

RatingsDirect®

Summary:

Marin Community College District, California; General Obligation

Primary Credit Analyst:

Li Yang, San Francisco (1) 415-371-5024; li.yang@standardandpoors.com

Secondary Contact:

Kate R Burroughs, San Francisco (1) 415-371-5081; kathleen.burroughs@standardandpoors.com

Table Of Contents

Rationale

Outlook

Related Criteria And Research

Summary:

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Credit Profile

US\$41.26 mil GO rfdg bnnds ser B due 08/01/2035

<i>Long Term Rating</i>	AA+/Stable	New
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Marin Community College District GO

<i>Long Term Rating</i>	AA+/Stable	Affirmed
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<i>Unenhanced Rating</i>	NR(SPUR)	Current
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Rationale

Standard & Poor's Ratings Services assigned its 'AA+' long-term rating to Marin Community College District (CCD), Calif.'s general obligation (GO) refunding bonds, series 2016. Standard & Poor's also affirmed its 'AA+' rating on the district's outstanding GO bonds. The outlook is stable.

The rating reflect our view of the district's:

- Broad and 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 reduced exposure to potential state funding fluctuations.

Unlimited ad valorem taxes levied on taxable property within the district secure the GO bonds. We understand that proceeds from the refunding bonds will be used to advance refund portions of the district's series B, election of 2004 GO bonds.

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 255,846, 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 through 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 five years, most recently increasing by 7% in fiscal 2016 to \$66.5 billion. The tax base is, in our view, very diverse, with the 10 largest taxpayers making up only 2.0% of total AV. Market value

per capita is extremely strong, in our opinion, at more than \$259,773. Income levels in Marin County are very strong, in our view, with median household and per capita effective buying incomes at 141% and 177% of the national levels, respectively. The county's unemployment rate was 3.3% in November 2015, 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 5.7%, resulting in an FTE count of 3,884 in fiscal 2015. Management has attributed the decline in part to mandated fee increases, a new application of the pay-as-you-go system, and its policy of allowing students to take the same class only four times. The district stated that many students, more than 23%, already have a bachelor's degree or higher and have historically repeated certain classes that are not necessarily contributing to a degree. Management projects fiscal 2016 enrollment to end lower, at 3,650 FTE students, although management believes that enrollment is likely to trend upwards going forward, based on a new program targeted at high school students.

The district has qualified as a basic-aid district since fiscal 2002, and as a result the district 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 \$24 million (42% 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 its historical trend of declining enrollment.

The district's financial performance has remained consistently strong during the past five years, with its fiscal year unreserved general fund balances staying between 7% and 13% of expenditures (net of transfers) since fiscal 2006 and ending at \$6.7 million, or 12.3% of total general fund expenditures (including both restricted and unrestricted), in fiscal 2015. In fiscal 2016, the district estimates roughly a drawdown to \$4.7 million, or 7.2% of total general fund expenditures, which we still consider strong. We understand the projected drawdown in fund balance is partially related to one-time increases in salaries and benefits for the district's staff, although the district expects to be able to build its fund balance levels back up to over 11% going forward. The district receives the majority of its general fund revenues from local sources, with 90% of its fiscal 2015 general fund revenue from local property taxes.

The district's management practices are considered "good" under Standard & Poor's 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. Key elements include the district's three-year rolling capital improvement planning, which is updated annually and is a part of its 10-year master plan. 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 monthly. The district does not have a formal debt management policy, but it maintains a written reserve policy that requires a minimum of 7.6% of expenditures with a target of 17.0% of expenditures.

The district's net overall debt burden is, in our view, moderate on a per capita basis, at roughly \$5,549, 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. The district also has an irrevocable OPEB trust set up with roughly \$2.8 million set aside.

Outlook

The stable outlook reflects our view of the district's location in a stable, strong, and 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 at a minimum or will continue its positive growth trend 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, and should the district remain in basic-aid status and increase its available general fund reserves to very strong levels consistently over the next two years, 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 reserve policy, we could lower the rating.

Related Criteria And Research

Related Criteria

- USPF Criteria: GO Debt, Oct. 12, 2006
- USPF Criteria: Key General Obligation Ratio Credit Ranges – Analysis Vs. Reality, April 2, 2008
- USPF Criteria: Financial Management Assessment, June 27, 2006
- USPF Criteria: Debt Statement Analysis, Aug. 22, 2006
- USPF Criteria: Assigning Issue Credit Ratings Of Operating Entities, May 20, 2015
- Criteria: Use of CreditWatch And Outlooks, Sept. 14, 2009

Ratings Detail (As Of February 12, 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

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