

Summary:

South Tahoe Joint Powers Financing Authority, California South Tahoe Redevelopment Agency; Tax Increment

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Credit Profile

South Tahoe Jt Pwrs Fing Auth, California

South Tahoe Redev Agy, California

South Tahoe Jt Pwrs Fing Auth (South Tahoe Redev Agy) (South Tahoe Redev Proj Area #1) Tax Increment

Long Term Rating

BBB+/Stable

Affirmed

Rationale

Standard & Poor's Ratings Services affirmed its 'BBB+' long-term rating and underlying rating (SPUR) on South Tahoe Joint Powers Financing Authority, Calif.'s tax increment (TI) revenue bonds, issued for the South Tahoe Redevelopment Agency.

The ratings reflect our view of the project area's:

- Small size and dependence on year-round tourism,
- Ability to withstand modest declines in pledged revenue and still exceed 1x coverage,
- Healthy coverage of 1.46x despite recent declines in assessed value (AV), and
- Recent increases to transient occupancy taxes (TOT) to offset declines in property values.

The preceding credit factors are mitigated in part by our view of the agency's reliance on larger taxpayers for both revenue streams as well as a decline in property values, which drive a portion of the pledged revenue.

The bonds are secured by a first lien on TI revenues and TOT collected in the project area.

The agency has five series of bonds outstanding -- 1999, 2003, 2004, 2005, and 2007 -- with a combined principal amount of \$106 million and annual debt service requirements of \$5.7 million. The 174-acre project area, located in the resort city of South Lake Tahoe immediately adjacent to the Nevada border and at the base of Heavenly Mountain ski resort, hosts approximately four million visitors annually and has more than 3,000 hotel, motel, and timeshare units.

Despite a year-over-year decline in pledged revenues of 14.5% in 2011, coverage remains good, in our view, at 1.46x in 2011. According to management, the decline in pledged revenue is primarily due to a drop in TI revenues, which made up 50% of the pledged revenue. This decrease was partially offset by a 6% increase in TOT, which accounted for the other 50% of pledged revenues in 2011.

TI revenues are derived from the agency's Project Area 1. As previously mentioned, nearly 50% of the pledged revenue came from TI revenue in fiscal 2011. TI revenues from this project area declined 21% in fiscal 2011 as a

result of a decline in property values in the project area, particularly timeshare properties. Year-over-year values for other residential properties, which include timeshares, declined 36% in fiscal 2011. Other residential properties accounted for nearly 55% of the project area's secured tax base. However, due to the project area's maturity, which is reflected in what we consider a moderately low volatility ratio of 0.18, TI revenues have a low sensitivity to overall AV changes.

The TOT, which accounted for 50% of pledged revenues in fiscal 2011, increased 4.6% this year. This comes after a year in which TOT declined 12.5% due to the economic slowdown. Agency officials have already noticed an increase in TOT from this time last year. They currently have budgeted for 2% growth in TOT next year. The TOT base is also concentrated, in our view, with the Embassy Suites Hotel generating 39% of the total and the Marriott Grand Residence 18%. The top 10 generators account for 93% of the total. Both hotels have had a strong presence in the Tahoe region for the past several years.

Both pledged revenues rely on large, but stable taxpayers. The 10 largest taxpayers account for 51.1% of incremental AV, which we consider concentrated. The largest property owner, Lake Tahoe Development Company, is currently in bankruptcy. However, the agency is collecting TI revenue from this property because the county pays the full payment through the Teeter Plan. Other large properties include the Marriott hotel and Heavenly Resort, a world-class ski resort.

We calculate that at current coverage levels, the agency could withstand a 51% decline in total AV and still exceed 1x coverage if the TOT remains stable. If the agency were to issue additional debt to the fullest extent of its 1.25x additional bonds test (ABT) and the TOT remains stable, the project area could withstand a decline of 37% of total AV and still exceed 1x coverage, according to our calculations. In addition, the bonds are protected by an ABT that requires that no additional debt be secured by TI revenues unless maximum annual debt service (MADS), reduced by 80% of total TOT revenues, exceeds 1.25x, and that no additional debt be secured by TOT revenues unless MADS, reduced by 80% of total TI revenues, exceeds 2x. The bonds are also secured by a fully funded debt service reserve as well as business interruption insurance that would cover against the potential loss of TOT revenues from the top two TOT generators during the prior fiscal year. We understand that the agency has no plans to issue additional parity debt.

The governor's proposed fiscal 2012 budget included a provision to dissolve redevelopment agencies in California. The governor's original proposed budget summary called for existing TI debt to be held harmless and existing TI debt service to be retired as scheduled. Subsequently, in February 2011, the governor's office released draft language of a bill that provided some detail on the payment of existing obligations, the responsibilities of successor agencies, and the flow of funds; however, the legislature thus far has not passed the redevelopment bill. We expect to monitor any potential future legislation and evaluate how it could affect overall credit quality based on our criteria.

Outlook

The stable outlook reflects our expectation that the agency will continue to generate good coverage from TI and TOT revenues. The outlook also reflects the project area's ability to withstand further AV declines and still maintain good coverage. If larger-than-expected declines occur and TOT revenues perform worse than expected, leading to a drop in coverage to below ABT levels, we could lower the ratings.

Related Criteria And Research

- USPF Criteria: Special Tax Bonds, June 13, 2007
- USPF Criteria: Special-Purpose Districts, June 14, 2007

Ratings Detail (As Of May 25, 2011)		
South Tahoe Jt Pwrs Fing Auth, California		
South Tahoe Redev Agy, California		
South Tahoe Jt Pwrs Fing Auth (South Tahoe Redev Agy) Tax alloc bnds (Proj Area #1)		
<i>Long Term Rating</i>	BBB+/Stable	Affirmed
South Tahoe Jt Pwrs Fing Auth South Tahoe Redev Proj Area No. 1rfdg rev bnds ser 2004A dtd 09/09/2004 due 10/01/2007-2020 2029 2034		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
South Tahoe Jt Pwrs Fing Auth (South Tahoe Redev Agy) (So Tahoe Redev Proj Area #1)		
<i>Unenhanced Rating</i>	BBB+(SPUR)/Stable	Affirmed
Many issues are enhanced by bond insurance.		

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