

RatingsDirect®

Summary:

**South Lake Tahoe, California
South Tahoe Joint Powers Financing
Authority; Appropriations; General
Obligation**

Primary Credit Analyst:

Li Yang, San Francisco + 1 (415) 371 5024; li.yang@spglobal.com

Secondary Contact:

Brian Phuvan, San Francisco + 1 (415) 371 5094; brian.phuvan@spglobal.com

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US\$43.335 mil lse rev bnds (South Lake Tahoe) ser 2022A dtd 10/18/2022 due 10/01/2052

Long Term Rating AA/Stable New

South Lake Tahoe GO

Long Term Rating AA+/Stable Affirmed

South Tahoe Jt Pwrs Fing Auth, California

South Lake Tahoe, California

South Tahoe Jt Pwrs Fing Auth (South Lake Tahoe)

Long Term Rating AA/Stable Affirmed

Rating Action Overview

- S&P Global Ratings assigned its 'AA' long-term rating to South Tahoe Joint Powers Financing Authority, Calif.'s anticipated \$43.335 million series 2022A lease revenue bonds, issued on behalf of the city of South Lake Tahoe.
- At the same time, S&P Global Ratings affirmed its 'AA' and 'AA+' long-term and underlying rating on the city's outstanding appropriation debt and pension obligation bonds (POBs), respectively.
- The outlook on all ratings is stable.

Security

The city's lease revenue bonds are secured by revenue from the South Lake Tahoe Joint Powers Financing Authority, which consists of an interest in base rental payments made by the city of South Lake Tahoe. Base rental payments are made from general revenue of the city pursuant to the facility leases and are subject to annual appropriation. We have assigned a rating one notch below our view of the city's general creditworthiness to reflect appropriation risk. The city's covenant to budget and appropriate lease payments is not subject to a right of set-offs, and the city is responsible for maintenance, taxes, and utilities under a triple-net lease. However, payments may be abated in the event of damage to or destruction of the leased asset. To mitigate abatement risk, the city has covenanted to maintain rental interruption insurance coverage equal to 24 months and the leased facilities meets our criteria for seismic risk during the life of the obligations. The series 2022A bond proceeds will be used to fund the construction of a new recreation center.

The city's POBs are payable from all legally available funds of the city, including, but not limited to, the city's general fund. We rate the city's POBs on par with its general creditworthiness due to our view that the city's ability to pay the obligation is closely tied to its operations and the revenue used to secure the city's POBs are not limited in scope and

are neither distinct nor separate from the city's general fund.

Credit overview

The city's local economy demonstrates strong economic metrics that include strong income and wealth levels.

Tourism remains a large part of the city's local economy and we have seen a steady recovery since the onset of the COVID-19 pandemic in 2020. Both property taxes and sales taxes demonstrated strong growth in fiscals 2021 and 2022 and we anticipate the trend continuing into fiscal 2023. While transient occupancy tax (TOT) revenues remain below fiscal 2019's pre-pandemic highs, we believe their recent growth will likely continue and management indicates they could see sales tax revenues exceed pre-pandemic levels in the near term.

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

- Very strong economy, with access to a broad and diverse metropolitan statistical area (MSA);
- Very strong management, with "strong" financial policies and practices under our Financial Management Assessment methodology;
- Strong budgetary performance, with operating surpluses in the general fund and very strong budgetary flexibility, with an available fund balance of 53% of operating expenditures in fiscal 2021; and
- Very weak debt and contingent liability position with a large pension obligation.

Environmental, social, and governance

We see the city as having elevated exposure to acute physical risks, with wildfires, earthquakes, and drought. Notably, with tourism being a very large part of the city's local economy, we believe that major environmental disasters such as wildfires and wildfire smoke could have a substantial negative influence on the city's economy and finances and result in some volatility in the city's financial performance. We consider the city's social and governance risk to be neutral in our credit analysis.

Outlook

The stable outlook reflects our opinion of the city's very strong financial flexibility, performance, and liquidity. The outlook also reflects our expectation that the city's local economy will remain very strong with continued growth reflected in its major revenue streams. We also expect that the city will be able to successfully manage its rising pension costs to maintain its very strong performance and flexibility scores. Therefore, we do not expect to change the ratings within the two-year outlook horizon.

Downside scenario

If the city's financial performance and flexibility were to deteriorate significantly, we could consider lowering the ratings.

Upside scenario

If the city's debt score improves substantially due to a reduction in pension costs and a reduction in the total amount of debt the city has outstanding, and if its major revenue streams were to diversify and reduce the city's dependence on tourism related revenues, we could raise the ratings.

Credit Opinion

Deep and diverse base in the Lake Tahoe region that has performed well during the pandemic

South Lake Tahoe's local economy remains very strong with continued demand for tourism in the city during the past few years. The city is home to one of the most popular ski areas in the western U.S., Heavenly Mountain Resort, which brings in thousands of visitors each year. Management indicates the number of visitors continues to increase since the onset of the COVID-19 pandemic, reflecting a strong recovery since 2020. In addition to the winter months, the city has developed into a year-round destination, given the nearby lake and related activities, and hiking, biking, and other non-winter sports, which brings in visitors during the summer months as well. The economy has continued to strengthen during the past few years, with growth reported in the city's assessed value (AV) in each of the past five fiscal years. Management projects this growth to continue during the next few years due to the continued demand for the city's tourism activities as well as the continued commercial developments within the city.

Very strong management with strong financial management policies and practices

We view the city's management as very strong, with "strong" financial policies and practices under our Financial Management Assessment methodology, indicating financial practices are strong, well embedded, and likely sustainable.

Key policies include:

- The use of several third-party resources to project future major revenue trends, including property taxes, sales taxes, and transient occupancy taxes (TOT);
- Quarterly presentations of the city's budget-to-actuals to the city council;
- The maintenance of five-year financial forecasts that are updated semiannually;
- The maintenance of a formal five-year capital plan that is updated annually;
- The maintenance of a formal investment policy with investment results reported to the city council quarterly;
- The maintenance of a formal debt management policy; and
- The maintenance of a formal reserve policy of 25% of general fund expenditures.
- The institutional framework score for California municipalities required to submit a federal single audit is strong.

Strong financial performance, supported by good growth in property taxes and continued support from a strong housing market

The city has demonstrated strong financial performance in recent years despite the influence of the COVID-19 pandemic. While TOT revenue figures dropped briefly in 2020 with the onset of the pandemic, we note these revenues have reflected a strong recovery since then and continue to grow year-after-year since 2020. Although TOT revenues are still below pre-pandemic levels, we believe it is likely that this revenue stream will exceed previous highs in the near-term. Property tax revenues also continue to grow, reflective of the consistent growth in citywide assessed value (AV). Housing demand for the region remains strong and home prices continue to grow, which has resulted in higher AV levels, a trend that we expect will likely continue in the near-term.

The city's general fund continues to reflect very strong reserve levels, in line with the city's recent financial performance and we understand the city does not have immediate plans to substantially spend down its reserves to levels that we consider to be weaker than very strong.

Going forward, we expect the city will maintain stable financial performance given the positive trend in its major revenue streams and the economic recovery from the pandemic, which are expected to remain for the foreseeable future. We note that the city has budgeted for a deficit in fiscal 2022 although management indicates its budget uses conservative assumptions and actual results for fiscal 2022 will likely end better than budgeted. Overall, we do not expect the city's financial performance to materially deteriorate going forward.

Very weak debt and contingent liability profile with a large pension obligation

In our opinion, a credit weakness is South Lake Tahoe's large pension obligation, which reflects a large portion of the city's budgetary cost. South Lake Tahoe's combined required pension contributions totaled 14% of total governmental fund expenditures in 2021, a level we consider to be elevated.

The city's employees participate in pension plans offered by the California Public Employees Retirement System (CalPERS), primarily under the safety and miscellaneous plans. We note that the size of the city's unfunded pension liability is likely to decrease next year reflecting the strong investment returns by CalPERS in 2021, although we note that the investment returns have trended downwards in 2022, which could result in an increase in pension liabilities back up to previous levels.

The city participates in the following pension plans, with a measurement date of June 30, 2020:

- CalPERS miscellaneous plan: 62% funded with a net liability of \$39 million; and
- CalPERS safety plan: 70% funded with a net liability of \$44 million.

For more information on our view of California pensions, see our report "Pension Spotlight: California", published July 13, 2021, on RatingsDirect.

South Lake Tahoe, Calif.: Key Credit Metrics

	Most recent	Historical information		
		2021	2020	2019
Very strong economy				
Projected per capita EBI % of U.S.	95.16			
Market value per capita (\$)	264,446			
Population		21,381	21,165	21,218
County unemployment rate(%)		5.7		
Market value (\$000)	5,654,128	5,394,133	5,109,199	
Ten largest taxpayers % of taxable value	6.59			
Very strong budgetary performance				
Operating fund result % of expenditures		8.76	7.81	(11.15)
Total governmental fund result % of expenditures		11.63	4.49	1.04

South Lake Tahoe, Calif.: Key Credit Metrics (cont.)

	Most recent	Historical information		
		2021	2020	2019
Very strong budgetary flexibility				
Available reserves % of operating expenditures		53.42	50.07	33.72
Total available reserves (\$000)		25,670	21,443	18,100
Very strong liquidity				
Total government cash % of governmental fund expenditures		119.20	92.64	83.41
Total government cash % of governmental fund debt service		1,657.37	1,307.45	881.94
Very strong management				
Financial Management Assessment	Strong			
Very weak debt & long-term liabilities				
Debt service % of governmental fund expenditures		7.19	7.09	9.46
Net direct debt % of governmental fund revenue	192.49			
Overall net debt % of market value	3.74			
Direct debt 10-year amortization (%)	45.07			
Required pension contribution % of governmental fund expenditures		13.97		
OPEB actual contribution % of governmental fund expenditures		0		
Strong institutional framework				

EBI--Effective buying income. OPEB--Other postemployment benefits. Data points and ratios may reflect analytical adjustments.

Related Research

- Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022
- 2021 Update Of Institutional Framework For U.S. Local Governments

Ratings Detail (As Of July 28, 2022)**South Tahoe Jt Pwrs Fing Auth, California**

South Lake Tahoe, California

South Tahoe Jt Pwrs Fing Auth (South Lake Tahoe) (AGM)

Unenhanced Rating

AA(SPUR)/Stable

Affirmed

Many issues are enhanced by bond insurance.

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July 28, 2022

City of South Lake Tahoe
1901 Airport Road, Suite 210
South Lake Tahoe, CA 96150
Attention: Ms. Olga Tikhomirova, Director of Finance

Re: **US\$43,335,000 South Tahoe Joint Pwrs Fing Authority, California, Lease Revenue Bonds, (South Lake Tahoe), Series 2022A, dated: October 18, 2022, due: October 01, 2052**

Dear Ms. Tikhomirova:

Pursuant to your request for an S&P Global Ratings rating on the above-referenced obligations, S&P Global Ratings has assigned a rating of "AA". S&P Global Ratings views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

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S&P Global Ratings
Public Finance Department
55 Water Street
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cc: ***Mr. Jaime Trejo***
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