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Summary:

Yountville, California; Appropriations; General Obligation

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Table Of Contents

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Credit Profile		
Yountville (town of) lse rev bnds		
Long Term Rating	AA/Stable	Affirmed
Yountville (town of) ICR		
Long Term Rating	AA+/Stable	Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'AA+' issuer credit rating (ICR) on Yountville, Calif. At the same time, Standard & Poor's affirmed its 'AA' long-term rating on the town's lease revenue bonds. The outlook is stable.

The rating on the lease revenue bonds is one notch lower than the issuer credit rating to reflect our view of the appropriation risk associated with appropriation-backed obligations. The ICR reflect our view of the town's:

- Strong tourism-based economy serving as a wine and culinary destination for national and international tourists;
- Very high wealth and income levels;
- Exceptionally strong financial performance and policies and historical reserve levels; and
- Low direct debt and a dedicated revenue stream from the town's transient occupancy tax (TOT) to make lease payments associated with the bond issuance.

Constraining factors include our opinion of the town's highly concentrated revenue stream, with a combined 74% of revenues generated by TOT and sales tax, as well as its high overall debt per capita due to the town's small population.

The proceeds of the lease revenue bonds were used to finance construction of a new community center building, library facility, town square, and renovation of the existing community hall. The community center to be built serves as the leased asset. The bonds are payable from lease payments from the town to the authority, with a dedicated pledge of one-sixth (equal to 2%) of the town's TOT. Debt service payments are subject to annual appropriation, and the town has covenanted to budget and appropriate lease payments. Additionally, the bond documents require that the debt service reserve be funded to the lesser of maximum annual debt service on all bonds outstanding, 125% of average annual debt service on all bonds, or 10% of the original principal amount of the bonds.

Yountville (population: 2,825) is located in the heart of the Napa County, just north of the city of Napa. The town is a wine and culinary destination for Bay Area residents and tourists from around the world, and, as such, its tax and economic base is very tourism-based, including high-end resorts, hotels, and restaurants. About 61% of its revenue is generated by TOT, with another 13% by sales taxes, primarily from restaurants and wineries. Property taxes make up only 13% of revenue. Total assessed value (AV) grew, but at a much slower rate of 1% in 2011, down from an average annual increase of 9.5% during the period of 2006-2010. Indicative of strong property values, per capita market value in the town is, in our opinion, an extremely strong $180,000 as of fiscal year 2011.

Income indicators are strong, in our opinion, with per capita effective buying income (EBI) at 124% and median household EBI at 120% of the national averages. The town's local economy is service-based, though residents have access to the greater Santa Rosa metropolitan statistical area. Yountville's largest employer, the Veterans Home of California, employs 67% of the population; the second largest employer is the Villagio Inn & Spa Operations. Historically, county unemployment has been well below state and national averages. The county's 2011 unemployment rate was 9.2% in June 2011, compared to the state and national unemployment rates of 11.8 % and 9.2%, respectively, for the same period in 2011, according to the U.S. Bureau of Labor Statistics.

Financial performance is very strong, in our opinion, with exceptional management policies and a consistent record of operating surpluses resulting in healthy general fund balance levels. Since 2008, unreserved fund balances have ranged between 20% and 45%. Audited results for fiscals 2009 and 2010 show an unreserved general fund balance of $1.225 million and $2.177 million, respectively. These figures represent 25% and 44.9% of general fund expenditures, respectively. The increase from 2009 to 2010 was due to a conservative budget and spending policies adopted by the town council and management. While the town's financial profile remains strong, in our opinion, per the town's 2011/12 operating budget, they did defer a number of capital projects in response to potentially slower revenue growth. The town's 2011/2012 budget recently increased their emergency reserves to 20% of expenditures. Their 2011/2012 budget anticipates a general fund balance of $1.893 million, including the emergency reserve, which represents 34% of general fund expenditures. The town does not know what, if any, consequences may result from future state budgetary actions.

The town's management practices are considered "strong" under Standard & Poor's Financial Management Assessment (FMA) methodology. An FMA of "strong" indicates that practices are strong, well embedded, and likely sustainable. Key features of the town's policies include formal financial, investment, and debt management policies. Financial planning and oversight include monthly financial and investment performance reporting to the council and ten-year financial forecasts. Long-term capital planning includes a five-year comprehensive capital plan, with identified funding sources that is updated annually. The town uses various sources to derive its budget assumptions, including regular independent studies monitoring TOT and sales taxes, county property tax estimates, and state revenue forecasts. The town has a written investment policy and currently invests all funds with the Local Agency Investment Fund. The debt management policy states, among other things, that debt service cannot exceed 25% of general fund revenues and issuance is limited to one-time capital improvement projects.

Direct and overlapping debt are estimated at, in our opinion, a moderate 4.3% of AV and approximately $7,600 per capita, which is high due to the small population size. However, this issuance represents the town's only outstanding debt, putting direct debt at 2.1% of AV and fiscal 2010 debt service carrying charge at about 13%, which we consider moderate. Its liability related to other post employment benefits (OPEB), as determined in a June 2009 study, is $2.1 million, with an annual required contribution of $352,000. The town recognized OPEB expenditures of $65,963 on a pay-as-you-go basis in fiscal 2010.

Outlook

The stable outlook reflects our expectation that the town will continue to actively manage its financial performance, maintain strong fund balance reserve levels, and adhere to a comprehensive capital plan with limited reliance on unsupported general fund debt obligations. We do not expect to revise the rating in the two-year outlook horizon. The outlook additionally reflects the town's very strong local economy and high income levels.

Related Criteria And Research

- 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: Appropriation-Backed Obligations, June 13, 2007

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