

## **RatingsDirect**®

### **Summary:**

# Sausalito, California; General Obligation

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### **Summary:**

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### **Credit Profile**

#### Sausalito GO (Fire Station & Police Bldg)

Unenhanced Rating AA+(SPUR)/Stable Upgraded

Many issues are enhanced by bond insurance.

### Rationale

Standard & Poor's Ratings Services raised its long-term rating and underlying rating (SPUR) on Sausalito, Calif.'s general obligation (GO) bonds to 'AA+' from 'AA-' based on our recently released local GO criteria. The outlook is stable.

Unlimited ad valorem taxes levied on taxable property within the city secure the GO bonds. The Marin County board of supervisors has the power and obligation to levy these taxes without limitation as to rate or amount upon all taxable property in the city for the bonds' repayment.

The ratings reflect our assessment of the following factors for the city:

- We consider Sausalito's economy to be very strong, with a projected per capita effective buying income of over 350% of the U.S. and an exceptionally high per capita market value of \$362,159. The city has access to the broad and diverse economy of the San Francisco bay area, and the county's 2012 unemployment rate of 6.3% was well below the national and state levels.
- In our opinion, the city's budgetary flexibility is very strong, with available reserves of 19% of general fund expenditures in fiscal 2012 and unaudited fiscal 2013 reserves of 35%. A substantial negative unassigned fund balance in the city's Tidelands fund is due to unearned lease revenue and, in our opinion, does not weaken financial flexibility.
- The city's recent budgetary performance has been weak overall, in our view, taking into account capital spending and one-time items. The city posted deficits in both the general fund (before transfers) and total governmental funds in fiscal years 2012 and 2013, and the city's general fund has received operational support from the city's parking enterprise fund in recent years. Annexation into a countywide fire services district in 2012 improved structural performance, and management has taken steps to close the structural deficit through payroll and benefit changes that we anticipate will help alleviate the operating imbalance in the medium term.
- Supporting the city's finances is liquidity we consider very strong, with total government available cash equal to 89% of noncapital governmental fund expenditures and over 600% of debt service. We believe the city has strong access to external liquidity and limited exposure to predictable liquidity risk.
- We view the city's management conditions as adequate with standard financial practices.
- In our opinion, the city's debt and contingent liabilities profile is weak, with total governmental fund debt service as a percentage of total governmental fund expenditures at 14%, and with net direct debt as a percentage of total governmental fund revenue at 108%.
- The city participates in the California Public Employees' Retirement System to provide pension benefits for employees. It has contributed 100% of the annual required contribution (ARC) in each of the past three years. The

- combined ARC pension costs and other postemployment benefit pay-as-you-go costs for fiscal 2012 were 11% of adjusted expenditures.
- We consider the Institutional Framework score for California cities without a federal single audit requirement as adequate. See Institutional Framework score for California.

### **Outlook**

The stable outlook reflects our opinion of the city's very strong economy and its ability to rely on enterprise funds to support general fund operations. We do not expect to lower the ratings during the two-year outlook horizon; however, we could raise the ratings if the city succeeds in balancing operations and improving financial performance.

### **Related Criteria And Research**

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- Institutional Framework Overview: California Local Governments

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