S&P Global Ratings

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Summary:

Marin Community College District, California; General Obligation

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Marin Community College District, California; General Obligation

Credit Profile		
US$60.0 mil GO bnds (Election Of 2016) ser A due 08/01/2041		
Long Term Rating	AA+/Stable	New
US$37.5 mil GO bnds (Election Of 2016) ser A-1 due 08/01/2029		
Long Term Rating	AA+/Stable	New

Rationale

S&P Global Ratings assigned its 'AA+' long-term rating to Marin Community College District (CCD), Calif.'s general obligation (GO) bonds, series A and series A-1. At the same time, S&P Global Ratings affirmed its 'AA+' rating on the district's outstanding GO bonds. The outlook is stable.

The rating reflects our view of the district's:

- Broad and very diverse tax base located in the San Francisco Bay Area, coupled with very strong income and extremely strong 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" funding status, which provides greater revenue than would have been received under the state formula and reduces exposure to potential state funding fluctuations.

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 bonds will be used to finance various capital projects within the district's two campuses.

Established in 1926, the 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 serves a population of approximately 250,000, and its service area includes all of Marin County with the exception of a few small, northern portions of the county. 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 grown each year for the past six years, most recently increasing by 7% in fiscal 2017 to $70.7 billion. The tax base is, in our view, very diverse, with the 10 largest taxpayers making up only 2.1% of secured AV in fiscal

2017. Market value per capita is extremely strong, in our opinion, at $282,776. Income levels in Marin County are very strong, in our view, with median household and per capita effective buying incomes at 164% and 194% of the national levels, respectively. The county's unemployment rate was 3.5% in August 2016, well below the state and national unemployment rates.

After several years of significant increases, the district's full-time-equivalent (FTE) enrollment peaked in 2010 at 5,460 FTEs. Since that time, the district's FTEs have declined each year by an average of 5.8%, resulting in an FTE count of 3,799 in fiscal 2016. Management has attributed the decline in part to mandated fee increases, changes to financial aid, and other economic factors. We understand that the district is taking the initiative to increase FTEs in the next three years. Management indicates that certain grants and special programs will aid the effort to increase enrollment to fiscal 2012 levels of approximately 5,000 FTEs.

The district has qualified as a basic-aid district since fiscal 2002, and as result, it does not depend on the state's per-student funding mechanism and benefits from higher per-pupil funding when FTE students decrease. The district's financial condition is buoyed by its basic-aid, or self-supporting, 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 and receives roughly $27.7 million (39% of general fund revenues) more than under the state's funding formula based on FTEs. 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 $4.6 million.

The district's financial performance has remained consistently strong during the past five years, and its fiscal year-end unreserved general fund balances have remained between 7% and 13% of expenditures (net of transfers) since fiscal 2006. Most recently, the district closed fiscal 2015 with $6.7 million, or 12.3% of total general fund expenditures (including both restricted and unrestricted). For fiscal 2016, the district estimates near-balanced operations, with a slight 0.5% surplus of general fund expenditures, resulting in an available general fund balance of 11.6% of general fund expenditures, which we still consider strong. Finally, the district's fiscal 2017 budget, which incorporates salary increases, show a slight 1.1% deficit of general fund expenditures, resulting in an available general fund balance of 9.1% of general fund expenditures. We understand that management expects to end fiscal 2017 with more favorable results due to its history of conservative budgeting, as evident by the district's positive variance on budgeted-to-actual figures for its ending fund balance over the last few years. The district recently formally committed to maintain its available reserve level between 12% and 18% of general fund expenditures by fiscal 2022 after a phase-in period from 8.0% currently. The district receives the majority of its general fund revenues from local sources, with approximately 90% of its fiscal 2015 general fund revenue from local property taxes.

The district's management practices are considered good under our financial management assessment (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. The district uses historical data for budgeting assumptions, as well as outside sources, including the county assessor's office (important given its basic-aid status). The district updates the board on actions and transfers quarterly. The district prepares a long-term financial plan that projects the current year plus three years out. The district does not have a formal debt management policy. The district has a written reserve policy that requires a minimum of 8.0% of expenditures for fiscal 2017, with a 0.5% escalator for each subsequent year until either the reserve meets a 12% threshold or fiscal 2022. The policy was established to account for cash flow needs, and the board will review the escalator annually. The district's prior reserve policy was 7.6% of general fund expenditures.

The district's net overall debt burden is, in our view, moderate on a per capita basis, at roughly $5,972, and low as a percentage of market value, at 2.1%. The district participates in both the State of California Public Employees' Retirement System and the State of California Teachers' Retirement System, and in fiscal 2015 contributed 7.2% of total expenses. The district contributes to its other postemployment benefit (OPEB) obligation based on projected pay-as-you-go financing requirements. In 2015, the district contributed 1.8% of total expenses. We understand that the district's OPEB is currently fully funded, and the district maintains an irrevocable OPEB trust with roughly $3.7 million set aside. We understand that the district is planning to issue the next series of its 2016 election (approximately $167.5 million remaining authorization) in about three years. The district currently has no outstanding direct purchase or privately placed debt.

Outlook

The stable outlook reflects our view of the district's location in a stable, strong, and very diverse tax and economic base that is fully integrated into the larger Bay Area economy. The outlook reflects our expectation that the district's tax base will remain stable or improve over the next two years. The outlook also reflects our opinion that basic-aid districts are generally more financially insulated from fluctuations in state funding for community college districts. We do not expect to change the rating over the next two years.

Upside scenario

Should the district's local economy remain very strong, the district remain in basic-aid status, and the district continue to achieve operational surpluses while reaching and maintaining reserves within its ultimate target available fund balance range, we could raise the rating.

Downside scenario

Conversely, should the district establish 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 current reserve minimum, we could lower the rating.

Ratings Detail (As Of November 10, 2016)		
Marin Community College District GO bnds (Election of 2004)		
Long Term Rating	AA+/Stable	Affirmed
Marin Community College District GO rfdg bnds		
Long Term Rating	AA+/Stable	Affirmed
Marin Community College District GO		
Long Term Rating	AA+/Stable	Affirmed
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.globalcreditportal.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.