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Research Update:

Las Gallinas Valley Sanitary District, CA Series 2026A Wastewater Revenue Bonds Assigned 'AAA' Rating

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Overview

- S&P Global Ratings assigned its 'AAA' long-term rating to the Marin Public Financing Authority, Calif.'s series 2026A wastewater revenue bonds, issued on behalf of Las Gallinas Valley Sanitary District.
- At the same time, we affirmed our existing 'AAA' long-term rating on the authority's parity debt.
- The outlook is stable.

Rationale

Security

The district will use the series 2026A bond proceeds to fund construction of a multipurpose laboratory building and a sustainable, flood-resilient Corp Yard & Wildlife Pond parking lot, along with pump station improvements.

We view the bond provisions as credit-neutral. The bonds are payable from installment payments secured by the net revenue of the district's wastewater system, and the district's obligation to make the installment payments from the pledged revenue is absolute and unconditional. Key bond provisions include a rate covenant set at 1.25x annual debt service and an additional bonds test set at 1.25x maximum annual debt service.

Credit highlights

The rating reflects our view of the district's healthy financial position, stable revenue profile, and sophisticated management, supported by its favorable economic setting in northeast Marin County just north of San Francisco. Its operating surpluses are consistent, its financial policies are well-developed and actively followed, and its leadership is experienced and stable, providing continuity and strategic oversight.

Revenue stability is supported by fixed sewer charges and by rates set in 2023 through 2027 at 10% annual increases, with a new rate study planned to moderate future increases to roughly 5% beginning in 2028. Coverage metrics are strong, with historical debt service consistently above 2x and projected all-in coverage exceeding 2.3x. Liquidity and reserves are robust, reflecting adherence to formal reserve policies.

Although the district's debt burden is projected to nearly double over the next five years to fund capital improvements, the combination of a high-income service area, stable growth, and proactive financial management supports continued credit strength. Planned investments are not expected to materially weaken the district's credit profile.

The rating further reflects our view of:

- Extremely strong economic profile, with household incomes at 163% of the national average, stable-to-modest account growth, and proximity to the San Francisco metropolitan statistical area. The district's customer base, which consists of 30,000 residents across 16 square miles in Marin County, including part of San Rafael, is primarily affluent and diverse.
- Very strong market position, with affordable service rates relative to local incomes and a low county poverty rate, and with nearly all charges collected through the county tax roll under the Teeter Plan, ensuring full payment. Current rates, set through fiscal 2027 with 10% annual increases, are expected to be followed by 5% annual increases starting fiscal 2028 per a planned rate study.
- Extremely strong all-in coverage, historically above 2x, with projected parity coverage rising from 2.53x in fiscal 2026 to 2.97x in 2030, supported by fixed-rate revenues, approved and projected rate increases, and moderate expense growth. Total debt service coverage, including subordinate obligations, remains robust, providing significant cushion and flexibility.
- Extremely strong liquidity and nominal reserves, with formal policies covering operations, rate stabilization, emergencies, capital needs, and equipment replacement. As of fiscal 2025, available reserves approximate $26 million, near targeted levels across all categories.
- Adequate debt profile, incorporating the series 2026A bonds and planned additional debt. We do not anticipate the planned debt will materially weaken the financial profile, assuming coverage and liquidity remain strong.
- Strong operational management, with robust regulatory compliance, proactive risk mitigation, and a structured asset management program guiding maintenance and capital planning. Organizational effectiveness is reinforced by emergency preparedness, succession planning, cyber and financial policies, and transparent multi-year budgeting and rate-setting.
- Good financial management, with conservative forecasting, annual budgets with quarterly monitoring, and multi-year planning for rates, reserves, and capital needs.

Environmental, social, and governance

We consider the district as more exposed to environmental risks compared with that of peers in other states, given California drought, growing incidence of wildfires, and periodic earthquakes. However, the district has proactive policies to address infrastructure damage and emergency response to these natural disasters. We view the district's social risk as in line with than that of peers due to the area's high incomes and affordable rates, which we expect will remain so in the long term. Finally, we view the district's governance factors as credit-supportive, as they include pre-approved rate-setting practices, strong financial planning and policies, and operational efficiencies.

Rating above the sovereign

We rate the district's debt above that of the U.S., the related sovereign, as the system has a predominantly local revenue base. Local service charges, derived through an autonomous rate-setting process, represent virtually all revenue. This precludes exposure to federal revenue, allowing S&P Global Ratings to assign a rating higher than that on the U.S. overall.

Outlook

The stable outlook reflects our view that the district's financial performance will remain strong during the two-year outlook horizon and that the district's very strong service area economic base will provide additional stability.

Downside scenario

We could lower the rating if the district significantly underperforms its forecast or if it draws down its cash reserves well below the minimum level identified in its reserve policy.

Las Gallinas Valley Sanitary District, California--Economic and financial data

		Fiscal year-end			
	Most recent	**2025**	**2024**	**2023**	**Median (AAA)**
Economic data					
MHHEBI of the service area as % of the U.S.	163.0				114.0
Unemployment rate (%)	4.6				3.4
Poverty rate (%)	8.7				10.3
Water rate (6,000 gallons or actual) ($)	0.0				33.3
Sewer rate (6,000 gallons or actual) ($)	124.0				37.2
Annual utility bill as % of MHHEBI	1.3				1.0
Operational management assessment	Strong				Good
Financial data					
Total operating revenues ($000s)		22,670	20,671	19,140	73,371
Total operating expenses less depreciation ($000s)		14,581	12,422	10,990	53,231
Net revenues available for debt service ($000s)		9,651	10,443	9,132	--
Debt service ($000s)		4,507	4,497	4,528	--
S&P Global Ratings-adjusted all-in DSC (x)		2.1	2.3	2.0	2.6
Unrestricted cash ($000s)		25,918	30,865	28,863	90,711
Days' cash of operating expenses		649	907	959	713
Total on-balance-sheet debt ($000s)		75,141	49,036	51,916	140,491
Debt-to-capitalization ratio (%)		41.7	32.2	34.7	26.0
Financial management assessment	Good	--	--	--	Strong

Note: Most recent economic data available from our vendors. MHHEBI--Median household effective buying income. DSC--Debt service coverage.

Ratings List
New Issue Ratings
US$28.5 mil wastewtr rev bnds (Las Gallinas Vy San Dist) ser 2026A due 04/01/2056

Ratings List	
Long Term Rating	AAA/Stable
Ratings Affirmed	
Water & Sewer	
Las Gallinas Vy San Dist, CA Sewer System	AAA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.

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 https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.