Research Update:

Mountain View, CA's $135 Million Series 2025 Lease Revenue Bonds Assigned 'AA+' Rating

May 15, 2025

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Overview

- S&P Global Ratings assigned its 'AA+ long-term rating to the Mountain View Capital Improvements Financing Authority, Calif.'s estimated $135 million series 2025 lease revenue bonds (public safety building project), issued for the City of Mountain View.
- At the same time, we affirmed our 'AAA' issuer credit rating on the City of Mountain View.
- The outlook on all ratings is stable.

Rationale

Security

Lease payments by the city to the authority for use of the leased asset secure the lease revenue bonds. We have reviewed the lease under our criteria and view the lease terms as standard. Furthermore, the leased assets meet our minimum requirements for seismic resilience during the term of the bonds. We rate the bonds one notch below our view of the city's general creditworthiness to reflect our view of the risk of nonappropriation inherent to the lease structure.

A debt service reserve fund will not additionally secure the series 2025 bonds. However, we do not view the lack of a debt service reserve fund as a material credit weakness because payment due dates that occur at least three months after the start of the city's fiscal year (July 1) mitigate appropriation risk. Bond proceeds will be used to construct a new public safety facility.

Credit highlights

The rating reflects our view of the city's very strong and robust local economy and tax base with its location in the heart of Silicon Valley, anchored by several well-developed technology companies that include Google, Waymo, Adobe, and Intuit. The city's local economy also reflects very strong wealth and income levels as well as a robust tax base that has demonstrated consistent growth during the past several years with very high home prices that bolster assessed value growth.

The city also maintains a very strong financial profile with general fund operating surpluses reported in each of the past nine fiscal years. Furthermore, we note that the city's general fund regularly contributes excess funds toward its capital fund for ongoing projects, limiting the city's need to issue debt to fund capital needs. We note that the city has the flexibility to pause these contributions if it needs to build general fund reserves.

Property tax revenue (37% of general fund revenues) is the largest revenue stream for the general fund, followed by general fund rents and lease revenue (11%) and sales tax revenue (11%). Property tax revenue has grown in tandem with total assessed value and is projected to continue this trend. Sales tax revenue have grown in the past, but management reports that sales tax revenue has begun to soften as a result of higher costs and inflation, following a trend throughout the rest of the state. Rent and lease revenue represents a steady source of income for the city, as the city has permitted development on city-owned property pursuant to several long-term leases with private companies. Among the several long-term leases, five leases generate the vast majority of this revenue, three of them held by Google. These leases generally have a 55-year term with a 10-year renewal option. In addition, we note that the city recently increased its property transfer tax through voter approval and is projected to generate approximately $8 million annually, on average. We understand that the city will use a portion of this increase in revenue to fund the new debt service cost of the series 2025 lease bonds.

We view the available fund balance as healthy and expect it to at least hold for the outlook period. General fund reserves are maintained at very strong levels, well in excess of the policy-mandated 20% to 25%. The fiscal 2025 budget is balanced with generally conservative assumptions, and actual results are likely to be higher. Given strong property tax revenue and stability in general fund reserves, we expect the city will maintain its financial profile. The stable outlook reflects our expectation that the city's solid fund balances and liquidity will provide it with sufficient cushion to weather potential disruptions in economic activity, if any, throughout the outlook period.

For more information, see "U.S. Local Governments Credit Brief: California Counties And Municipalities Means And Medians," published Oct. 21, 2024, on RatingsDirect.

The rating also reflects our opinion of the city's:

- Robust local economy, heavily anchored in the technology sector with above-average income and wealth levels. The city also maintains a tax base that continues to grow, bolstered by rising home prices that continue to drive property tax revenue higher.
- Very strong financial profile with general fund surpluses reported in each of the past five years and maintenance of solid general fund reserves supported by a formal reserve policy.
- Prudent and comprehensive financial management policies and practices, including well-grounded and forward-looking budget assumptions, use of a robust multiyear budget forecasting and capital improvement plan, and an adopted reserve policy requiring a minimum of 20% to 25% of general fund appropriations in assigned fund balance. The city is also taking measures to mitigate cyber risk.
- Low long-term liabilities with the current issuance of series 2025 lease revenue bonds representing the only lease debt outstanding. We understand the city has no additional debt plans. Pension liabilities are moderate and do not represent a large credit risk given the city's historically strong financial performance.

- For more information on our institutional framework assessment for California municipalities, see "Institutional Framework Assessment: California Local Governments," published Sept. 9, 2024.

Environmental, social, and governance

We view the city as having elevated exposure to acute physical risks given the region's susceptibility to seismic events, but we believe that strong state building codes partly mitigate seismic risk. Although wildfires have broadly affected California, we do not consider them a significant risk for the city given its geographic area and the composition of property values in urban areas with little combustible vegetation. We consider social and governance factors neutral within our credit analysis.

Rating above the sovereign

The 'AAA' issuer credit rating reflects our view that the city's general creditworthiness is above that of the U.S. sovereign. We do not expect the city to default in a stress scenario likely to accompany a sovereign default given autonomy from sovereign intervention. We view the city as exhibiting relatively low funding interdependency with the federal government, as local taxes represent the vast majority of total governmental funds revenue. However, consistent with our view that U.S. state and local governments are moderately sensitive to country risk, we would be unlikely to set ratings on the city's obligations more than two notches above the U.S. sovereign rating.

Outlook

The stable outlook reflects our expectation of continued sound financial performance and financial flexibility, supported by a growing tax base and prudent financial management policies and practices.

Downside scenario

We could lower the rating in the unlikely event that budgetary performance deteriorates, leading to budgetary instability and, subsequently, a material weakening of the reserve position.

Mountain View, California--Credit summary

Institutional framework (IF)	2
Individual credit profile (ICP)	1.50
Economy	1.0
Financial performance	1
Reserves and liquidity	1
Management	1.00
Debt and liabilities	3.50

Mountain View, California--Key credit metrics

	Most recent	2024	2023	2022
Economy				
Real GCP per capita as % of U.S.	309	--	309	306
County PCPI as % of U.S.	216	--	216	215
Market value ($000s)	48,192,651	44,283,288	41,049,467	37,581,597
Market value per capita ($)	591,648	543,653	503,953	462,105
Top 10 taxpayers as % of taxable value	25.4	24.3	23.7	22.4
County unemployment rate (%)	4.1	4.1	3.5	2.6
Local median household EBI as % of U.S.	210	--	210	208
Local per capita EBI as % of U.S.	237	--	237	246
Local population	81,455	--	81,455	81,327
Financial performance				
Operating fund revenue ($000s)	--	221,088	233,994	213,232
Operating fund expenditures ($000s)	--	188,968	183,568	165,209
Net transfers and other adjustments ($000s)	--	(30,046)	(11,131)	(8,551)
Operating result ($000s)	--	2,074	39,295	39,472
Operating result as % of revenue	--	0.9	16.8	18.5
Operating result three-year average %	--	12.1	13.4	9.4
Reserves and liquidity				
Available reserves as % of operating revenue	--	62.7	57.1	46.6
Available reserves ($000s)	--	138,634	133,621	99,310
Debt and liabilities				
Debt service cost as % of revenue	--	2.0	2.0	1.8
Net direct debt per capita ($)	2,722	1,064	1,084	1,132
Net direct debt ($000s)	221,692	86,692	88,262	92,094
Direct debt 10-year amortization (%)	22	31	--	--
Pension and OPEB cost as % of revenue	--	12	11	10
NPLs per capita ($)	--	3,320	3,320	3,167
Combined NPLs ($000s)	270,432		270,432	257,546

Financial data may reflect analytical adjustments and is sourced from issuer audit reports or other annual disclosures. Economic data is generally sourced from S&P Global Market Intelligence, the Bureau of Labor Statistics, Claritas, and issuer audits and other disclosures. EBI--Effective buying income. GCP--Gross county product. NPL--Net pension liability. OPEB--Other postemployment benefits. PCPI--Per capita personal income.

Ratings List	
New Issue Ratings	
US$135.0 mil lse rev bnds (Mountain View (City of)) ser 2025 due 06/01/2055	
Long Term Rating	AA+/Stable
New Rating	
Local Government	
Mountain View, CA Lease Appropriation	AA+/Stable
Ratings Affirmed	
Local Government	

Ratings List	
Mountain View, CA Unlimited Tax General Obligation	AAA/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.