STANDARD & POOR'S
RATINGS SERVICES

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Summary:

Sausalito, California; General Obligation

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Credit Profile		
Sausalito GO (Fire Station & Police Bldg)		
Unenhanced Rating	AA-(SPUR)/Stable	Affirmed

Many issues are enhanced by bond insurance.

Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' rating, with a stable outlook, on Sausalito, Calif.'s general obligation (GO) bonds.

The rating reflects our opinion of the city's:

- Affluent and primarily residential property tax base with access to the deep and diverse San Francisco Bay Area economy,
- Maintenance of very strong available general fund reserves in the past three fiscal years, and
- Low overall debt on a market value basis with no additional debt plans.

We believe the city's finances, which have relied on transfers from outside funds to balance the general fund budget, somewhat mitigate these strengths.

An unlimited ad valorem property tax pledge secures the bonds.

Sausalito, with a population estimate of 7,168, is just north of San Francisco across the Golden Gate Bridge in Marin County. Median household and per capita effective buying incomes are, in our opinion, a very strong 200% and 372%, respectively, of national averages. The primarily residential city has excellent access to San Francisco's and the greater Bay Area's economies. Assessed value (AV) had experienced, in our view, good growth during fiscal years 2007-2010; AV increased by an average of 5.5% annually. Following a retrenchment in the housing market, however, AV declined by an average of 4.5% annually in fiscal years 2011 and 2012 to $2.4 billion, or, in our opinion, an extremely strong $339,000 per capita in fiscal 2012. The tax base is diverse with the 10 leading taxpayers accounting for 6.3% of AV. Unemployment was 4.7% in May 2012, and it averaged 5.5% for 2011; these rates were below state and national rates and in line with historical trends.

In our opinion, Sausalito has carefully managed its finances recently; it has built up reserves while funding capital expenditures. A diverse general fund revenue stream -- including property (52%) and sales (13%) taxes, which have experienced softness due to the economic downturn -- supports finances. Officials have responded to reduced revenue with transfers into the general fund and some budget adjustments in the past few years.

For fiscal 2012, management is projecting a small deficit. Officials, however, note that sales tax revenue growth and continued annual transfers into the general fund have helped maintain available general fund reserves at $2.1 million, or, in our opinion, a strong 14.2% of expenditures. In addition, according to management, the creation of an overlapping regional fire authority that assumes responsibility for fire services will result in an approximate $2.8 million of recurring revenue losses; we, however, understand a recurring expenditure reduction of about $3 million beginning in fiscal 2013 offsets these losses. Officials are projecting to end fiscal 2013 with available general fund reserves at, in our opinion, a still-very-strong 16% of expenditures despite higher pension costs due to steady tax revenue growth.

Sausalito experienced negative general fund results before transfers over the two audited fiscal years through fiscal 2011; officials transferred an approximate $1.2 million annually into the general fund budget from the parking fund to balance the budget. Sausalito has historically depended on parking fund revenue transfers to balance the general fund budget, allowing available general fund reserves to remain at levels we consider very strong. Most recently, according to Governmental Accounting Standards Board Statement No. 54, the city closed fiscal 2011 with a $2.7 million assigned, unassigned general fund balance, or, what we consider, a very strong 20% of expenditures, which was above the 5% reserve policy. Furthermore, the parking fund continues to post surpluses; in fiscal 2011, the fund had a $1.2 million surplus before transfers into the general fund. The parking fund ending balance for fiscal 2011 was $1.95 million, well in excess of 100% of the city's parking expenditures, which were a minimal $360,000 in fiscal 2011.

Standard & Poor's considers Sausalito's financial management practices "standard" under its Financial Management Assessment methodology, indicating the finance department maintains adequate policies in some, but not all, key areas.

Overall net debt is, in our opinion, a low 2.6% of market value, or a high $9,500 per capita. Relative to income, however, we consider debt manageable. Carrying charges are, in our view, a low 4.3% of governmentwide, noncapital expenditures. The city does not plan to issue additional debt in the intermediate future.

Sausalito participates in the California Public Employees' Retirement System for the majority of employees; it has contributed the entire annual required contribution (ARC) in each of the past three fiscal years, including $2 million, or 14.6% of governmental expenditures, in fiscal 2011. The city provides limited other postemployment benefits (OPEB) to retirees, and officials fund OPEB through pay-as-you-go financing; in fiscal 2011, the pay-as-you-go amount accounted for 24% of the ARC. The pay-as-you-go amount accounts for, what we consider, a small 1.2% of governmental activities. As of January 2008, the most recent actuarial valuation date, the $6.9 million OPEB liability was 0% funded.

Outlook

The stable outlook reflects Standard & Poor's opinion that Sausalito will likely manage ongoing expenditures to balance the budget structurally while maintaining at least strong available general fund balance. The outlook also reflects our view of the city's location in the diverse San Francisco Bay Area economy. Although we do not expect to change the rating over the outlook's two-year period, we could consider a lower rating if reserves were to decline to levels we regard as inconsistent with the rating level.

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

Complete ratings information is available to subscribers of RatingsDirect on the Global Credit Portal at www.globalcreditportal.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com. Use the Ratings search box located in the left column.