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April 11, 2012

Summary:
San Mateo County Community College District, California; Appropriations; General Obligation

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Credit Profile		
US$69.895 mil GO rfdg bnds ser 2012 due 09/01/2026		
Long Term Rating	AA+/Stable	New
San Mateo Cnty Comnty Coll Dist 2004 certs of part bnds dtd 05/27/2004 due 10/01/2006-2017 2020 2025 2029 2038		
Unenhanced Rating	AA(SPUR)/Stable	Upgraded
San Mateo Cnty Comnty Coll Dist GO		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded

Rationale

Standard & Poor's Ratings Services raised its long-term and underlying rating to 'AA+' from 'AA' on San Mateo County Community College District, Calif.'s existing general obligation (GO) bonds based on our view of the district's newly acquired basic-aid status and its historical maintenance of very strong reserve levels. Additionally, Standard & Poor's raised its long-term rating and SPUR to 'AA' from 'AA-' on the district's outstanding certificates of participation. Standard & Poor's also assigned its 'AA+' long-term rating to the district's 2012 GO refunding bonds. The outlook on all ratings is stable.

The rating reflects our opinion of the district's:

- Sizable economic base that is central to the very large and diverse San Francisco Bay region, coupled with very-strong-to-extremely-strong income and wealth indicators;
- Continued demand for educational services as well as the flexibility offered to community college districts to reduce course offerings if needed; and
- Good financial policies and practices.

Unlimited ad valorem taxes levied on taxable property within the district secure the bonds. The board of supervisors of the county has the power and obligation to levy these taxes at the request of the district for the bonds' repayment. The county is required to deposit such taxes, when collected, into the bonds' debt service fund.

The district encompasses 726,000 residents in San Mateo County, which remains very tied to the greater San Francisco Bay Area regional economy as well as the heart of Silicon Valley. Income and wealth indicators for this region are very strong in our view with a median household effective buying income (EBI) of roughly 161% of the national level. The district's tax base has also demonstrated both strength in terms of wealth per capita ratios and resilience from the recent housing market downturn, as demonstrated by only a minor 1.4% decrease in assessed value (AV) in fiscal 2011. Most recently, the district's AV reflected an increase of 1.1% in fiscal 2012, bringing total AV up to roughly $143 billion or approximately $197,600 AV per capita, which we consider extremely strong. Furthermore, management indicates they expect the city's tax base to increase going forward, based on their view of continued residential and commercial construction.

Similar to other community college systems in the state, the three-campus district has seen an increase in its full-time equivalent (FTE) population during the past few years, even as it has cut back on course offerings in response to historical revenue pressure under the state per-pupil funding system beginning in fiscal 2009. However, we understand management has reduced FTE levels to cut costs due to state funding cuts during the past two fiscal years. Management reports its preliminary FTE enrollment for 2012 reflects a decrease by almost 8%, down to roughly 19,933 FTEs.

We understand the district qualified to become a basic-aid school district beginning in fiscal 2012, which means the district's operating revenues are no longer dependent on the state's per-student funding mechanism, which we believe provides increased financial strength and stability for the district. Basic-aid status occurs when the local tax base generates funding in excess of the state apportionment formula -- funds that districts in California are allowed to retain. Management indicates they plan on remaining in basic aid for the foreseeable future, given that the district's tax base is projected to increase and state funding is projected to decline in the near-term.

Available general fund balances have fluctuated in recent years, partly due to changing FTE levels, and they reached a three-year high of 16.5% of total general fund expenditures or $20.6 million, which we consider strong, at the end of fiscal 2011. Management has largely avoided staff layoffs during the past three fiscal years. Unlike K-12 basic-aid school districts, basic-aid community college districts are not subject to "fair share" of cuts to the state, which will stabilize and strengthen the district's financial position going forward. Based on unaudited figures for fiscal 2012, the district anticipates a minor deficit, with reserves falling to roughly $17.3 million or 13.3% of total general fund expenditures, which we consider very strong. Additionally, the district also benefits from a newly passed parcel tax in 2011, which generates roughly $7 million annually for the district's general fund.

We consider the district's financial management practices "good" under our Financial Management Assessment (FMA) methodology, and we believe that monthly reporting of budget-to-actuals performance as part of these practices will help the district quickly respond to changes in the state funding environment, should they occur.

The district's overall debt burden on its residents is, in our view, a moderate $4,480 per capita but a low 2.3% of AV. The district participates in multi-employer, defined-benefit pension plans through the State Teachers' Retirement System and the Public Employees' Retirement System. The district contributed 100% or roughly $6.5 million of its annual required contribution (ARC) to the pension system. The district paid its other post-employment benefit contribution of $17.1 million or roughly 222% of its annual required contribution. The district's unfunded actuarial accrued liability stood at $103.3 million as of fiscal 2011.

Outlook

The stable outlook reflects our view that the district will benefit from its basic-aid status and that its operating revenue stream will stabilize and increase going forward. Additionally, the outlook reflects our expectation that the district will maintain very strong reserve levels without needing to substantially cut spending during the next two fiscal years. However, should the district lose its basic-aid status either through significantly increased state funding or if the district's tax base experiences significant declines during the next two years, we could lower the rating.

Related Criteria And Research

USPF Criteria: GO Debt, Oct. 12, 2006

Ratings Detail (As Of April 11, 2012)		
San Mateo Cnty Comnty Coll Dist GO bnds		
Long Term Rating	AA+/Stable	Upgraded
San Mateo Cnty Comnty Coll Dist GO bnds (Election Of 2001) ser 2005B dtd 02/23/2005 due 09/01/2006-2020 2029 & cap apprec bnds due 09/01/2021-2028		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded
San Mateo Comnty Coll Dist GO		
Unenhanced Rating	AA+(SPUR)/Stable	Upgraded
Many issues are enhanced by bond insurance.		

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