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Ratings

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Summary:

Marin Community College District, California; General Obligation

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Summary:

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Credit Profile		
US$55.06 mil 2017 GO rfdg bnds ser 2017 due 08/01/2034		
Long Term Rating	AAA/Stable	New
Marin Community College District GO bnds (Election of 2004)		
Long Term Rating	AAA/Stable	Upgraded
Marin Community College District GO rfdg bnds		
Long Term Rating	AAA/Stable	Upgraded

Rationale

S&P Global Ratings raised its long-term rating to 'AAA' from 'AA+' on Marin Community College District (CCD), Calif.'s existing general obligation (GO) bonds. At the same time, S&P Global Ratings assigned its 'AAA' long-term rating to the district's 2017 GO refunding bonds. The outlook is stable.

The rating upgrade reflects our views of the district's ongoing strong general fund performance, increase in available general fund reserves, and adherence to its recently adopted reserve policy.

Unlimited ad valorem taxes levied on taxable property within the district secure the GO bonds. The Marin County board of supervisors has the power to levy the taxes without limitation for the payment of principal and interest of the bonds. The proceeds from the sale of the 2017 refunding bonds will be utilized to refinance portions of the district's outstanding election of 2004 series C GO bonds.

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," published Nov. 19, 2013, on RatingsDirect, U.S. local governments are considered to have moderate sensitivity to country risk. The district's locally derived revenues are the source of security for the bonds, and the institutional framework in the U.S. is predictable with significant U.S. local government autonomy. In a potential sovereign default scenario, U.S. local governments would maintain financial flexibility through the ability to continue collecting locally derived revenues and U.S. local governments have independent treasury management.

The rating also reflects our view of the strength of the district's:

- Broad and very diverse tax base located in the San Francisco Bay Area;
- Very strong incomes and extremely strong property wealth indicators;
- Inherent operational flexibility provided by the ability to reduce class sections and curriculum if required (an operational feature not shared by K-12 districts); and

- Advantageous "basic-aid," or "community-supported," funding status, which provides greater revenue than would have been received under the state formula and reduces exposure to potential state funding fluctuations.

Economy

Marin CCD serves a population of approximately 262,274, and its service area includes all of Marin County with the exception of a few small, northern portions of the county. Established in 1926, Marin CCD covers almost all of Marin County and consists of two campuses, one located in Kentfield and the other in Novato. The district's Kentfield Campus, located on 77 acres in central Marin, represents about 80% of the district's current enrollment and is the more established center of the district. The district's Indian Valley Campus, located on 333 acres in Novato, has been growing at a faster rate, and we understand it has ample room for future expansion.

The district's tax base has been strong, even during the Great Recession, with assessed value (AV) declining only once in recent years, by 1.3% in fiscal 2011. Since then, the district's AV has experienced exceptional growth in each year for the past seven years, most recently increasing by 5.3% in fiscal 2018 to $74.5 billion. The tax base is, in our view, very diverse, with the 10 largest taxpayers making up only 2.2% of secured AV in fiscal 2018. Market value per capita remains extremely strong, in our opinion, at $283,870. With the district's ties to the greater San Francisco Bay Area, residents' income levels in Marin County are very strong, in our view, with median household and per capita effective buying incomes at 172% and 201% of the national levels, respectively. The county's unemployment rate was 2.9% in September 2017, which was well below the state and national unemployment rates.

Finances

The district has qualified as a basic-aid district since fiscal 2002, and as a result, it does not depend on the state's per-student funding mechanism and benefits from higher per-pupil funding when full-time-equivalent (FTE) students decrease. The district's financial condition is buoyed by its basic-aid, or community-supported, status, whereby the local tax base generates funding in excess of the state apportionment formula funds that districts in California are allowed to retain. Management indicates that the district is deep into basic aid status and receives roughly $26.7 million (36% of general fund revenues) more than it would under the state's funding formula based on FTE enrollment. As a result, the district does not anticipate falling out of basic aid in the foreseeable future in light of its growing AV and enrollment figures. Furthermore, the district receives a variety of financial grants and contributions, including the College of Marin Foundation, which has accumulated approximately $3.6 million.

While the district is basic-aid status, the district's FTEs have gradually declined over the last several years. The district's FTEs totaled 3,715 in fiscal 2017, a 2.2% decrease from the prior year. Management has attributed the recent declines in part to mandated fee increases, changes to financial aid, and other economic factors. We understand that the district is taking the initiative with multiple programs and partnerships to increase FTEs in the next three years. Management indicates that certain grants and special programs will aid the effort to attract local high school students and increase enrollment gradually. The district is estimating 1% enrollment growth in its budgetary projections.

The district's financial performance has remained consistently strong, with general fund surpluses in each of the district's last three audited years. Since fiscal 2006, the district's fiscal year-end unreserved general fund balances have remained between 7% and 13% of expenditures (net of transfers). Most recently, the district closed fiscal 2016 with a slight general fund surplus of $365,000 or 0.6% of total general fund expenditures, and an ending unrestricted general fund balance of 11.6% of expenditures, a level we consider strong. For fiscal 2017, the district's estimated actuals show a $3.3 million general fund surplus, or 5.3% of expenditures, resulting in an available general fund balance of 16.7% of general fund expenditures, which we consider very strong. Management attributes the surplus to various factors including reduced benefit payments, greater-than-anticipated AV growth, and the use of bond proceeds to fund the district's capital needs.

As a result of the district's fiscal 2017 general fund performance, it was able to meet its formal 12% to 18% reserve policy, which was revised and adopted in 2016. The district's fiscal 2018 budget, which assumes salary increases, show a slight, 0.3% surplus of general fund expenditures, resulting in an available general fund balance of $10.6 million, or 14.6% of expenditures. District officials do not anticipate any near-term plans to spend down its unrestricted general fund balance and expects to maintain reserves within its policy. The district has a history of conservative budgeting, as evidenced by the district's positive variance on budgeted-to-actual figures for its ending fund balance over the last few years. The district receives the majority of its general fund revenues from local sources, with approximately 85.2% of its fiscal 2017 general fund revenue from local property taxes.

Financial management assessment (FMA)

We view the district's financial management practices as good under our FMA methodology. An FMA of good indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Our assessment is based on the district's:

- Utilization of historical data for budgeting assumptions, as well as outside sources, including the county assessor's office (important given its basic-aid status);
- Monthly budgetary updates to the board, including details surrounding transfer items;
- Preparation of a long-term financial plan that projects the current year plus four years out;
- Adherence to state investment management requirements, including participation in the county's investment pool;
- Formalized comprehensive master facilities plan, which extends through 2021 and will be updated periodically;
- Adoption of a formal debt management policy in compliance with Senate Bill (SB) 1029 (for more information, see "California's Passage Of SB-1029's Formal Debt Management Policy Requirement Could Improve Our View Of Credit Quality," published Nov. 22, 2016, on RatingsDirect); and
- Recently revised formal reserve policy of 12% to 18% of expenditures, which the district met in fiscal 2017.

Debt

Accounting for the refunding bonds, we view the district's net overall debt burden as moderate on a per capita basis, at roughly $5,960, but low as a percentage of market value, at 2.1%. In fiscal 2016, debt service carrying charges were 14.1% of total governmental funds expenditures, excluding capital outlay. In our view, amortization is slow, with the district scheduled to retire 32% of its outstanding principal over the next 10 years. We understand from management that the district could issue up to $8 million in new-money bonds within the next two years; however, we believe this issuance will not have a material impact on the district's overall debt levels. Finally, the district does not have any outstanding alternative financings, such as direct purchase agreements or privately placed debt.

Pension and other postemployment benefits (OPEBs)

The district participates in both the State of California Public Employees' Retirement System and the State of California Teachers' Retirement System, and in fiscal 2016 contributed $3.9 million, or 4.7% of total expenditures. The district contributes to its OPEB obligation based on projected pay-as-you-go financing requirements. In 2016, the district contributed $1.5 million, or about 5.7x its annual required contribution, which represents about 1.8% of total expenditures. We understand that the district's OPEB is currently fully funded, and the district maintains an irrevocable OPEB trust with roughly $4.6 million set aside.

Outlook

The stable outlook reflects our expectation that the district's strong local economy and affluent tax base will continue to provide ample revenue flexibility to support its basic-aid status, and that management will continue to monitor its budget to adhere to its reserve policy. We could lower the rating if the district establishes a negative trend in operations, resulting in a drawdown on available general fund balances to a level we consider adequate or below the district's reserve policy. We do not anticipate changing the rating within our two-year outlook horizon.

Ratings Detail (As Of November 9, 2017)		
Marin Community College District GO		
Long Term Rating	AAA/Stable	Upgraded
Unenhanced Rating	NR(SPUR)	Current

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 the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.