CREDIT OPINION
31 March 2025

Send Your Feedback

Contacts

James Kelley +1.415.274.1716
Analyst
james.kelley@moodys.com

Eric Hoffmann +1.415.274.1702
Associate Managing Director
eric.hoffmann@moodys.com

CLIENT SERVICES

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

Palomar Community College District, CA

Update to credit analysis

Summary

Palomar CCD, CA (Aa2 GOULT rating) benefits from a large and diverse tax base that reached an assessed value (AV) of $170.5 billion as of fiscal 2025 and is likely to continue growing. The district's solid financial position is supported by sound reserves, as demonstrated by an available fund balance ratio of 34.8% across operating funds as of fiscal 2024. This is above its historical norm and we expect the district to spend down reserves closer to its 16.7% general fund balance policy over the next few years. Full-time equivalent students (FTES) remains well below pre-pandemic levels, a credit challenge. The district's credit profile also considers its elevated long-term liabilities resulting from a high debt burden.

Credit strengths

» Very large and growing tax base

» Strong resident incomes and property wealth

» Improved financial position with sound reserves

Credit challenges

» Enrollment remains below pre-pandemic levels

» Elevated long-term liabilities

Rating outlook

The stable outlook reflects the expectation that the district will continue to maintain a solid financial position, supported by a large, diverse tax base and prudent fiscal practices.

Factors that could lead to an upgrade

» Maintenance of currently strong reserves

» Consistent enrollment growth

Factors that could lead to a downgrade

» Significant draws on fund balance below the district's 16.7% general fund policy

» Growth of combined debt and pension burdens above 5x operating revenue

Key indicators

Exhibit 1
Palomar Community College District, CA

	2020	2021	2022	2023	2024
Economy/Tax Base					
Total Full Value ($000)	$128,775,412	$134,997,891	$139,899,314	$150,793,592	$161,827,060
Population	790,771	—	—	—	—
Full Value Per Capita ($)	$162,848	$170,717	$176,915	$190,692	$204,644
Median Family Income (% of US Median)	128.3%	—	—	—	—
Finances					
Operating Revenue ($000)	$218,429	$212,241	$242,968	$253,110	$240,960
Fund Balance ($000)	$41,449	$41,450	$66,616	$75,856	$83,838
Cash Balance ($000)	$52,523	$68,139	$102,739	$121,380	$120,342
Fund Balance as a % of Revenue	19.0%	19.5%	27.4%	30.0%	34.8%
Cash Balance as a % of Revenue	24.0%	32.1%	42.3%	48.0%	49.9%
Debt/Pensions					
Net Direct Debt ($000)	$784,427	$723,235	$736,012	$730,560	$727,134
3-Year Average of Moody's ANPL ($000)	$396,572	$478,706	$515,415	$476,724	$376,775
Net Direct Debt / Full Value (%)	0.6%	0.5%	0.5%	0.5%	0.4%
Net Direct Debt / Operating Revenues (x)	3.6x	3.4x	3.0x	2.9x	3.0x
Moody's — ANPL (3-yr average) to Full Value (%)	0.3%	0.4%	0.4%	0.3%	0.2%
Moody's — ANPL (3-yr average) to Revenues (x)	1.8x	2.3x	2.1x	1.9x	1.6x

Sources: US Census Bureau, US Bureau of Economic Analysis, Palomar CCD's financial statements and Moody's Ratings

Profile

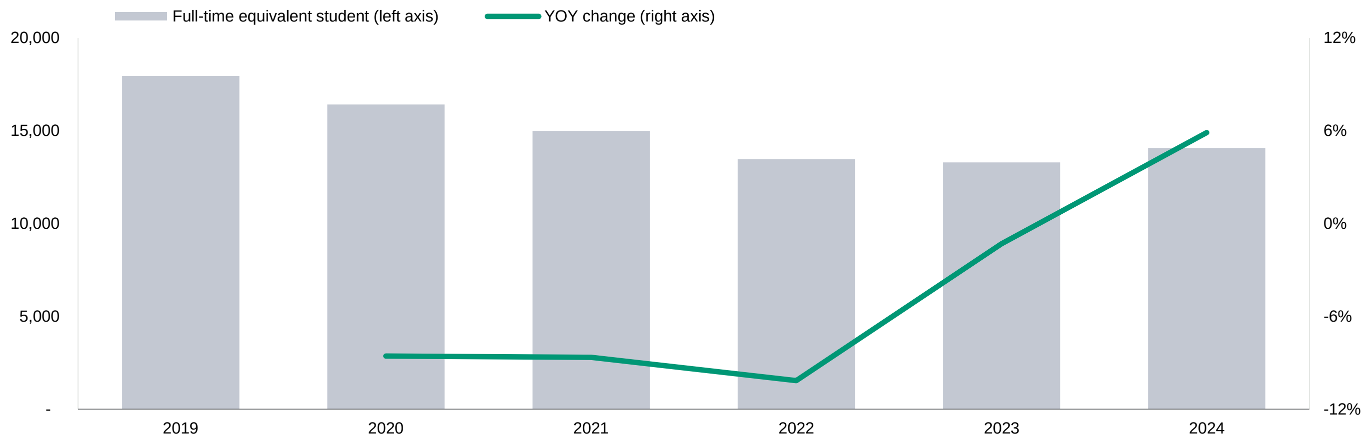
Palomar CCD is located in northern San Diego County and serves several communities, including the cities of San Marcos, Vista, Escondido, Carlsbad, Oceanside and San Diego, and several non-incorporated areas of the county. The district is the largest community college district in the county with a service area of 2,555 square miles. The district operates its main campus in San Marcos, with additional education centers in Escondido, Rancho Bernardo and Fallbrook. Additional outreach sites serve Camp Pendleton, Ramona and Pauma Valley. The district is estimating FTES of about 15,000 in fiscal 2025.

Detailed credit considerations

Economy and tax base: large and diverse San Diego tax base remains strong

The district's diverse and growing economy will remain a significant credit strength. AV reached $170.5 billion in fiscal 2025 and has increased at an average annual rate of 5.5% over the last 10 years. The district has seen substantial residential and commercial development in recent years as it benefits from the availability of land and ample room for further growth in the northern part of the county. Moderate growth is expected to continue, driven by further population growth and resulting housing demand. Not surprisingly for a district of its size and location in the greater San Diego metro area, there is no significant taxpayer concentration. Top taxpayers represent a diverse mix of industrial, residential and commercial properties.

Exhibit 2
FTES is improving following pandemic-driven declines

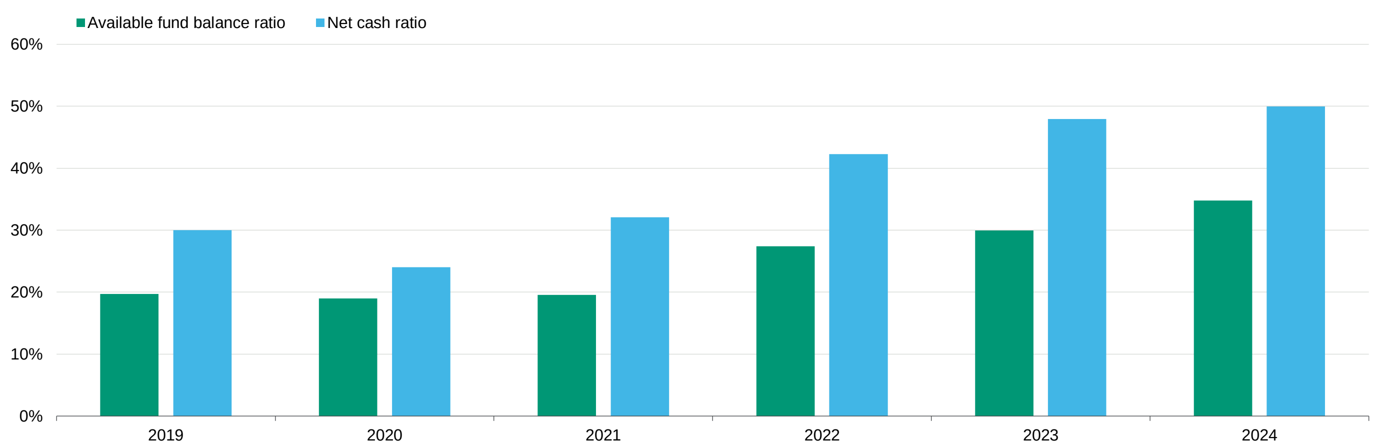


Source: Moody's Ratings

Financial operations and reserves: strong finances expected to remain sound

The district's financial position has improved with operating surpluses since fiscal 2021 and will likely remain sound, but management intends to spend down reserves closer to its general fund policy of 16.7% in the coming years. In fiscal 2025 management budgeted for a $3.2 million deficit and is tracking closely with that projection to date. Favorably, salary increases for staff are manageable for fiscal 2025, a notable development given the previous management's team history of unsustainable compensation increases. Future revenue growth will depend largely on enrollment, which has improved year-over-year in fiscal 2024 and 2025 but remains well below pre-pandemic levels.

Exhibit 3
Reserves are expected to remain stable at lower levels going forward



Source: Moody's Ratings; issuer financial statements

Liquidity

The district closed fiscal 2024 with a net cash position of $120 million across its general and debt service funds, equal to a strong 50% of revenue.

Debt and pensions: elevated debt burden; moderate pension and OPEB liabilities

The district's debt burden is elevated at 3.0 times operating revenue and will likely remain high. However, we expect this figure to moderate over time given the district's lack of remaining debt authorization or immediate capital needs requiring new debt issuance.

Debt structure

The district's debt is fixed rate with moderately ascending debt service and final maturity in fiscal 2047.

Pensions and OPEB

The district participates in CalPERS and CalSTRS multi-employer defined benefit pension plans and its pension liabilities are moderate. As of fiscal 2024 the district's three-year adjusted net pension liability (ANPL) represented a low 0.2% of AV or a moderate 1.6 times operating revenue.

The district's adjusted net liability for other post-employment benefits (OPEB) is similarly moderate at 0.3 times fiscal 2024 operating revenue.

ESG considerations

Environmental

Environmental risks do not represent a credit driver at this time, though the district is located in an area identified as having a high risk of water stress. This long-standing risk is addressed predominantly at the federal, state and regional level by water management organizations and water utilities. The district benefits from extensive planning and investment made by San Diego County with regards to wildfire prevention and response coordination.

Social

Key social considerations include the district's enrollment, which declined significantly through the pandemic but is now growing once again. Additional considerations include the district's strong resident incomes and property wealth. The unemployment rate in San Diego County is comparable to the national rate.

Governance

The district's relatively new management team has made strides in improving governance, a credit positive development reflected in its maintenance of higher reserve levels.

California CCDs have an Institutional Framework score of “A,” or moderate compared to the nation. 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. Unpredictable expenditure fluctuations tend to be moderate, between 5-10% annually.

REPORT NUMBER 1443151

Contacts

James Kelley +1.415.274.1716
Analyst
james.kelley@moodys.com

Eric Hoffmann +1.415.274.1702
Associate Managing Director
eric.hoffmann@moodys.com

CLIENT SERVICES

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