

# RatingsDirect®

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## Summary:

# South Tahoe Joint Powers Financing Authority, California South Lake Tahoe; Appropriations

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### Credit Profile

#### South Tahoe Jt Pwrs Fing Auth, California

South Lake Tahoe, California

South Tahoe Jt Pwrs Fing Auth (South Lake Tahoe) certs of part

<i>Long Term Rating</i>	AA-/Stable	Affirmed
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#### South Tahoe Jt Pwrs Fing Auth rfdg lse rev bnds ser 2006A

<i>Unenhanced Rating</i>	AA-(SPUR)/Stable	Affirmed
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Many issues are enhanced by bond insurance.

## Rationale

Standard & Poor's Ratings Services affirmed its 'AA-' long-term rating and underlying rating (SPUR) on South Tahoe Joint Powers Financing Authority, Calif.'s series 2006A lease revenue bonds and series 2012 appropriation debt outstanding, issued on behalf of the City of South Lake Tahoe. The affirmation is based on our local general obligation criteria, released Sept. 12, 2013. The outlook is stable.

The bonds are secured by base rental payments under a lease agreement between the city (lessee) and authority (lessor) in consideration of the use of various leased property, including several roads. Additional security is provided by a fully funded reserve fund that is set at the lowest of maximum annual debt service, 10% of principal, or 125% of average annual debt service.

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

- We consider South Lake Tahoe's local economy strong, with projected per capita income at 96.2% of the national level. Market value is roughly \$177,000 per capita. South Lake Tahoe serves a population of about 21,000 in El Dorado County, approximately 150 miles northeast of San Francisco and 80 miles east of Sacramento. South Lake Tahoe is home to one of the most popular ski areas in the western U.S., Heavenly Valley. The city has developed into a year-round destination given the nearby lake and related activities, and also hiking, biking, and other nonwinter sports. The entire Tahoe Basin, including South Lake Tahoe, receives most of its precipitation in the form of snow, which generally falls from early November through April. Amounts of snowfall vary greatly from year to year. The unpredictability of snowfall introduces the risk of volatile tourism (and revenue) trends, particularly during the winter ski season. According to the Bureau of Labor Statistics, El Dorado County's unemployment rate was 8.6% in 2013. Residents also benefit from the city's participation in the broad and diverse Sacramento-Roseville-Arden-Arcade metropolitan statistical area.
- South Lake Tahoe's management conditions are strong, in our view, with "good" financial practices under our Financial Management Assessment (FMA) methodology, indicating financial practices exist in most areas, but that

governance officials might not formalize or regularly monitor all of them.

- In our opinion, budgetary flexibility is very strong, with available, unassigned general fund reserves of \$12.1 million, or 40.6% of operating expenditures, in fiscal 2013. For fiscal 2014, management estimates that reserves will remain the same and in excess of 20% of expenditures. In addition, we understand officials do not currently plan to spend down accumulated reserves significantly.
- In our view, overall budgetary performance is adequate, with a 4.5% general fund surplus and a 10.6% surplus reported across all governmental funds in fiscal 2013 after adjusting for transfers and nonrecurring capital and debt service expenditures. Based on the city's projections, we expect performance will remain adequate, with an expected 0.1% operating surplus and a 0.2% surplus across all governmental funds in fiscal 2014. In conjunction with the city's dependence on the tourism industry, the city has become heavily reliant on transient occupancy taxes and sales taxes. In our view, this is a negative credit factor because the transient occupancy taxes and tourism industry could lead to significant performance volatility.
- Supporting South Lake Tahoe's finances is very strong liquidity, in our opinion, with total government available cash of 56.6% of total governmental fund expenditures and well in excess of 100% of debt service expenditures in fiscal 2013. Based on past issuance of debt, we believe that the issuer has strong access to capital markets to provide for liquidity needs, if necessary.
- In our opinion, the city's debt and contingent liabilities profile is very weak, with total governmental funds debt service at 6.2% of total governmental funds expenditures and net direct debt at 207.2% of total governmental funds revenue. Overall net debt is moderately high, in our view, at 6.2% of market value, and principal amortization is slower than average, with approximately 36.2% scheduled to be repaid within the next 10 years. We understand that city officials do not expect to issue additional debt during the next two years.
- South Lake Tahoe contributes to the California Public Employees' Retirement System, and it has contributed 100% of its annual required contribution (ARC) in each of the past three audited fiscal years. In fiscal 2013, the city contributed \$5.0 million. The city also participates in the City of South Lake Tahoe Other Post Employment Benefit (OPEB) Plan, a single-employer defined benefit health care plan. In fiscal 2013, the \$1.8 million contribution covered only about 40% of the \$4.3 million ARC. In our opinion, the issuer is facing large pension/OPEB obligations, and we view this as a negative credit factor. The annual pension and OPEB costs accounted for 14.5% of the total government expenditures in fiscal 2013.
- We consider the institutional framework score for California cities with \$500,000 or more in federal awards expended annually and two or more federal programs as strong. See Institutional Framework score for California.

## Outlook

The stable outlook reflects our opinion of the city's very strong financial flexibility and liquidity coupled with its adequate budgetary performance, all of which are expected to persist over the near term. Therefore, we do not expect to change the ratings within the two-year outlook time frame. However, we believe South Lake Tahoe's reliance on transient occupancy taxes and the tourism industry poses the potential for significant performance volatility. If the city's financial performance and flexibility were to deteriorate significantly, we could consider lowering the ratings.

## Related Criteria And Research

### Related Criteria

- USPF Criteria: Local Government GO Ratings Methodology And Assumptions, Sept. 12, 2013
- USPF Criteria: Appropriation-Backed Obligations, June 13, 2007

### **Related Research**

- S&P Public Finance Local GO Criteria: How We Adjust Data For Analytic Consistency, Sept. 12, 2013
- Institutional Framework Overview: California Local Governments

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