

Research Update:

Petaluma, CA Series 2026 Sales Tax Bonds (Sonoma County, Measure H) Assigned 'AA' Rating

July 1, 2026

Overview

- S&P Global Ratings assigned its 'AA' long-term rating to **Petaluma**, California's anticipated \$28.8 million series 2026 sales tax bonds (Sonoma County, Measure H).
- The outlook is stable.

Rationale

Security

The series 2026 bonds are secured by a first-lien pledge of the city's allocation of Measure H sales tax, a countywide half-cent transaction and use tax on retail transactions, which was first levied as of Oct. 1, 2024, and has no sunset date; the city is allocated 7.19% of total countywide Measure H sales tax revenues. The pledged taxes are collected by the California Department of Tax and Fee Administration, which are remitted to the county and then disbursed to the city on a quarterly basis.

Bond proceeds will finance a portion of the construction costs for a new public safety facility for the city, consolidating operations for its emergency operations center, police, and fire departments.

Credit highlights

The rating reflects our view of the city's strong economic base with easy access to San Francisco employment and economic opportunities, reflecting strong fundamentals including high incomes relative to the nation, and a growing tax base; low revenue volatility on a historically stable sales tax base; and strong coverage and bond provisions that include a 2.0x additional bonds test (ABT) and projected maximum annual debt service (MADS) coverage of 2.5x.

Petaluma is in southern Sonoma County, about an hour's drive north of San Francisco. Local incomes have remained higher than national levels; the population is relatively steady; and a diverse tax base demonstrates steady year-over-year growth in the past decade, totaling more than \$14 billion as of fiscal 2026, and consists of a mix of residential, retail, and commercial properties. The county itself has also experienced recent tax base growth; it is already known as a tourist destination and agricultural producer. The Sonoma County Airport recently completed

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an expansion project and the commuter rail line was also recently completed, enhancing easier access to and from the Bay Area. Taxable transactions in the county totaled \$12.6 billion in fiscal 2025 and have grown a cumulative 44% over the past decade, or an average of about 4% annually. Petaluma's fiscal 2025 Measure H sales tax revenue collections (covering three quarters of collections) totaled \$3.3 million, or 1.86x debt service coverage (DSC); however, collections totaled \$4.5 million covering 12 months of collections, or 2.56x DSC. Although we expect sales tax revenue will continue to grow in the county, we believe the growth rate will be moderate over the next several years and accordingly, we view the city's sales tax revenue growth assumptions as conservative and aligned with tempered growth. We expect Petaluma's allocation of annual Measure H sales tax revenue to be at least 2x maximum annual DSC.

The rating further reflects the following:

- Strong-to-very strong economic fundamentals reflect Petaluma's high household incomes, with a local population of about 60,000 and access to both the Santa Rosa and San Francisco economic bases.
- Strong coverage reflects projected revenues that are expected to cover 2.6x MADS and carry an ABT of 2.0x, the latter of which serves as the baseline for our initial coverage assessment. The city may issue additional debt secured by Measure H revenue; however, it is not planning for any new-money debt over the next five years.
- Revenue volatility is low, characterized by a history of strong countywide sales tax performance. Given the economic development across the county, we believe sales tax revenues will continue to grow year over year, though likely at a more moderated pace compared to recent years.
- The rating is not constrained by our opinion of the city's creditworthiness. We view pledged revenues as having exposure to operating risk given the less restrictive flow of funds, in addition to the county's wide scope of operations.
- Petaluma's underlying creditworthiness is characterized by very strong incomes, reflecting 144% of the nation's effective buying income per capita; a history of balanced financial performance; available reserves that have remained at about 20% of general fund revenue; manageable debt and fixed costs burden; and financial management policies on investment, debt, and reserves; along with quarterly budget-to-actual reporting to the board. The city also maintains long term financial projections and a long-term capital improvement plan, both of which are updated at least annually. Lastly, it maintains robust cybersecurity practices and emergency measures that we view as consistent with the strength of the credit profile.

Environmental, social, and governance

We view the city as facing elevated environmental risk due to the region's susceptibility to wildfires, drought, and earthquakes. The county is highly susceptible to wildfire, most recently experiencing a significant wildfire in 2017, which remains the county's primary natural hazard threat. County voters approved the Measure H sales tax in March 2024, with no sunset date, to fund new and ongoing fire operational costs and mitigation measures. We believe seismic risks have been substantially managed through the state's strong building codes, and the county has a formal climate action and resiliency office that engages in planning for wildfires and other natural disaster risks. We view the city's social and governance factors as neutral in our credit analysis.

Outlook

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The stable outlook reflects our view of the history of solid sales tax revenue performance across the county paired with a resilient local tax base that benefits from proximity to San Francisco as well as a variety of tourism-based destinations. It also reflects our expectation that revenue will perform at least in line with projections over the outlook horizon.

Downside scenario

We could lower the rating if pledged revenue performance were to deteriorate, leading to coverage levels that are no longer comparable with those of similarly rated peers or if coverage drops below the 2.0 ABT.

Upside scenario

We could raise the rating if collections remain significantly elevated above the ABT and MADS, such that we would expect it to persist, with no parity debt plans.

Petaluma, California--key credit metrics

	Metric
Economic data	
Economy	Strong---to-very-strong
EBI level per capita as % of U.S.	144
Statewide revenue base	No
Population (obligor)	58,791
Population (MSA)	485,375
Financial data	
Revenue volatility	Low
Coverage and liquidity	Strong
Baseline coverage assessment	ABT
MADS coverage (x)	2.55
MADS year	2032
Annual debt service coverage (x)	2.56
Two-year pledged revenue change (%)	
Bond provisions	
ABT (x)	2.00
ABT type	MADS
ABT period	Projected
DSRF type	MADS surety reserve
Obligor relationship	
Obligor linkage	Close
PL rating limit (number of notches above OC)	1

Data points and ratios may reflect analytical adjustments. ABT--Additional bonds test. DSRF--Debt service reserve fund. EBI--Effective buying income. MADS--Maximum annual debt service. MSA--Metropolitan statistical area. N/A--Not available. OC--Obligor creditworthiness. PL--Priority lien. Three-pronged test--MADS, 10% of principal, or 125% of average annual debt service.

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Ratings List

New Issue Ratings

US\$22,670,000 Petaluma Public Financing Authority, 2026 Lease Revenue Bonds, (Public Safety Facility), dated: Date of delivery, due: May 01, 2055

Long Term Rating AA/Stable

US\$28,845,000 City of Petaluma, California, 2026 Sales Tax Bonds, (Sonoma County Measure H), dated: Date of delivery, due: May 01, 2055

Long Term Rating AA/Stable

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 <https://disclosure.spglobal.com/ratings/en/regulatory/ratings-criteria> for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at <https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352>. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings referenced herein can be found on S&P Global Ratings' public website at www.spglobal.com/ratings.

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