

Mendocino-Lake Community College District, CA

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Credit Profile

US\$30. mil GO bnds (Election Of 2006) ser 2007A due 08/31/2031

Long Term Rating	A/Stable	New
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Rationale

Standard & Poor's Ratings Services assigned its 'A' rating to Mendocino-Lake Community College District, Calif.'s GO bonds series 2007A, reflecting:

- Good financial performance and a stable financial position, with the general fund balance typically accounting for 10.0%-13.5% of expenditures;
- Operational flexibility as a community college provided by the ability to reduce class sections and curriculum if required, which is an operational feature not shared by K-12 districts;
- A low overall net debt burden at \$985 per capita and 1.4% of market value, with direct debt representing just \$286 per capita; and
- A large service area with stable enrollment trends.

Limiting factors to the rating include a more limited local economy with low-income indicators and higher unemployment. While the district benefits from a fairly substantial tax base that is expanding and has no concentration among its 10 leading payers, its economy remains concentrated in timber, agriculture, tourism, and a growing wine industry.

The bonds are secured by an unlimited ad valorem property tax pledge. The bonds are being issued to finance the acquisition, construction, modernization, and renovation of certain district facilities, as well as to pay costs of issuance.

Founded in 1972, the district encompasses a large portion of Mendocino County and adjacent Lake County. The district serves a population of 105,000 and includes the cities of Ukiah, Hopland, Willits, and Potter Valley (Mendocino County), along with Lakeport and

Kelseyville (Lake County). Ukiah is approximately 120 miles north of San Francisco along Highway 101. Mendocino County ('A-' issuer credit rating, negative outlook) has 90,445 residents and is the gateway to the Northern California region. Located along the Pacific Coast, it is on the Highway 101 Corridor and within a two-hour drive of the San Francisco Bay area. The county covers approximately 3,500 square miles, including four incorporated cities. Mendocino is the second largest timber-producing county in California. Mendocino wines rank with those of Napa County and Sonoma County. Wine grapes, pears, cattle, and calves are the most important agricultural commodities in the county. The service sector, including tourism, continues to expand, along with county government and several local school districts and regional hospitals that continue to serve as leading employers within the county. Lake County has a population of 64,000 and is home to Clear Lake, the largest natural freshwater lake within California and a popular recreation destination. In addition, it has an established and diversified agricultural base.

The district's property tax base has expanded 38% over the past four years to \$8.2 billion in fiscal 2007, an average \$77,772 per capita. However, median household effective buying income is below average at 68% and 75% (Lake County) and 79% and 87% (Mendocino County) of the state and national averages, respectively. Historically, unemployment in both counties has been above the state and national rates, though it has declined somewhat in recent years to 5.2% (Mendocino County) and 6.8% (Lake County) in 2006. Mendocino and Lake counties have seen an influx of retirees seeking less-expensive real estate. The area has retained its agricultural base, although grapes are replacing pear crops in some areas as wineries have become popular. Four of the 10 leading taxpayers are wineries, and three are in timber and forest products businesses. The tax base, however, is diverse, with no single landholder accounting for more than 1% of the total and the top 10 accounting for just 3.1%.

District finances have been good with operations generating small surpluses. In some years, the district used balances for onetime expenditures, but has maintained general fund balances as a percent of total expenditures ranging from 10.2% to 13.6%. The district ended fiscal 2006 with an operating surplus of \$812,344. That same year, however, the district made some onetime expenditures, drawing down the fund balance by \$486,933, to \$1.87 million—a still comfortable 10% of total expenditures. This compares with 2005, when the district added \$131,923 to the fund balance, bringing it to \$2.26 million. The district is budgeting to end 2007 with a \$2.1 million balance (11% of expenditures). The district benefits from a foundation with \$6.5 million in assets (mainly stocks and land). However, the foundation primarily provides scholarship support (\$100,000 per year), and provides the college with \$40,000 in operating support per year.

Mendocino Lake Community College District's financial management practices are considered good under Standard & Poor's Financial Management Assessment (FMA). An FMA of good indicates that practices exist in most areas, although not all may be formalized or regularly monitored by governance officials. Budget status reports are provided to the board of trustees monthly, and the budget may be amended at any time. Revenues are budgeted conservatively based on historical levels and expenditures are based on expected levels with reserve levels factored in. The district does not do any formal multiyear forecasting, nor is there a debt management policy in place. The district has its own investment policy in addition to adhering to the county investment policies. The district's board has a formal written reserve policy of maintaining at least 5% in unrestricted reserves.

The series A bonds are the first issuance of a \$67.5 million bond authorization approved by voters in November 2006. It is expected that the remainder of the authorization (\$37.5 million series B) will be

issued in 2010. It is estimated that the tax rate for this bond issue will remain at or below \$25.00 per \$100,000 of assessed value. With this issuance, the overall net debt burden is low at \$985 per capita and 1.4% of market value, and direct debt represents just \$286 per capita. Should the district's tax base continue to experience good growth, the debt burden will likely remain low.

The Mendocino Lake Community College currently serves 2,982 full-time equivalent (FTE) students and provides a variety of programs. Over the past four years enrollments have softened as FTEs have fallen by 2.5%: from a high 5,954 in 2002-2003 to 5,811 in 2006-2007. Unlike some other community college districts throughout the state that have experienced enrollment declines, Mendocino-Lake enrollments have been fairly stable. Effective January 2007, enrollment fees for colleges throughout the state will be rolled back to \$20 per unit, which the district feels should help enrollments.

Outlook

The stable outlook reflects the district's local tax base, stable enrollments, and manageable debt burden. It is expected that continued tax base growth and conservative financial management will allow the district to maintain adequate reserve levels while managing its capital program.

Ratings Detail (As Of 01-Mar-2007)

Mendocino-Lake Comnty Coll Dist GO bnds (Election Of 2006) ser 2007A due 08/31/2031

Long Term Rating

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