

July 8, 2008

Summary:

Yountville, California; Appropriations; General Obligation

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Credit Profile		
US\$10.47 mil lse rev bnds due 10/01/2040		
Long Term Rating	AA/Stable	New
ICR		
Long Term Rating	AA+/Stable	New

Rationale

Standard & Poor's Ratings Services assigned its 'AA+' issuer credit rating (ICR) to the Town of Yountville, Calif., and its 'AA' rating to the town's lease revenue bonds.

The rating reflects:

- The general creditworthiness of the Town of Yountville, and
- The town's covenant to budget and appropriate lease payments.

The proceeds of the lease revenue bonds will be 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 secured by the town's covenant to budget and appropriate lease payments, with a dedicated pledge of one-sixth (equal to 2%) of the town's transient occupancy tax (TOT). Debt service payments are subject to annual appropriation, and the debt service reserve requirement is set at the standard three-pronged test. In addition, the town will maintain an 8% contingency fund. The project is expected to be completed in early October 2009, and interest is capitalized through Jan. 31, 2010.

The 'AA+' ICR on the town reflects:

- Strong local tourism-based economy with convenient employment access to the cities of Napa and Santa Rosa,
- Very high wealth and income levels,
- Exceptionally strong financial performance and policies and historical reserve levels, and
- Low direct debt as a percent of assessed value (AV) and a dedicated revenue stream from the town's TOT to make lease payments associated with the bond issuance.

Constraining factors include the town's highly concentrated revenue stream, with a combined 76% of revenues generated by TOT and sales tax, as well as its high overall debt per capita due to the town's small population.

Yountville (population 3,000) 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 63% of its revenue is generated by TOT and another 13% by sales taxes, primarily from restaurants such as Bistro Jeanty and The French Laundry, and wineries such as Domaine Chandon. Per capita retail sales are above average at 172% and

167% of state and national averages, respectively. In fact, property taxes make up only 8% of revenue. Total AV continues to grow at a very strong rate, up 9.7% in the last year to \$423 million in 2008. Indicative of wealth levels, per capita market value in the town is an extremely strong \$141,000 as of fiscal 2008. The tax base is diverse, with the 10 leading property taxpayers constituting 17% of total AV; these include a shopping center, several hotels, and a mobile home park with about 300 units. The median single-family home value in 2007 was \$563,356, or about \$100,000 above the state average.

Income indicators are very strong, with per capita effective buying income (EBI) at 132% 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 MSA. Yountville's largest employer, the Veterans Home of California, also houses about one-third of the town's population; the second-largest employer is the Domaine Chandon winery. Historically, county unemployment has been well below state and national averages. The county's 2006 unemployment rate was 3.9% in 2006, compared with the state level of 4.9%.

Financial performance is extremely strong, with exceptional management policies and a consistent record of operating surpluses resulting in healthy general fund balance levels. Since 2004, unreserved fund balances have ranged between 20% and 30%. Audited results for fiscal 2007 show an unreserved general fund balance of nearly \$700,000, or 20.1% of expenditures, and a total general fund balance of \$925,000, or 27.1% of expenditures. The town projects a net surplus of \$1.3 million in fiscal 2008 and surplus of \$1 million in fiscal 2009. The town's policy is to maintain a general fund balance of at least \$825,000. In addition, it transfers about \$500,000 per year in general fund surpluses to the special projects fund, which is available for general fund purposes and has a balance of \$1.9 million. It has historically funded its capital improvement fund on a cash basis from the general fund. The town expects a 2008 ending general fund balance of between \$1.25 million and \$1.30 million, of which it plans to transfer out about \$450,000. In 2003, the town's voters approved an increase in the TOT to 12% from 10% and a measure that directed the funds generated from the additional 2% toward the financing of the community center project. Management's TOT revenue projections are conservative; revenue has historically increased at an average annual rate of more than 15%, or more than 10% per room, but projections assume only a 2% increase going forward. In addition, projections include a new 62-room luxury hotel that will open in early 2009, but do not include three additional hotels that are expected to open by 2010.

Financial Management Assessment: 'Strong'

The town's management practices are considered 'strong' under Standard & Poor's Financial Management Assessment (FMA). 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, 10-year financial forecasts, and a minimum operating reserve of \$825,000, which is roughly 16% of expenditures net of transfers. 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 a moderate 4.3% of AV and approximately \$6,000 per capita, which is high due to the small population size. However, direct debt is a low 2.5% of AV, or a moderate \$3,490 per capita.

According to management, the town may issue an additional \$2 million to \$3 million within the next several years in order to modernize its town hall. Yountville's liability related to other post-employment benefits (OPEB) as determined in a February 2008 study is \$2.1 million with an annual required contribution of \$333,000. The town recognized OPEB expenditures of \$50,600 on a pay-as-you-go basis in fiscal 2008 and has set aside about the same amount for future payments.

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. The outlook also reflects the town's very strong local economy and high income levels.

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