S&P Global Ratings

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Summary:

Yolo County, California; Appropriations

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Summary:

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Credit Profile		
Yolo Cnty certs of part (QZAB) (2012 Solar Academy)		
Long Term Rating	A+/Stable	Upgraded
Yolo Cnty APPROP		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Yolo Cnty APPROP		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded
Yolo Cnty 1998 certs of part (Cnty Office Fac) (MBIA) (National)		
Unenhanced Rating	A+(SPUR)/Stable	Upgraded

Many issues are enhanced by bond insurance.

Rationale

S&P Global Ratings raised its long-term rating and underlying rating (SPUR) to 'A+' from 'A-' on Yolo County, Calif.'s certificates of participation (COPs) outstanding. The outlook is stable.

The rating action reflects our view of the county's improved financial performance, which has led to very strong reserves. Additionally, the economy has strengthened with lower unemployment.

The COPs represent an interest in the rental payments made by the county. The Yolo County Financing Corp. of California, a nonprofit public benefit corporation, is the lessor. The county's rental payments to the Yolo County Financing Corp. through a lease-leaseback structure secure the bonds. The county is required to make semiannual rental payments sufficient to amortize all of the certificates and has agreed to budget and appropriate such annual lease payments for the use of the project. The corporation is required to assign all rental payments to the trustee. The district may abate lease payments in the event of damage to or destruction of the assets. To mitigate the risk of abatement in such a case, the county has agreed to maintain at least 24 months of rental interruption insurance. The county will budget the gross lease payment, regardless of receipt of any federal subsidies.

The rating reflects our view of the county's:

Strong economy, with access to a broad and diverse metropolitan statistical area (MSA);

- Adequate management, with standard financial policies and practices under our Financial Management Assessment (FMA) methodology;
- Strong budgetary performance, with operating surpluses in the general fund and at the total governmental fund level in fiscal 2016;
- Very strong budgetary flexibility, with an available fund balance in fiscal 2016 of 16% of operating expenditures;
- Very strong liquidity, with total government available cash at 46.6% of total governmental fund expenditures and 37.5x governmental debt service, and access to external liquidity we consider strong;

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- Adequate debt and contingent liability position, with debt service carrying charges at 1.2% of expenditures and net direct debt that is 14.7% of total governmental fund revenue, but a large pension and other postemployment benefit (OPEB) obligation and the lack of a plan to sufficiently address the obligation; and
- Strong institutional framework score.

Strong economy

We consider the county's economy strong. Yolo County, with an estimated population of 207,869, is located in the Sacramento-Roseville-Arden-Arcade MSA, which we consider to be broad and diverse. The county has a projected per capita effective buying income (EBI) of 92.1% of the national level and per capita market value of $126,650. Overall, the county's market value grew by 6.3% over the past year to $26.3 billion in 2017. The county unemployment rate was 6.4% in 2015.

Yolo County is located about 60 miles northeast of San Francisco and adjacent to Sacramento. Despite its access and proximity to urban centers, Yolo County retains its agricultural roots. The economy has improved in recent years, with the unemployment rate falling well below 10% to 6.4% in fiscal 2015. Market values have also rebounded in recent years with growth of 9.9% in fiscal 2016 and 6.3% in fiscal 2017. The county also benefits from The University of California (UC), Davis, which has 36,000 students and a number of undergraduate and graduate programs. We do not believe the university decreases assessed value or EBI, so we do not consider it a stabilizing institution.

Adequate management

We view the county's management as adequate, with standard financial policies and practices under our FMA methodology, indicating our view that the finance department maintains adequate policies in some but not all key areas.

The county's policies include revenue and expenditure assumptions that include conservative budgeting. The county has had a history of budgetary imbalances and gives quarterly budget updates to its board. The county's strategic plan was created in fiscal 2015 and goes through fiscal 2019. The county just completed a capital plan that it does not update annually. The county has an investment policy and reports its investments quarterly. The debt management policy includes limitations on debt as to rate and amount and the county is complying with its policy. The county has a fund balance policy to maintain reserves at 5% to 15%.

Strong budgetary performance

Yolo County's budgetary performance is strong, in our opinion. The county had operating surpluses of 2.3% of expenditures in the general fund and of 2.9% across all governmental funds in fiscal 2016.

After several years of deficits, the county has posted operating surpluses, including the public safety fund, which is outside of the general fund, over the past three years. Management attributes this to the county's plan to rebuild reserves after large drawdowns during the recession. We expect that the county will maintain balanced operations over the near term. Management reports that the county does not plan to use any of its budgetary reserve in the near term, and has budgeted to increase its reserve position.

Very strong budgetary flexibility

Yolo County's budgetary flexibility is very strong, in our view, with an available fund balance in fiscal 2016 of 16% of operating expenditures, or $34.6 million.

The county's budgetary flexibility has improved along with its performance, to very strong levels in 2015 and 2016. We expect the county to maintain reserves at very strong levels, as it does not plan to draw on reserves over the near term. The county may use some reserves for one-time expenditures but does not have exact numbers at this time, and we expect that these uses should not weaken its budgetary flexibility.

Very strong liquidity

In our opinion, Yolo County's liquidity is very strong, with total government available cash at 46.6% of total governmental fund expenditures and 37.5x governmental debt service in 2016. In our view, the county has strong access to external liquidity if necessary.

We do not expect the county's liquidity to deteriorate in the near term. The county invests in a wide range of assets, including federal agencies, certificates of deposit, the California Local Agency Investment Fund, and highly rated corporate securities. We do not consider the county's investments aggressive. The county also has no contingent liquidity risks.

Adequate debt and contingent liability profile

In our view, Yolo County's debt and contingent liability profile is adequate. Total governmental fund debt service is 1.2% of total governmental fund expenditures, and net direct debt is 14.7% of total governmental fund revenue.

The county expects that it will issue debt in the next two to three years, but does not have definite plans for size and timing. We do not think that near-term issuances will deteriorate the county's debt score, as that would require very large issuances.

In our opinion, a credit weakness is Yolo County's large pension and OPEB obligation, without a plan in place that we think will sufficiently address the obligation. Yolo County's combined required pension and actual OPEB contributions totaled 9.4% of total governmental fund expenditures in 2016, with 6.9% representing required contributions to pension obligations and 2.5% representing OPEB payments. The county made its full annual required pension contribution in 2016. The funded ratio of the largest pension plan is 72%.

The county participates in the California Public Employees' Retirement System and the Yolo County In-Home Supportive Services Public Authority Retirement Plan. The city contributes the statutorily required amounts each year, equal to the actuarially determined contributions. Given the relatively high pension costs as a share of total expenditures, we believe the county will need to carefully budget to absorb future increases in contributions. It is gradually increasing its OPEB payments to bring funding up to the actuarially required contribution.

Strong institutional framework

The institutional framework score for California counties required to submit a federal single audit is strong.

Outlook

The stable outlook reflects our view of the county's improved financial performance, which is supported by adequate management, and an improved economy anchored by UC Davis. We do not expect to change the ratings within the next two years.

Upside scenario

Should the county's pension costs moderate and income and per capita market values improve, we could raise the rating.

Downside scenario

Should the county be unable to maintain balance operations and draw on reserves, we could consider lowering the rating.

Related Research

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Incorporating GASB 67 And 68: Evaluating Pension/OPEB Obligations Under Standard & Poor's U.S. Local Government GO Criteria, Sept. 2, 2015
- 2016 Update Of Institutional Framework For U.S. Local Governments

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.