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Summary:

Marin County Open Space District Community Facilities District 2022-1, California; Special Assessments

Primary Credit Analyst:
Daniel Golliday, Dallas 214-505-7552; daniel.golliday@spglobal.com

Secondary Contact:
Brian Phuvan, San Francisco + 1 (415) 371 5094; brian.phuvan@spglobal.com

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US$21.3 mil spl tax bnds (sr lien bnds) ser 2024A dtd 06/18/2024 due 09/01/2053		
Long Term Rating	AA/Stable	New

Credit Highlights

- S&P Global Ratings assigned its 'AA' long-term rating to Marin County Open Space District Community Facilities District (CFD) 2022-1, Calif.'s anticipated $21.3 million series 2024A senior-lien special tax bonds.
- The outlook is stable.

Security

The bonds constitute special obligations of the district, secured and payable from an annual special (assessment) tax levied on and collected from non-exempt developed parcels within CFD No. 2022-1, and to the extent necessary, amounts in the special tax fund and the reserve account. The special taxes are levied according to the rate and method of apportionment approved by the Marin County Open Space District Board of Directors and escalate at a rate of 2% per year. In addition, the special tax is collected at the same time and manner as the property owners' ad valorem property taxes.

The 2024A bonds carry a senior-subordinate collateralization structure with respect to the 2024B bonds (unrated), in order to maximize the monetization of the voter special tax ensuring efficient use of the revenue stream for its acquisition of the Martha property. The series 2024A bonds will have a senior debt service requirement funded through an investment grade surety at the least of 100% of maximum annual debt service (MADS), 125% of average annual debt service, or 10% of initial principal amount. The bonds also have a closed lien, allowing for additional debt only to refinance existing debt with strong legal provisions preventing subordinate debt to be refinanced into senior debt.

Credit overview

The CFD is coterminous with the affluent bedroom community of Belvedere and extends into a substantial portion of the Town of Tiburon and nearby portions of unincorporated Marin County. The district's favorable location and overall quality of life within a vibrant area continues to spur economic growth that drives extremely high wealth and income metrics, and historically below-average unemployment when compared with state and national levels. We note that the area has a well-educated workforce, which provides employers within the greater Bay Area strong access to a competitive skilled labor pool. We consider the CFD built-out, with a sizable and mature residential tax base consisting primarily of high-end residential homes resulting in minimal taxpayer concentration that has supported low

delinquencies through economic cycles. While we characterize the CFD's financial profile as adequate, we recognize the long-established affluence and desirability of the assessment base adds to our view of the stability of the CFD's credit quality. Despite elevated inflation and mortgage rates, we think that collection rates in the district will remain relatively stable, particularly given the low inventory, strong demand for housing, and the presence of fully developed property in the district. In addition, the CFD participates in the county's Teeter Plan, which serves as an additional mitigating factor relative to any short-term volatility in collections.

The rating further reflects our view of the CFD's:

- Very strong economic fundamentals characterized by very strong median household effective buying income (386%), access to a broad and diverse metropolitan statistical area (MSA), a strong labor market as defined by the local annualized unemployment rate relative to national figures; stable population growth over the past decade; and a strong real estate market assessment with low measures of distress, and market volatility that is lower than the nation;
- Very strong district characteristics including a large (3,165 parcels subject to the special tax) and fully developed assessment base primarily consisting of individual homeowners with minimal taxpayer concentration (top 10 taxpayers comprise 2.6% of the total assessment lien), very low annual delinquencies, very strong overall value-to-lien ratio of 48 to 1 (including overlapping tax and assessment debt), and no material exposure to any individual taxpayer (0.9%).
- Adequate financial profile characterized by 1.1x coverage of senior-lien annual debt service with additionally liquidity provided by a fully funded debt service reserve fund (DSRF). When considering the 1.1x coverage, DSRF, and closed lien, we calculate that the CFD could withstand a maximum loss to maturity of 13%, covering the permanent loss of the top 10 taxpayers over the life of the bonds, while meeting all debt service obligations at 5x. We do not expect any material changes in the stress calculations in the foreseeable future.

Environmental, social, and governance

Due to the CFD's location along the Tiburon Peninsula, it has elevated exposure to acute physical risks in the form of wildfires and earthquakes and chronic risks tied to sea-level rise, which could affect property values, demand, or local demographic trends. However, we think California's strong building codes serve to substantially mitigate the risk of material tax base effects associated with seismic activity. Furthermore, Marin County has incorporated these risks into its climate action plan and capital planning. Although there is little the CFD can do to mitigate these risks, its participation in the Marin County Teeter Plan somewhat offsets potential risks related to timely debt service payments. We view governance and social factors as neutral in our credit analysis.

Outlook

The stable outlook reflects our expectation that the local economy and real estate market will remain stable and continue to benefit from their inclusion in the San Francisco-Oakland-Hayward MSA, which we consider broad and diverse. We think the mature development status, the assessment area's very low delinquency and concentration levels further support the outlook. Finally, we anticipate assessments will be sufficient to pay debt service given the bonds' cash flow structure that benefits from a maximum special tax levy, which provide excess annual coverage. Therefore, we do not anticipate changing the rating over the two-year outlook horizon.

Downside scenario

We could lower the rating if the local economy experiences significant housing volatility, higher unemployment rates, and rising delinquency rates, which impair the district's ability to make full and timely debt service payments.

Upside scenario

While unlikely given the district is levying at its maximum rate, we could raise the rating if the district's financial profile materially improves to levels comparable with those of higher-rated peers.

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022

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