections to help plan the district's budgets, and provides quarterly budget reports to the board. Although the district does not have a formal minimum fund balance policy, management's target is to maintain the unrestricted educational fund balance at a minimum of 3% of operational expenditures for the prior year, and at least $65 million of working cash.

The series 2013 bonds constitute CCC's only GO debt. The overall debt burden including overlapping debt is moderately high at $6,540 per capita and 9.1% of estimated market value. Given the expected useful lifespans of the projects to be financed, the series 2013 bonds will be issued with maturities extending up to 35 years. Projected debt service carrying charge for the bonds if they are issued with a 35- year final maturity is 3.5% of fiscal 2012 total expenses, which is low in our view. CCC does not have additional debt plans at this time.

Employees are covered by the state-sponsored State University Retirement System (SURS). Almost all contributions to SURS are currently paid by the state. Due to SURS' low funded level, CCC along with other community colleges and educational groups in the state support a plan to legislate changes to the SURS funding formula so that employers and employees pick up a large part of funding for the system over a phase-in period. It is uncertain whether or when the state will pass on any reform legislation for SURS.

CCC pays about 90% of the cost of health care and life insurance for retirees on a pay-as-you-go basis. CCC paid $7.5 million for retiree health care in fiscal 2012, or only 1.7% of total operating expenses. The unfunded actuarial accrued liability for other postemployment benefits as of June 30, 2012, was $119.3 million.

Outlook

The stable outlook reflects our view that CCC will maintain at least break-even operations before transfers in most years, and strong operational reserves, including working cash. The outlook is supported by the district's control over its tuition rate, and efforts to increase credit enrollment. CCC's participation in the deep and diverse Chicago metropolitan economy also provides rating stability.

Related Criteria And Research

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Special Tax Bonds, June 13, 2007

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