

San Diego Community College District leads muni-debt offerings with \$350M sale

By **SARAH FRIER**, Bloomberg News
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San Diego's community college district, which has California's second-largest community-college bond program, is leading this week's municipal-debt offerings with \$350 million for construction and renovation as the state cuts funding for the system.

The sale, rated AA+, the second-highest by Standard & Poor's, will enable the district to spend on projects that would otherwise have been curtailed by budget cuts, said Dave Umstot, the district's vice chancellor for facilities management. Debt financing now almost matches spending from the general fund for the fiscal year, he said.

"Our budget situation is pretty dire, and because of that we're not able to serve as many students as we'd like," Umstot said. "But we certainly are growing capacity to serve future student growth."

The district is part of a 2.7 million-student community-college system in California, which had state aid reduced 10 percent from last year to \$3.5 billion, said Nick Schweizer, California's education budget manager. Gov. Jerry Brown on June 30 signed into law an \$85.9 billion budget that cut state funding to California community colleges. The Los Angeles Community College District has the largest bond program, Umstot said.

With the San Diego metropolitan area's May unemployment at 9.6 percent, above the 9.1 percent national average, people are drawn to take classes to enhance their skills in a competitive job market. Demand for community-college courses increases as a reduction in state funding makes it harder for the system to provide as much, Standard & Poor's said in a report.

Master plan

The district will have 20 new buildings in construction and 15 in renovation by year-end, the largest of which is a \$117 million math and science building at San Diego Mesa College, Umstot said. The spending is part of a master plan approved by voters in 2002 and 2006, he said.

The general-obligation offering is the biggest of a total \$1.7 billion in sales this week, according to data compiled by Bloomberg. S&P's rating is based on the district cutting expenses, maintaining adequate reserves and having a tax base of about 1 million people.

Strong credit

"It's one of the strongest community college district credits in the state," Chris Morgan, a San Francisco-based S&P analyst, said in a telephone interview. "They are in a quite good position to deal with whatever the state throws their way."

The spread on the district's AA+ general-obligation bonds sold in 2009 and due August 2018 widened to about 0.84 percentage point above a 7-year top-rated BVAL benchmark June 21 from 0.66 point Feb. 14, Bloomberg data show.

RBC Capital Markets is leading underwriters on this week's sale. Kait Conetta, an RBC spokeswoman, didn't return calls for comment.

San Diego, the eighth-largest city in the United States with 1.3 million people, last month approved about a \$1.1 billion general-fund budget for the fiscal year that began July 1, closing a \$73 million deficit in part by eliminating 34 city jobs and a 5 percent cut in supplies and consulting services in all departments, said Jeff Sturak, deputy director of the city's Office of the Independent Budget Analyst.

California, which has the lowest credit rating of any state from S&P and is typically the largest issuer of municipal debt in the United States, hasn't sold any general-obligation bonds in 2011 as legislators debated solutions for a \$26 billion deficit. Since Brown's compromise budget, the state will sell \$1 billion in University of California bonds this month, according to treasurer Bill Lockyer's website.